OSCPA'S GOVERNMENTAL ACCOUNTING & AUDITING CONFERENCE

May 4-5, 2023

Speakers: Karl Ahlrichs,
Tyler Bernier, Cynthia Byrd,
Frank Crawford, Vanessa Dutton,
Lisa Parker, Christopher Pembrook,
LaDonna Sinning, Jacob Winkler

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Welcome to the **OSCPA’s DƵǾŜǊǇŸ ŜǇŰŀƒ !ǑǑƵdzǇŰǕǇƎ ŀǇŘ !dzŘǕŰǕǇƎ**

Conference - Virtual! Here are a few important details:

- **Connect.**
  Be sure you have high-speed internet access to ensure your connection remains strong throughout the event.

- **Credit.**
  Be sure to check in to receive your CPE credits.

- **Engage.**
  Use the chat feature to interact with other attendees and discussion leaders.

- **Evaluate.**
  You’ll receive a link to evaluate the conference. Please share your thoughts so we can improve your experience.

- **Enjoy.**
  We’re so happy to have you! Please reach out to cpe@oscpa.com or 800-522-8261 if you have questions.

GOVERNMENTAL ACCOUNTING AND AUDITING CONFERENCE

MAY 4, 2023 – DAY 1

8:00 – 9:40 AM	**GENERAL SESSION (100 MINUTES)** **Ethics** By: Karl Ahlrichs	**OKLAHOMA F**
9:40 – 10:00 AM	*Networking Break*	
10:00 – 11:15 AM	**GENERAL SESSION (75 MINUTES)** **State Auditor and Inspector Update** By: Cindy Byrd, CPA	**OKLAHOMA F**
11:15 AM – 12:00 PM	*Networking Lunch (45 minutes)*	
12:00 – 1:15 PM	**GENERAL SESSION (75 MINUTES)** **Common Audit Reporting and Financial Reporting Deficiencies in Local Gov. Financial Statements** By: Frank Crawford, CPA	**OKLAHOMA F**
1:15 – 1:30 PM	*Networking Break*	
1:30 – 2:45 PM	**CONCURRENT SESSIONS (75 MINUTES)**	
	A) Fraud in Government By: Karl Ahlrichs	**Oklahoma F**
	B) What's the proper way to account for this? – Various Financial Statement Transaction Classes and Account Balances By: LaDonna Sinning, CPA and Jake Winkler, CPA	**Oklahoma GHI**
2:45 – 3:00 PM	*Networking Break*	
3:00 – 4:15 PM	**CONCURRENT SESSIONS (75 MINUTES)**	
	A) NEW Agreed-Upon Procedures for Small Oklahoma Municipalities By: Frank Crawford, CPA	**Oklahoma GHI**
	B) GASB 87 Leases, post-implementation aftermath By: Chris Pembrook, CPA	**Oklahoma F**
4:15 PM	*Day One Adjourns*	

GOVERNMENTAL ACCOUNTING AND AUDITING CONFERENCE

MAY 5, 2023 – DAY 2

8:00 – 9:40 AM	**GENERAL SESSION (100 MINUTES)** **GASB Update** By: Lisa Parker, CPA, CGMA	**OKLAHOMA F**
9:40 – 10:00 AM	*Networking Break*	
10:00 – 11:15 AM	**GENERAL SESSION (75 MINUTES)** **Deeper Dive into GASB 94 and 96, P3s and SIBITAs** By: Lisa Parker, CPA, CGMA and Chris Pembrook, CPA	**Oklahoma F**
11:15 – 12:00 PM	*Networking Lunch (45 minutes)*	
12:00 – 1:15 PM	**GENERAL SESSION (75 MINUTES)** **Single Audit Update** By: Tyler Bernier, CPA and Vanessa Dutton, CPA	**OKLAHOMA F**
1:15 – 1:30 PM	*Networking Break*	
1:30 – 2:45 PM	**CONCURRENT SESSIONS (75 MINUTES)** **A) What's the proper way to account for this? – Various Financial Statement Transaction Classes and Account Balances (REPEAT)** By: LaDonna Sinning, CPA and Jake Winkler, CPA **B) Audit Risk Assessments, revisited** By: Frank Crawford, CPA	**Oklahoma GHI** **Oklahoma F**
2:45 – 3:00 PM	*Networking Break*	
3:00 – 4:15 PM	**CONCURRENT SESSIONS (75 MINUTES)** **A) Panel Q and A** By: Panel	**Oklahoma F** **Oklahoma GHI**
4:15 PM	*Day Two Adjourns*	

Oklahoma Society of CPAs

DECISIVE MOMENTS IN ETHICS FOR FINANCE AND ACCOUNTING PROFESSIONALS

May 4th, 2023

Leader: Karl Ahlrichs

Materials for this course are currently unavailable.
Please check back later for updates.

STATE AUDITOR AND INSPECTOR UPDATE

May 4th, 2023

Leader: Cynthia D. Byrd

Materials for this course are currently unavailable.
Please check back later for updates.

COMMON AUDIT REPORTING AND FINANCIAL REPORTING DEFICIENCIES IN LOCAL GOVERNMENT FINANCIAL STATEMENTS

May 4th, 2023

Leader: Frank W. Crawford, CPA

Common Audit Reporting and Financial Reporting Deficiencies in Local Gov. financial statements (It's like golf; the lower the number, the better)

Presented by:
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As results continue to pour in….

- A number of common deficiencies continue to appear
- Let's talk about many of the common audit and financial reporting deficiencies…

But first, some abbreviations

- AAG – AICPA State and Local Government Audit and Accounting Guide
- SLG - State and Local Government
- GAAP - Generally Accepted Accounting Principles
- BFS - Basic Financial Statements
- MD&A - Management Discussion & Analysis
- RSI - Required Supplementary Information
- PG - Primary Government
- ACFR – Annual Comprehensive Financial Report
- CRAAP - Crawford Accepted Accounting Principles (kidding, don't write that down)

Auditing deficiencies

Auditors need to know the language

- **Unconditional requirements** – ‘must’ – comply where relevant
- **Presumptively mandatory requirements** – ‘should’ – if the auditor departs from requirements, must document why
- **Application guidance** – ‘may’, ‘might’, ‘could’ – further explanations provided

Common Audit Deficiencies

- Reporting Auditor's Compliance with GAGAS
  - No reference to the audit being conducting in accordance with *Generally Accepted Auditing Standards* (GAAS) **AND** Generally Accepted *Government Audit Standards* (GAGAS) in **BOTH** the audit report and the written report on internal controls and compliance and other matters
  - When following (GAGAS), no separate heading and no linkage paragraph to the written internal control and compliance and other matters report
  - Sometimes, there is no written internal control and compliance and other matters report at all

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Common Audit Deficiencies

- Missing headings in audit report
  - Common missing headings
    - Management's Responsibility
    - Auditors Responsibility
    - Report on Other Legal and Regulatory Requirements
    - Emphasis of a matter or Other matter
- Wrong order of paragraphs
  - The opinion paragraph is now at the beginning of the report

Common Audit Deficiencies

- When management has a choice of financial reporting frameworks (GAAP, Cash basis, Modified cash basis, or *regulatory*
  - The auditor's report should include an explanation that management is responsible for determining that the framework they have chosen is acceptable in the circumstances
    - What circumstances?
    - What does the auditor do if management has chosen one that is inappropriate?

Common Audit Deficiencies

- Missing opinion modification paragraphs and headings
  - Modifications require a heading and a separate paragraph as to the matter giving rise to the modification
    - Qualification
    - Adverse opinion
    - Disclaimer of opinion
  - Placed after the opinion paragraph

Common Audit Deficiencies

- When opinion paragraph itself is modified
  - Need a appropriate heading for that paragraph, such as "Qualified Opinion", "Adverse Opinion", or "Disclaimer of Opinion"
  - If a qualified opinion is issued, auditor must include wording in the opinion paragraph that expresses an "except for" situation has occurred
  - In other words, the opinion would have been clean (unmodified) "except for" the material departure or omission from the framework that was being followed
  - However, if the modification is from an inability to get sufficient appropriate audit evidence, use wording that states "except for *the possible effects of*…"

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Common Audit Deficiencies

- Mistakes in referring to RSI
  - Required Supplemental Information (RSI) can only be "required" by an authorized standard-setter
  - There is no authoritative accounting standard-setter for Special Purpose Framework accounting (cash basis, modified cash basis or regulatory), only non-authoritative AICPA practice aids
  - In special purpose frameworks, such information is just considered "supplemental information" (SI) or "Other information" (OI), and reported on appropriately
  - Examples: MD&A, Budgetary comparisons, etc…

AU-C 725 and/or AU-C 720, and AICPA Practice Aid *Special Purpose Frameworks in SLG* (old OCBOA guide)

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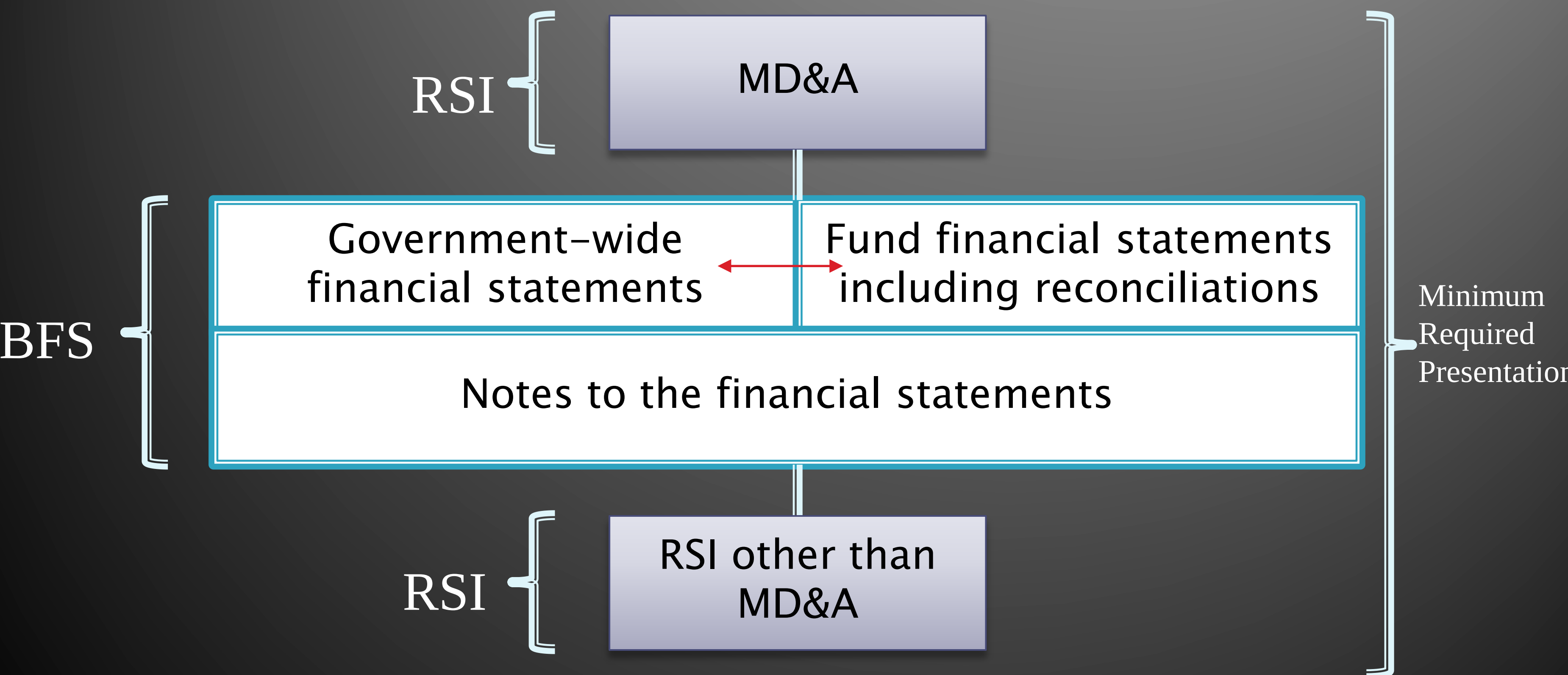
Minimum Required Financial Presentation



Easiest way to relate to basic financial statements

- Think of the minimum required financial statements in our current reporting model as an Arby's Roast Beef Sandwich

Minimum Required Financial Presentation

RSI

BFS

Government financial stat	cial statements reconciliations
Notes	ents

RSI

Minimum Required Presentation

1
4

Common Audit Deficiencies

- Issues with Supplemental Information (SI)
  - Voluntarily included combining and individual fund financial statements and schedules, usually behind the notes
    - Auditor reports on the SI in either
      - Emphasis of matter or Other matter paragraph in the audit report, or
      - In a separate report on the SI

      Several sub-requirements within that paragraph, as seen on the following slide

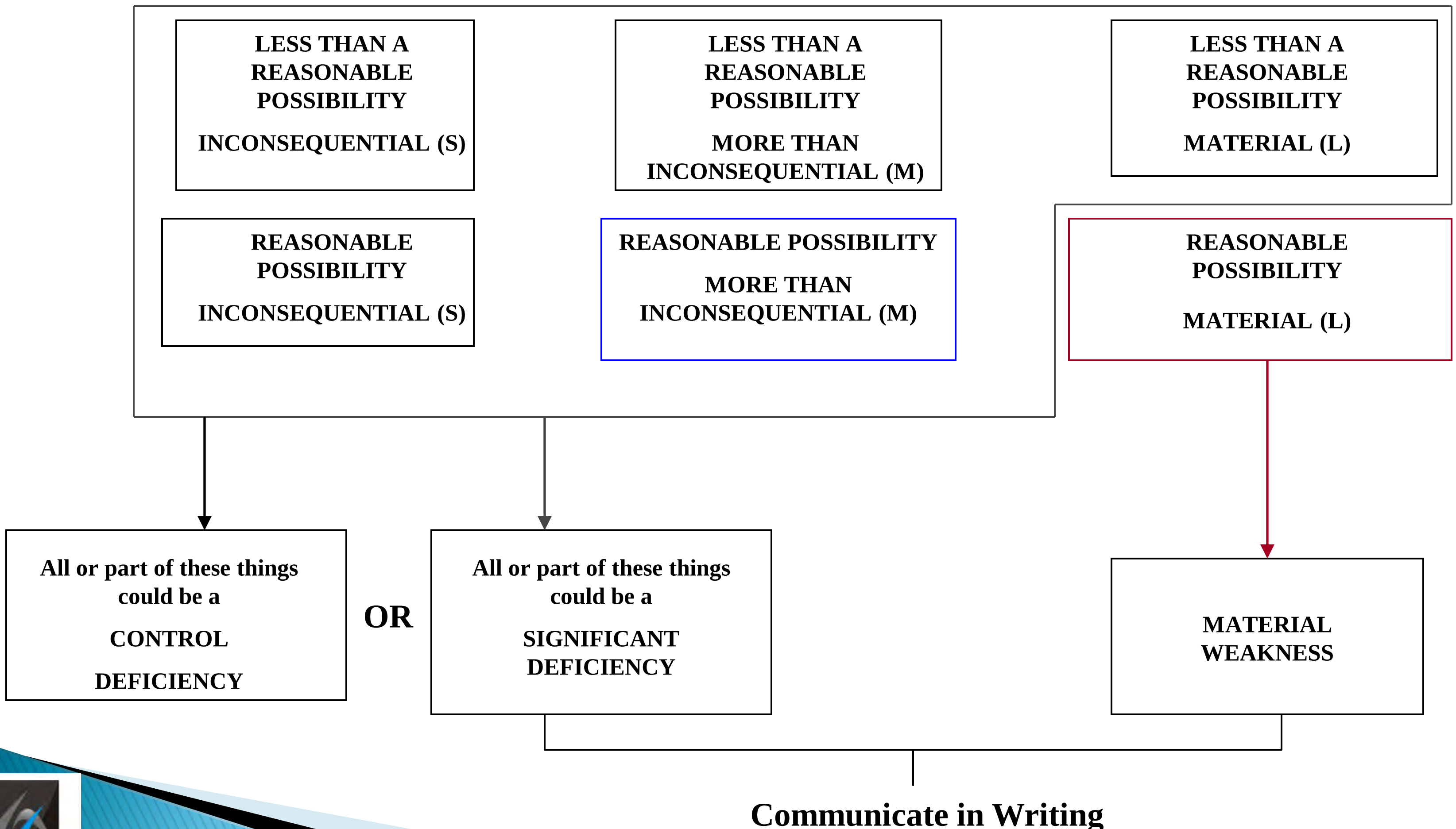
Common Audit Deficiencies

- SI reporting requirements
  - Audit was conducted to form an opinion on the basic financial statements as a whole
  - The SI is there for additional analysis only
  - The SI is management's responsibility, and was derived from or directly relates to the underlying data used to prepare the basic financial statements
  - The SI was subject to the audit procedures applied to the audit of the basis financial statements as a whole and certain additional procedures such as ticking and tying

Common Audit Deficiencies

- SI reporting requirements, cont.
  - If an unmodified opinion (clean opinion) was issued on the basic financial statements, that the SI is fairly stated in relation to the financial statements taken as a whole, include a statement to that effect
  - If a modified opinion due to a qualification (not so clean opinion) was issued on the basic financial statements and the qualification has an effect on the SI, the auditor must use the “except for” language again on the SI, i.e., that the SI was fairly stated in relation to the financial statements taken as a whole, except for the issue(s) noted

Pocket Guide to Evaluating IC Deficiencies … What is the Likelihood of an actual or potential misstatement, and what is the Magnitude of the actual or potential misstatement?



Common Audit Deficiencies

- Internal Control over Financial Reporting and on Compliance and Other Matters Report
  - Auditors should refrain from making a written statement that “no significant deficiencies were noted”
    - Auditors should not issue any written communication stating that “no significant deficiencies were identified during the audit”

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Common Audit Deficiencies

- Internal Control over Financial Reporting and on Compliance and Other Matters Report
  - When no significant deficiencies (SD) OR material weaknesses (MW) have been identified
    - Auditor should state that the consideration of IC was for a limited purpose, not designed to identify all deficiencies that might be MW or SD
    - Auditor should also state that, given the limitations of an audit, that the auditor did not identify any deficiencies in IC considered to be MW
    - Auditor should also state that MW may exist that have not been identified

Common Audit Deficiencies

- Report on Internal Control over Financial Reporting and on Compliance and Other Matters
  - If SD were identified, but no MW were identified during the audit
    - Auditor should state that the consideration of IC was for a limited purpose, not designed to identify all deficiencies that might be MW or SD
    - Auditor should also state that, given the limitations of an audit, that the auditor did not identify any deficiencies in IC considered to be MW
    - Auditor should state that SD were identified, including a description of the SD identified, including the title of the schedule in which the findings are reported

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Common Audit Deficiencies

- Elements of findings
  - Auditors sometimes leave out certain required elements of a finding
    - Each finding should have the following elements
      - Criteria
      - Condition
      - Cause
      - Effect
      - Recommendation
    - Findings should also be placed in the proper perspective
      - Nature and extent
      - Population quantification
    - In addition, the report should include the views of responsible officials related to the findings, or a comment that those weren't provided and/or didn't list management's corrective action

Common Audit Deficiencies

- Single Audit and Uniform Guidance Issues
  - Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance
    - Missing headings related to
      - Management’s responsibility
      - Auditor’s responsibility
      - Opinion
      - Other matters

Common Audit Deficiencies

- Single Audit and Uniform Guidance Issues
  - Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance
    - Lack of inclusion of required basic elements of report

Common Audit Deficiencies

- Single Audit and UG findings
  - Each finding in the Schedule of Findings and QC should contain the following
    - Reference number in the format that meets the requirements of the data collection form submission
      - Allows for easy referencing of the audit findings during follow up

Common Audit Deficiencies

- Schedule of Expenditures of Federal Awards
  - Non-inclusion of all the required elements
    - Requirements for both the face of schedule and the notes to the schedule (they are a must)
      - Face
        - Total awards expended as determined by 2 CFR 200.502
        - List individual federal programs by agency, with AL number or other ID number if AL isn't available; for a cluster, cluster name, then list the individual federal programs within the cluster of programs, and the total for the cluster, and provide the applicable federal agency name; different detail for R&D programs
        - If received as a sub-recipient, name of pass-through entity and identifying number assigned by pass-through
        - Amount of federal awards expended for loan or loan guarantee programs
        - Total amount provided to sub-recipients from each federal program

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Common Audit Deficiencies

- Audit Documentation
  - Sometimes, desk reviews or peer reviews require a further digging into the actual working papers
  - Sometimes, little or no supporting audit documentation is found
  - Remember, you must have sufficient information to enable an experienced auditor…
  - Should support findings, conclusions, and recommendations BEFORE auditors issue their reports

Common Audit Deficiencies

- Documentation problems noted in various working paper areas
  - Internal control and compliance tests were not always adequately documented to support the reports issued
  - No documentation of the entity being a “low-risk auditee”
  - No subsequent events review or litigation follow-up documented

Common Audit Deficiencies

- Considering the Results of Previous Audits and Attestation Engagements
  - No auditor consideration of following up on known significant findings and recommendations from prior years that directly relate to the objectives of the audit being undertaken

Common Audit Deficiencies

- Inadequate or outdated reference material
  - Make sure you are using the most up-to-date versions of the Compliance Supplement, the Yellow Book, and the AICPA Audit Guides
  - Many auditors are still using wording from old guidance
  - Many continue to use outdated compliance supplements and data collection forms

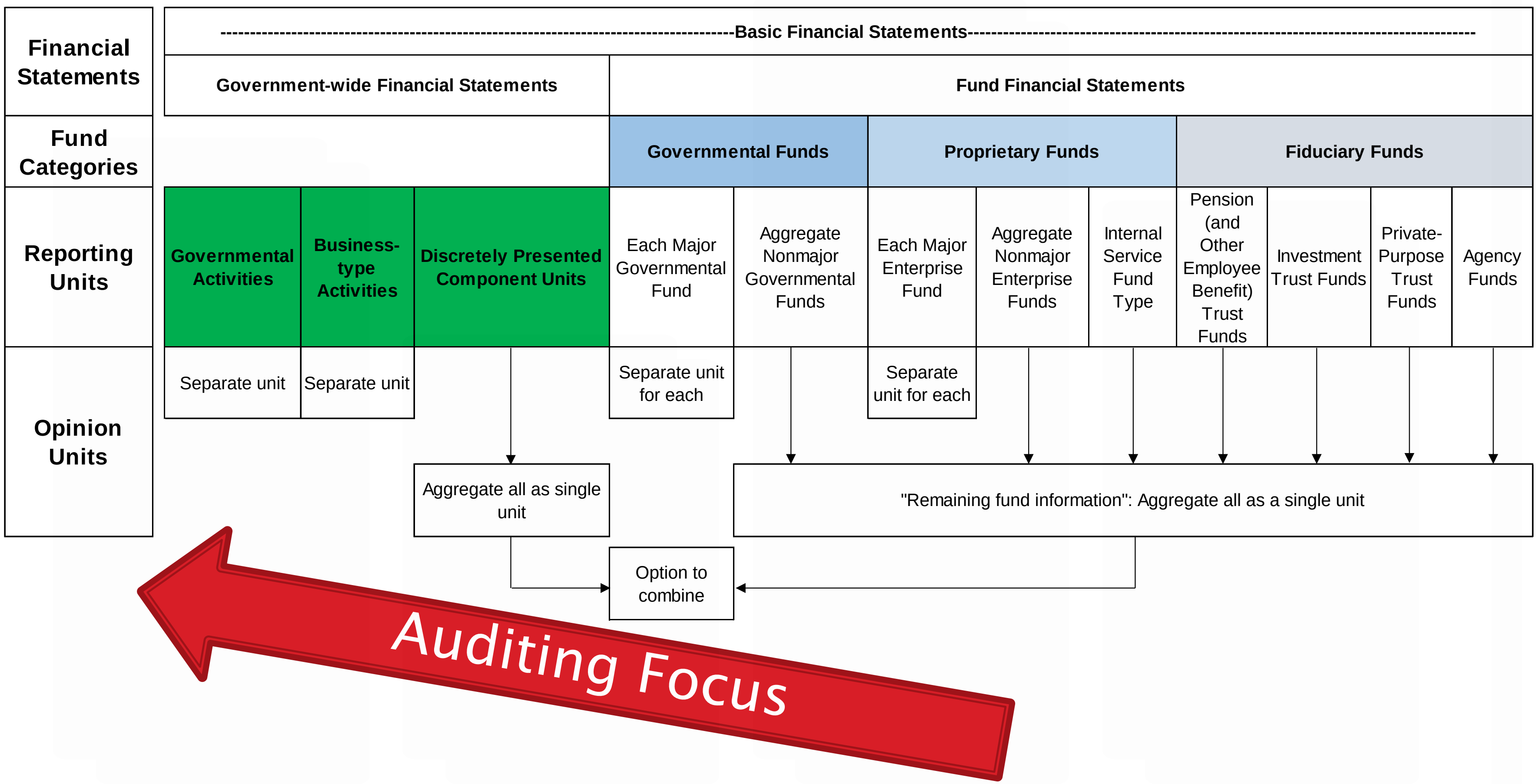
Common Audit Deficiencies

- Engagement letter deficiencies
  - Missing reference to an audit being conducted in accordance with Single Audit Act
  - Missing peer review report, including letter of comments
  - Missing other required communications like establishing and understanding with the auditee

Other Common Audit Deficiencies Noted

- Audit report did not express opinions based upon the opinion units framework as defined in the AICPA Audit Guide
  - Introductory and opinion paragraphs should list the opinion units audited in the financial statements
  - Be sure you are familiar with the materiality matrix in the audit guide

Overview of Reporting Units and Opinion Units
FOR DISCUSSION PURPOSES ONLY



From SLG Guide

Other Common Audit Deficiencies Noted

- No reference to a change in accounting principles
  - In the year of implementation of GASB Statements that have a significant or material effect on the financial statements, the auditor must include a reference to consistency in the audit report

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Financial reporting deficiencies

ACFR Award Program Eligibility

- ACFR
  - Primary Government
  - Component Unit
  - Department – Only if Composed of One or More Separate Funds
- Include All GAAP-required entities in Reporting Entity
  - Component Units – Using Same Basis as Stand Alone Reports
  - Funds

ACFR Award Program Eligibility (Cont.)

- **Independent Auditors Report Requirements:**
  - GAAS or GAGAS
  - Scope (minimum):
    - Fair Presentation of BFS,
    - In-relation to Opinion on rest of Financial Section
  - Disqualified by:
    - Modified Opinion – GFOA suggests “Unmodified” v. “Unqualified”
    - Disclaimer of Opinion due to
      - Inadequacy or Unavailability of Records
      - Omission of Fund Type, Fund or Component Unit

ACFR Award Program Eligibility (Cont.)

- Letter of Transmittal
- Financial Section
  - Independent Auditors Report*
    - Performed GAAS or GAGAS
    - Fair Presentation of BFS, In-relation to
  - Management's Discussion and Analysis
  - Government Wide Financial Statements
  - Fund Financial Statements
  - Note Disclosures
  - RSI
- Statistical Section

ACFR Award Program Eligibility (Concluded)

- Other Eligibility Requirements
  - Responses to PY Comments
  - Referenced Budget Reports – Demonstrate Legal Compliance
  - Submission Deadline – Within 6 Months of FYE
    - Extensions may be Requested – On-line submission
- In-House Report Review Option
  - Ineligible Reports
  - First Time

Top 10 "Greatest Hits" of ACFR Comments

1. Covered payroll – funding progress v. employer contributions [RSI]
2. Which governmental funds liquidate pension liabilities? [Notes]
3. Donated assets at "acquisition value" (not "fair value") [Notes]
4. Debt service as a % of non-capital expenditures [Stats]
5. Disclosures about each type of asset measured at fair value [Notes]
6. Pension contributions made after measurement date & before government's FYE [Notes]
7. Debt capacity schedules should match financial statements [Stats]
8. Aggregate for all plans' pension: liabilities, assets, deferred items, and expenses/expenditure [Notes]
9. "Unmodified" v. "unqualified" opinion [Auditor's Opinion]
10. Total direct debt includes bonds, notes, COPs, loans, and capital leases. [Stats]

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Easily Avoided But Frequent Errors

- Transmittal Letter Dated Before Audit Opinion
- Indentation Under Revenue of Items that are Not Revenue
  - Contributions, special and extraordinary items, transfers
- Grants Inconsistently Reported as Operating or Capital between Government-wide and Fund F/S
- Net Position (v. Net Assets)
  - Net Position in Pension Trust Fund should be Labeled "Net Position Restricted for Pensions"
- Capital Assets (v. Fixed Assets)

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Laugh or Cry…?

- Numbers Do Not Match
  - Between Position and Activity Statements
- Numbers Do Not Articulate / Differences Not Explained
  - Between Sections
    - Transmittal, MD&A, Government-wide FS, Fund FS, Notes, RSI, Statistical Section
    - Frequent Examples include: Deferred Inflows/Outflows for Pensions, Capital Assets
- Rounding Errors

Errors with recent GASB statement implementations

- No consideration of asset retirement obligations or note disclosure to the effect that the amount is undeterminable (GASB 83)
- No reevaluation of the use of fiduciary funds; no change in terminology (no implementation of GASB 84, still use agency fund instead of custodial fund, no additions/deletions statements)
- Failure to consider changes to statements in the various Omnibus statements (GASBs 85, 92, 99)
- Failure to recognize lease receivables and deferred inflows for lessor agreements; failure to classify the lease receivable between its current and non-current components; continued use of operating and capital lease descriptions and disclosures in notes; missing required various disclosures required by GASB 87

Errors with recent GASB statement implementations, cont.

- GASB 88 on debt disclosures, failure to disclose unused lines of credit; failure to identify and separate direct borrowings and placements from other debt; lack of disclosure of assets pledged as collateral

A few common errors in Special Purpose Framework Financial Statements (such as cash and modified cash FS)

- Lack of identification of the basis for the framework in the statement title or elements title
  - Statement of Net Position – Modified Cash Basis
- Improper inclusion of RSI
  - There can be no RSI in Special Purpose Frameworks
    - If included (like the MD&A and budgetary schedules), should be treated as Supplemental Information or Other information (big difference BTW)
- Confusion as to which note disclosures belong

Questions?

WHAT'S THE PROPER WAY TO ACCOUNT FOR THIS? – VARIOUS FINANCIAL STATEMENT TRANSACTION CLASSES AND ACCOUNT BALANCES

May 4th, 2023

Leaders: LaDonna Sinning, CPA and Jake Winkler, CPA

How Do I Account For That?

Presented by:
Jake Winkler
LaDonna Sinning

Presenters

LaDonna Sinning

- Partner at Arledge & Associates
- 20+ years of Governmental Audit Experience
- Municipal, Higher Ed, School Districts, Healthcare, Non-profit, and Tribal expertise

Presenters

Jake Winkler

- Partner at Arledge & Associates
- 13 years of Governmental Audit Experience
- Municipal, Higher Ed, School Districts, Healthcare, Non-profit, and Tribal expertise

Presentation Outline

- Accounting for Capital Assets
- Accounting for Compensated Absences
- Accounting for Bond Defeasance
- Accounting for Federal Grants

Presentation Outline

- Accounting for self-insurance
- Component Unit Determination
- Determining type of Funds
- Questions

Capital Assets

- **Acquisition of Capital Assets**
- **Capital contributions**
- **Transfers of Capital Assets between funds**
- **Accounting for trade-ins of vehicles and equipment**

Capital Assets

Acquisition of Capital Assets

- The current financial resources measurement focus and modified accrual basis of accounting are used to report governmental funds in the fund financial statements.
- The economic resources measurement focus and accrual basis of accounting are used to report proprietary and fiduciary funds in the fund financial statements and governmental and business-type activities in the government-wide financial statements.
- Acquisition of general capital assets is reported as a capital expenditure (Capital Outlay account) in the operating statement of the governmental fund making the purchase

Capital Assets

Acquisition of Capital Assets

- Assume that the general fund purchases a police car for $20,000. For simplicity, assume that it pays for the car with cash available in the general fund.

To record police car as purchase in governmental fund	
Capital Outlay	20,000
Cash	(20,000)

Capital Assets

Acquisition of Capital Assets

- Assume that the general fund acquires two fire trucks for a total price of $150,000 and issues long-term general obligation bonds to finance the purchase. For simplicity, assume that there were no debt issue costs and that there is no legal mandate for use of a debt service fund and that the debt service on the bonds will be paid from unrestricted revenues of the general fund.

To record fire trucks as purchase in governmental fund	
Capital Outlay	150,000
Cash	(150,000)

To record issuance of GO bond debt to purchase fire trucks	
Cash	150,000
Proceeds from issuance of debt	(150,000)

Capital Assets

Acquisition of Capital Assets

- In both of the previous scenarios, these would create reconciling items to the Government Wide Statement of Activities and Statement of Net Position.
  - Capital outlay and proceeds from debt would be eliminated and a capital asset and debt would be recorded

To record police car in gov't wide statements (Capital Outlay will be on recon to SOA)	
Capital Assets – Vehicles	20,000
Capital Outlay	(20,000)

To record fire trucks in gov't wide statements (Capital Outlay and proceeds from issuance of debt will be on recon to SOA)	
Capital Assets – Vehicles	150,000
Capital Outlay	(150,000)
Proceeds from issuance of debt	150,000
GO Bond Obligation	(150,000)

Capital Assets

Capital contributions

- When a government receives a contribution or donation of an asset that it intends to use as a general capital asset, no entry is required in governmental funds since no current financial resource flow has taken place.
  - Example: donated land for right of ways or for parks
- At the government-wide level, a capital contribution would be recorded as revenue in the Statement of Activities and a capital asset would be recorded on the Statement of Net Position.
- The asset and contribution should be recorded at the fair value of the asset at the time of the donation.

Capital Assets

Capital contributions

- **Assume that the general fund receives a land donation for the purposes of constructing a park. The City has a valuation done on the land and determines the fair value of the land is $250,000.**

To record contribution of land for park (add land as addition on recon to statement of net position and add capital contributions on the recon to statement of activities)	
Capital Assets – Land	250,000
Capital Contributions	(250,000)

Capital Assets

Capital contributions

- Business-type activities and fiduciary funds will record these contributions at the fund level.
- Assume that the Utility Authority receives a donation for an easement to run water lines to a new neighborhood. The City has a valuation done on the land and determines the fair value of the land is $125,000.

To record contribution of land for water lines (all recorded at fund level)	
Capital Assets – Land	125,000
Capital Contributions	(125,000)

Capital Assets

Transfers of Capital Assets between funds

- Transfers of assets may be made from a fund because the fund service will no longer be provided, will be provided through a different department, or management has determined that certain equipment would be of more value to the another department.

- These transfers can occur between governmental activities and business-type activities which can create some challenges at the fund level.

Capital Assets

Transfers of Capital Assets between funds

- Assume that the Utility fund has a truck that it purchased for $50,000 and has accumulated depreciation of $25,000 and that the truck is being transferred for use by the fire department.

- Fund Level (Utility fund only)

To record transfer of truck to fire department	
Capital Assets – Vehicle	(50,000)
Accum Depreciation – Vehicle	25,000
Loss on disposal	25,000

- Government-wide entries

To record transfer of truck to fire department (Governmental Activities)	
Capital Assets – Vehicle	50,000
Accum Depreciation – Vehicle	(25,000)
Transfer in	(25,000)

To record transfer of truck to fire department (Business-Type Activities)	
Transfers out	25,000
Loss on disposal	(25,000)

Capital Assets

Transfers of Capital Assets between funds

- Now let's assume that the fire department has a truck that it purchased for $50,000 and has accumulated depreciation of $25,000 and that the truck is being transferred for use by the Utility fund.

- Fund Level (Utility fund only)

To record transfer of truck to utility fund	
Capital Assets – Vehicle	50,000
Accum Depreciation – Vehicle	(25,000)
Capital contributions	(25,000)

- Government wide entries

To record transfer of truck to utility fund (Governmental Activities)	
Capital Assets – Vehicle	(50,000)
Accum Depreciation – Vehicle	25,000
Transfers out	25,000

To record transfer of truck to utility fund (Business-Type Activities)	
Capital Contributions	25,000
Transfers in	(25,000)

Capital Assets

Accounting for trade-ins of vehicles and equipment

- When the purchase of a new general capital asset includes the trade-in of an old asset, a single entry is required to record an expenditure for the amount of cash paid or other current financial resources used (such as an account payable or short-term debt incurred) to acquire the new asset.

- However (in contrast to the trade-in of a proprietary fund asset), no gain or loss is recorded for the transaction. However, in the general capital assets ledger, the trade-in value of the old asset should be recorded and used to calculate the adjusted basis (value) of the new asset.

Capital Assets

Accounting for trade-ins of vehicles and equipment

- Assume that the general fund purchases a new police car costing $30,000 (fair value) by paying $25,000 cash and trading in an old police car. Also, assume that the original cost of the old car was $15,000 and accumulated depreciation was $8,000. The following entry would be made to record the trade-in:

To record purchase of police car (fund level)	
Capital outlay	25,000
Cash	(25,000)
To record trade-in of old capital asset (government-wide level)	
Net investment in capital assets	7,000
Accumulated depreciation	8,000
Capital asset – vehicles	(15,000)
To record purchase of police car (government-wide level)	
Capital asset – vehicles	30,000
Net investment in capital assets	(30,000)

Compensated Absences

- The Basics of accounting for Compensated Absences
- Determining short term and long-term portions of compensated absences
- Estimating and recording compensated absences

Compensated Absences

The Basics of accounting for Compensated Absences

- Compensated absences are accounted for at the fund level for proprietary, internal service, and fiduciary funds

- For governmental activities, they are only accrued at the government wide level

- GASBS No. 101, Compensated Absences, was issued in June 2022. This standard revises the accounting and reporting guidance for compensated absences, effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter.

Compensated Absences

Determining short-term and long-term portions of compensated absences

- Wherever recognized, a short-term and long-term portion of the compensated absences should be recorded.

- To calculate the ST portion, there are a few options:
  - PY actual PTO taken as a percent of total accrued
  - Use a PY figure and the percent increase.
  - Use actual taken to date and multiply by the remaining portion of the year.

Compensated Absences

Estimating and recording compensated absences

- **A liability should be recognized for leave that has not been used if all of the following are true:**
  - **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 in cash or settled through noncash means.**

Compensated Absences

Estimating and recording compensated absences

- We don't typically see issues with accrued vacation
- We don't always see the inclusion of sick leave as part of the accrual.
- Required by GASB 16 IF the benefit accrues and will be paid out upon termination of employment
- Calculation should be an estimate based on the third criteria from the previous slide (more likely than not)

Compensated Absences

Estimating and recording compensated absences

- **Let's assume:**
  - Employees earn one-half day of sick leave per month.
  - There is no limit on the amount of sick leave that can be accumulated.
  - Sick leave taken is paid at the employee's normal pay rate.
  - Employees who terminate after ten or more years of service are paid for unused sick leave up to a maximum of 25 days at one-half of their most recent pay rates.
  - Salary-related payments are an additional 9.5% of sick leave benefits paid.
  - The current average daily pay rate is $120.
  - Employees currently employed by the governmental entity have a combined 29 person-years of service.

Compensated Absences

Estimating and recording compensated absences

- **Two options for calculation**
  - **Termination Method**
    - **Recognizes an expenditure and liability to the extent it is probable that the employee will be paid for the benefit upon termination or retirement.**
  - **Vesting Method**
    - **Recognizes an expenditure/expense and liability based on leave accumulated by employees who are currently eligible to receive termination payments, as well as other employees who are expected to become eligible in the future.**

Compensated Absences

Estimating and recording compensated absences

- **Termination Payment Method**
  - **The first step is to determine past employee sick leave payments at termination. GASBS No. 16, Appendix C, suggests that payments to employees who have terminated within the past three to five years may be a reasonable time period. The required information is as follows:**

Employee	Years Worked	Year of Termination	Sick Days Paid
A	15	20X1	17
B	7	20X2	—
C	4	20X3	—
D	22	20X4	25
	48		42

Compensated Absences

Estimating and recording compensated absences

- **Termination Payment Method**
  - **Note: The days paid approach (see step 2. above) is commonly used in practice. However, other approaches are also used in practice.**

2. **Calculate the adjusted value of sick leave payments:**

Current average daily pay rate	$ 120
Sick days paid	×42
	$ 5,040
Termination payment rate	×50%
Adjusted value of sick leave	$ 2,520

3. **Calculate the sick leave paid per year of service:**

$$\frac{\text{Adjusted value of sick leave}}{\text{Years of service}} \quad \frac{\$\ 2,520}{48}$$

= $53 (adjusted sick leave paid per year of service)

4. **Calculate the sick leave liability:**

Adjusted sick leave paid per year of service	$ 53
Total person-years of service for active employees	×29
	$ 1,537
Additional salary-related payments	×1.095
Total sick leave liability	$ 1,683

Compensated Absences

Estimating and recording compensated absences

- **Vesting Method**

Employee	Years of Service	Daily PayRate	Earned Sick Days
A (Police)	11 Years, 2 months	$ 140	63
B (Fire)	8 Years, 9 months	125	44
C (Fire)	4 Years, 7 months	115	12
D (Police)	4 Years, 1 month	100	7

1. **The first step is to determine whether it is probable that employees with less than ten years of service will meet the ten year payment threshold in the future.** Generally, historical information, such as employee group averages or trends of attaining the sick leave payment threshold, is used in practice to determine the probability of payment.

2. **For this example, historical trend data is as follows:**

   a. Fire department employees who have reached six years of service generally reach ten years of service.

   b. Police department employees who reach five years of service generally reach ten years of service.

Compensated Absences

Estimating and recording compensated absences

- **Vesting Method**

3. **Calculate the sick leave liability:**

Employee	Accumulated Sick Leave	Accrued Sick Leave	Pay Rate	Pay Rate Percent	Sick Leave Liability
A	63	25	$ 140	50%	$ 1,750
B	44	25	125	50%	1,563
					$ 3,313
Additional salary-related payments	–	–	–	–	×1.095
Total sick leave liability					$ 3,628

A sick leave liability is not recorded for employees C and D because they do not meet the historical trend profile in step 2.

Bond Defeasance

- **Accounting for a bond defeasance**
- **Required disclosures**

Bond Defeasance

Accounting for a bond defeasance

- When a refunding is done, sometimes a government may be prevented from redeeming debt prior to maturity or a contractually agreed upon call date.
- If so, a government can still achieve most of the benefits of refinancing the debt by issuing the refunding bonds and placing the proceeds in escrow with a trustee pending the debt's maturity or call date.
  - This is known as an advance refunding

Bond Defeasance

Accounting for a bond defeasance

- In an advance refunding, the trustee of the escrow account often legally becomes the primary obligor on the refunded debt.
    - Government becomes only contingently liable for the debt's repayment.
    - Governments do not report contingent obligations as liabilities unless they are estimable and probable.
    - As such, the refunded debt, as well as the related escrow assets held in trust for repayment are removed from the financial statements.

Bond Defeasance

Accounting for a bond defeasance

- Assume a government issues $3,365,000 in refunding bonds to replace $3,000,000 of existing debt. Of this amount, there are $65,000 in issuance costs
    - Government-wide funds would report the refunding as follows

To record the issuance of refunding debt	
Cash with fiscal agent	3,300,000
Cost of issuance	65,000
Debt issued for refunding	(3,365,000)

To record placement of refunding debt proceeds into escrow	
Refunded debt	3,000,000
Deferred outflow of resources – debt refunding	300,000
Cash with fiscal agent	(3,300,000)

Bond Defeasance

Accounting for a bond defeasance

- The deferred charge would then be amortized as an adjustment to interest expense over the shorter of either
  - The original life of the refunded debt
  - The life of the debt issued for refunding

Bond Defeasance

Accounting for a bond defeasance

- The in-substance defeasance described in the previous slides is based on the issuance of new debt to refund existing debt.
- In some instances, governments have excess cash available and use the excess cash to advance refund outstanding existing debt.
- The accounting in these scenarios are similar but have a few differences.

Bond Defeasance

Accounting for a bond defeasance

- To qualify as an in-substance defeasance of debt using only existing resources, a trust account is established with an escrow agent and all of the following conditions must be met:
  - Government deposits only cash or monetary assets that it has from existing resources (not proceeds of any debt issuance)
  - The placement of the resources in escrow is irrevocable
  - Escrow resources can be used only for schedule debt service payments.
  - The possibility of the government having to make future payments is remote
  - All escrow resources are monetary and essentially risk free
  - Cash flows approximately coincide as to timing and amount with scheduled debt service payments.

Bond Defeasance

Accounting for a bond defeasance

- Using the same assumptions as in the previous example, a government replaces $3,000,000 of existing debt, but uses its own cash of $3,365,000 to do so.

To record the refunding of debt using existing resources	
Refunded debt	3,000,000
Loss on refunding	300,000
Legal fees	65,000
Cash (existing resources)	(3,365,000)

- In addition to not recording any new debt, the government that uses its own resources to refund debt would recognize the gain or loss on the refunding in the year of the transaction, no deferral and amortization of the gain or loss is allowed.

Bond Defeasance

Accounting for a bond defeasance

- **Because governmental funds focus on current financial resources, they do not report long term debt. Thus, neither refunded debt nor refunding debt are reported in governmental funds.**

To record the issuance of refunding debt	
Cash with fiscal agent	3,300,000
Cost of issuance	65,000
Other financing source – refunding debt	(3,365,000)

To record placement of refunding debt proceeds into escrow	
Other financing use – payment to refunded bond escrow agent	3,300,000
Cash with fiscal agent	(3,300,000)

Bond Defeasance

Required disclosures

- GASBS No. 7, paragraph 11 as amended, requires that the financial statements provide a general description of all current and advance refundings that occurred during the year—regardless of the fund type used to report the transaction in the fund financial statements.

- The disclosures should also include the following for each refunding:
  - The difference between the cash flows required to service the old debt and the new debt, including cash obtained from resources other than the proceeds of the new debt.
  - The economic gain or loss resulting from the refunding transaction, calculated on a present value basis.
    - GASBS No. 7, paragraph 11b, defines the economic gain or loss as "the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid."

Bond Defeasance

Required disclosures

- GASBS No. 7, paragraph 12, defines the effective interest rate used to determine the economic gain or loss on an advance refunding as the rate that, when used to discount the debt service requirements on the new debt, produces a present value equal to the total of following items:
  - Proceeds of the new debt (including accrued interest), net of any premiums or discounts.
  - Any underwriting spread.
  - Issuance costs that are not recoverable through escrow account earnings, including all costs to issue the bonds, such as insurance costs (net of rebates from the old debt, if any); financing costs such as rating agency fees; and other related costs such as printing, legal, accounting, administrative, and trustee expenses.
- Because the debt defeased in an advance refunding remains outstanding, GASBS No. 7, paragraph 14, requires note disclosure of the remaining outstanding balance of that debt.

Bond Defeasance

Required disclosures

- GASBS No. 7, paragraph 12, defines the effective interest rate used to determine the economic gain or loss on an advance refunding as the rate that, when used to discount the debt service requirements on the new debt, produces a present value equal to the total of following items:
    - Proceeds of the new debt (including accrued interest), net of any premiums or discounts.
    - Any underwriting spread.
    - Issuance costs that are not recoverable through escrow account earnings, including all costs to issue the bonds, such as insurance costs (net of rebates from the old debt, if any); financing costs such as rating agency fees; and other related costs such as printing, legal, accounting, administrative, and trustee expenses.
- Because the debt defeased in an advance refunding remains outstanding, GASBS No. 7, paragraph 14, requires note disclosure of the remaining outstanding balance of that debt.

Bond Defeasance

Required disclosures

- **Here is an example of a bond advance refunding disclosure (not linked to our examples above):**

On April 1, 2023, the City issued $36.3 million in gas tax special revenue refunding bonds with interest rates ranging between 2.75% and 5.25%. The City issued the bonds to advance refund $31.6 million of the outstanding series 2016 special revenue bonds with a 7.2% interest rate. The City used the net proceeds along with other resources to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 2016 series bonds. As a result, that portion of the 2016 series bonds is considered defeased, and the City has removed the liability from its accounts. The outstanding principal of the defeased bonds is $31,565,000 at September 30, 2023.

The advance refunding reduced total debt service payments over the next 23 years by nearly $4.5 million. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $2.5 million.

Federal Revenue

- Distinguishing between unearned revenue and deferred inflows of resources
- Revenue recognition for federal revenue

Federal Revenue

Distinguishing between unearned revenue and deferred inflows of resources

- Governments should recognize revenues and intergovernmental receivables from intergovernmental transactions that are either government-mandated or voluntary nonexchange transactions when all eligibility requirements, including time requirements, have been met.
- Resources (typically cash) received before all eligibility requirements have been met should be reported as assets and offset by unearned revenue (a liability) unless only a time requirement has not been met. In that case, deferred inflows of resources are reported rather than a liability.

Federal Revenue

Distinguishing between unearned revenue and deferred inflows of resources

- GASBS No. 33, paragraph 20 describes four kinds of eligibility requirements
  - ***Required Characteristics of Recipients*.** The recipient (and secondary recipients, if applicable) has the characteristics specified by the provider. (For example, under a certain federal program, recipients are required to be states and secondary recipients are required to be school districts.)
  - ***Time Requirements*.** Time requirements specified by enabling legislation or the provider have been met. (The period when the resources are required to be used or when use is first permitted has begun, or the resources are being maintained intact, as specified by the provider.)

Federal Revenue

Distinguishing between unearned revenue and deferred inflows of resources

- GASBS No. 33, paragraph 20 describes four kinds of eligibility requirements
  - *Reimbursements*. The provider offers resources on a reimbursement ("expenditure-driven") basis and the recipient has incurred allowable costs under the applicable program.
  - *Contingencies* (applies only to voluntary nonexchange transactions). The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred. (For example, the recipient is required to raise a specific amount of resources from third parties or to dedicate its own resources for a specified purpose and has complied with those requirements.)

Federal Revenue

Revenue recognition for federal revenue

- Governments that report intergovernmental revenues from government-mandated and voluntary nonexchange transactions in their governmental funds should report those revenues in the period in which all eligibility requirements have been met and the revenues are available.
- Intergovernmental accounts receivable should be recognized when all eligibility requirements have been met and offset by a deferred inflow of resources to the extent that revenues are not available.
    - GASB Cod. sec. 1600.106 defines available as collectible within the current period or soon enough afterward to be used to pay liabilities of the current period.

Federal Revenue

Revenue recognition for federal revenue

- Assume that in November 2022, a city with a September 30, 2023 fiscal year-end receives a one-year federal grant restricted for use in a substance abuse program during that fiscal year. The federal portion is $1,500,000; the city must match 25%, or $375,000. Thus, the total program expenditures are budgeted at $1,875,000. The federal agency will provide a $250,000 advance and then reimburse the city for qualifying amounts spent. In December 2022, the special revenue fund receives the $250,000 advance from the federal grantor.

To record cash advance received from the federal grantor agency in advance of any program expenditures being incurred.	
Cash	250,000
Unearned revenue (liability)	(250,000)

Federal Revenue

Revenue recognition for federal revenue

- During January through March 2023, the special revenue fund spends $300,000 on the program, of which $240,000 is the federal share and $60,000 is the city's 25% matching share (25% of $240,000 equals $60,000). The special revenue fund uses the cash advance to pay for some of the expenditures and the general fund loans the special revenue fund $50,000 to pay some of the expenditures.

To record working funds received from the general fund	
Cash	50,000
Due to General Fund	(50,000)

To record expenditures of the substance abuse program.	
Expenditures – substance abuse program	300,000
Cash	(300,000)

To recognize intergovernmental revenue equal to qualifying expenditures incurred	
Unearned revenue (liability)	240,000
Revenue – intergovernmental – federal substance abuse grant	(240,000)

Federal Revenue

Revenue recognition for federal revenue

- **At September 30, the special revenue fund has not received reimbursement of the $400,000 from the federal grantor agency. The special revenue fund does not expect to receive the amount until January 2024. Therefore, the resources are not considered to be available.**

To accrue intergovernmental accounts receivable and deferred inflows of resources equal to reimbursable expenditures incurred.	
Due from other governments	400,000
Deferred inflows of resources	(400,000)

Federal Revenue

Revenue recognition for federal revenue

- **Best practice: reconcile your schedule of expenditures of federal awards (SEFA) to intergovernmental revenue**
- **This should assist in recording grant accounts receivable and unearned revenue.**
- **Will also help detect if any grants were erroneously omitted from the SEFA.**

Self Insurance

- **Booking the claims liability at year-end**
- **Recording reinsurance receivables**

Self Insurance

Booking the claims liability at year-end

- Use your loss triangle to book your estimate
- Understand your claim lag
  - Healthcare – less than 3 months typically sufficient
  - Workers Comp – typically years
- Use loss triangle subsequent to year-end to best estimate losses

Self Insurance

Booking the claims liability at year-end

- **Assume you have an estimate of losses at June 30, 2023 on a heath insurance plan. Let's assume the following losses as of October 31, 2023. Also assume all losses prior to April 1, 2023 have been paid**

		Month Paid						
		4-23	5-23	6-23	7-23	8-23	9-23	10-23
	4-23	30,000	25,000	10,000	1,000	150	-	-
	5-23		50,000	15,000	2,500	500	100	-
Month	6-23			35,000	5,000	12,000	10,000	5,000
Incurred	7-23				18,000	11,000	6,000	500
	8-23					13,000	9,000	5,000
	9-23						29,000	7,000
	10-23							65,000

Self Insurance

Booking the claims liability at year-end

- Looking at what was paid on claims incurred before June 30, 2023 subsequent to year end, the amounts highlighted below would be a minimum level of reserve as these were unpaid at year end. The total known reserve at June 30, 2023 would be $36,250.

		Month Paid						
		4-23	5-23	6-23	7-23	8-23	9-23	10-23
Month Incurred	4-23	30,000	25,000	10,000	1,000	150	-	-
	5-23		50,000	15,000	2,500	500	100	-
	6-23			35,000	5,000	12,000	10,000	5,000
	7-23				18,000	11,000	6,000	500
	8-23					13,000	9,000	5,000
	9-23						29,000	7,000
	10-23							65,000

Self Insurance

Booking the claims liability at year-end

- Additionally, you would book any incurred but not reported estimates (IBNR) that should be calculated by a specialist.
- Let's assume you had an additional $100,000 in IBNR in an estimate in addition to the $36,250 of known claims reserves at year end.

To record recovery on claim loss	
Claims loss expense	136,250
Claims loss liability	(136,250)

Self Insurance

Recording reinsurance receivables

- Reinsurance is the practice where one insurer cedes (transfers) all or part of its risk to another insurer (a reinsurer) for a premium. The legal rights of the insured, however, are not affected by the reinsurance transaction. The entity issuing the original insurance contract remains liable to the insured for the payment of all policy benefits.

- If governments are self-insured, they should have reinsurance otherwise, there may be a going concern issue if a catastrophic claim occurs.

Self Insurance

Recording reinsurance receivables

- Assume that a City has a stop-loss policy with a reinsurer that kicks in once the paid losses exceed $100,000 and will reimburse on claims paid up to $1,000,000 with a year end of June 30, 2023. Next let's assume in December 2022, a claim occurred that had a projected claims loss of $175,000, of which, $75,000 has been paid leaving $100,000 in claims liability.

- Remember, a stop loss kicks in at $100,000, so $75,000 is going to be reimbursed on the claim, but is unpaid at year end.

Self Insurance

Recording reinsurance receivables

- **Netting Items**
  - GASBS No. 62, paragraph 501, provides that assets and liabilities should not be offset in the statement of net position except where a right of offset exists. Nevertheless, GASBS No. 10, paragraph 37, provides that for reporting purposes the following items should be netted:
    - Unearned premiums from ceded contracts, with related premiums paid to, but not yet earned by, the reinsurer.
    - Receivables and payables from the same reinsurer, including amounts withheld.
  - GASBS No. 10, paragraph 37, also provides that pools may net the following items in the operating statement:
    - Reinsurance premiums paid and the related earned premiums.
    - Reinsurance recoveries on claims and incurred claims costs.

Self Insurance

Recording reinsurance receivables

- First, let's record the loss.

To record loss on claim	
Claims loss expense	175,000
Claims loss liability	(100,000)
Cash	(75,000)

- Next, let's record the reinsurance claim
  - Recoverable paid claims should be reported as a receivable and as a reduction of expenses in the current period.
  - Recoverable unpaid claims should be deducted from claims loss liability, rather than reported as a receivable.

To record recovery on claim loss	
Claims loss liability	75,000
Claims loss expense	(75,000)

Component Unit Determination

- What is a component unit?
- Determining whether an entity qualifies as a component unit

Component Unit Determination

What is a component unit?

- A component unit is a legally separate organization for which the primary government is financially accountable.
- A component unit may be a governmental entity, a nonprofit corporation, or a for-profit corporation.
- Only its relation to the primary government is important in determining whether it is part of a governmental reporting entity.
- GASBS No. 39, Determining Whether Certain Organizations Are Component Units, amended GASBS No. 14. It provides guidance on when certain legally separate tax-exempt organizations for which the primary government is not financially accountable (often referred to as "affiliated organizations") should, nonetheless, be included in a government's financial reporting entity.

Component Unit Determination

What is a component unit?

- GASBS No. 61 modifies the requirements for inclusion of component units in the financial reporting entity when there is fiscal dependence.

- An organization previously included based on meeting the fiscal dependency criterion would also need to have a financial benefit or burden relationship with the primary government for it to be included in the reporting entity as a component unit.

- Also requires that a government include as a component unit any other organization in which it has a majority equity interest for the purpose of directly facilitating government services

Component Unit Determination

Determining whether an entity qualifies as a component unit

- There is a step by step process to determine whether you have an entity that qualifies as a component unit.
- For the purposes of this analysis, "PCU" stands for potential component unit and "PG" stands for primary government.

Component Unit Determination

Determining whether an entity qualifies as a component unit

1. Does the PCU have separate corporate powers that would distinguish it as being legally separate from the PG?(GASBS No. 14, para. 15) –

   If yes, go to step 3, if no, go to step 2

- If all of the following questions are "Yes" then is legally separate.
  - Does the PCU have the capacity to have its own name?
  - Does the PCU have the right to sue and be sued in its own name without recourse to a state or local governmental unit?
  - Does the PCU have the right to buy, sell, lease, and mortgage property in its own name?
- If not legally separate, should be considered part of the PG that holds the corporate powers.

Component Unit Determination

Determining whether an entity qualifies as a component unit

2. Does the PG hold the corporate powers of the PCU? (GASBS No. 14, para. 14)

- **If yes, then part of PG but not a component unit**
- **If no, then PCU is not a component unit**

3. Does the PCU qualify as a PG? (GASBS No. 14, para. 20, footnote 4)

- **If yes, then then PCU is not a component unit**
- **If no, then go to step 4**

4. Does the PG hold a majority equity interest in the PCU? (GASBS No. 14, para. 55, as amended by GASBS No.61, para. 10, and GASBS No. 90, para. 7)

- **If yes, go to step 5**
- **If no, go to step 6**

Component Unit Determination

Determining whether an entity qualifies as a component unit

5. Does the majority equity interest in the PCU meet the definition of an investment as defined in GASBS No. 72, para. 64? (GASBS No. 90, para. 5)

- **If yes, then part of PG but not a component unit**
- **If no, then go to step 13**

- GASBS No. 72, para. 64, defines an investment as a security or other asset that (1) a governmental unit holds primarily to generate income or profit and (2) has a present service capacity based solely on the asset's ability to generate cash or generate cash when sold.
- GASBS No. 90, para. 7, indicates that holding a majority equity interest in a legally separate organization that does not meet the definition of an investment results in the governmental unit being financially accountable for the organization.

Component Unit Determination

Determining whether an entity qualifies as a component unit

6. Does the PG appoint a voting majority of the PCU's governing body? (GASBS No. 14, paras. 21–24, as amended by GASBS No. 61, para. 6a)

- **If yes, then go to step 7**
- **If no, then go to step 8**

- **In the absence of continuing appointment authority, the ability of a PG to unilaterally abolish a PCU that it created also provides the basis for ongoing accountability. In this case, check "Yes" for this step.**
- **PG officials serving on the governing body of the PCU as required by law (and, thus, technically not appointed by the PG) are, for purposes of this test, treated as though they were appointed by the PG.**
- **Appointments by the PG include appointments made by**
    - **(1) any PG official(s)—whether elected or appointed,**
    - **(2) anyone to whom a PG official(s) has delegated appointment authority,**
    - **(3) an official(s) of a component unit of the PG, or**
    - **(4) votes taken by a group of which PG and/or PG component unit officials are a majority.**
- **If financial decisions require the approval of a simple majority, and the PG appoints a simple majority, the PG appoints a voting majority. On the other hand, if financial decisions require the approval of a two-thirds majority, the PG must appoint at least two-thirds of the voting members in order to appoint a voting majority.**
- **A PG's appointment authority should be substantive and not be limited by a nomination process.**
- **A PG is considered to be accountable for a PCU as long as continuing appointments are made by the PG, even if those appointments are made by a subsequent administration.**

Component Unit Determination

Determining whether an entity qualifies as a component unit

7. Can the PG impose its will on the PCU by significantly influencing the program, projects, activities, or level of service performed by the PCU? (GASBS No. 14, paras. 25–26)

- **If yes, then go to Step 13**
- **If no, then go to step 9**

- **The existence of any one of the situations covered by the first five bullets clearly indicates that the PG has the ability to impose its will on the PCU. Other conditions, covered by the last bullet, may also indicate a similar ability.**
  - **Can the PG remove appointed members of the PCU's governing board at will?**
  - **Does the PG have the ability to modify or approve the budget of the PCU?**
  - **Does the PG have the ability to modify or approve rate or fee changes affecting revenues, such as water usage rate increases?**
  - **Does the PG have the ability to veto, overrule, or modify the decisions (other than those in the two preceding bullets) of the PCU's governing body?**
  - **Does the PG have the ability to appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations of the PCU?**
  - **Are there other conditions that indicate that the PG has the ability to impose its will on the PCU?**

Component Unit Determination

Determining whether an entity qualifies as a component unit

8. Is the PCU fiscally dependent on the PG? (GASBS No. 14, para. .21b, as amended by GASBS No. 61, para.6b–f)

- **If yes, then go to step 9**
- **If no, then go to step 10**

- **The PCU is fiscally dependent on the PG when the PG has substantive approval authority over any one or more of the following:**
  - **The PCU's budget. The PG has the authority to approve or modify that budget.**
  - **The PCU's tax levy or other rates or charges.**
  - **The PCU's issuance of bonded debt (if the PCU has the legal authority to issue bonded debt at all).**

Component Unit Determination

Determining whether an entity qualifies as a component unit

9. Does a financial benefit or burden exist? (GASBS No. 14, paras. 21, 27, and 34–38, as amended by GASBS No. 61, para. 6; GASBS No. 84, para. 7; and GASBS No. 97, para. 5).

- **If yes, then go to step 13**
- **If no, then go to step 10**

- **A PCU has a financial benefit or burden relationship with the PG if any one of the following is "Yes."**
  - **Is the PG legally entitled to or can it otherwise access the PCU's resources?**
  - **Is the PG legally obligated or has it otherwise assumed the obligation to finance the deficits of, or provide financial support to, the PCU?**
  - **Is the PG obligated in some manner for the debt of the PCU?**
  - **Is the PG legally obligated or has it otherwise assumed the obligation to make contributions to a PCU that is a defined benefit pension or OPEB plan administered through a trust and is within the scope of GASBS Nos. 67 or 74? (GASBS No. 84, paragraph 7, as amended by GASBS No. 97, paragraph 5)**

Component Unit Determination

Determining whether an entity qualifies as a component unit

10. Is the PG legally obligated or has it otherwise assumed the obligation to make contributions to the defined benefit pension or another postemployment benefit plan that is administered through a trust and is within the scope of GASBS Nos. 67 or 74? (GASBS No. 84, para. 7, as amended by GASBS No. 97).

- **If yes, then the PCU should be included in the financial reporting entity as a fiduciary CU**
- **If no, then go to step 11**

Component Unit Determination

Determining whether an entity qualifies as a component unit

11. Should the PCU be included in the reporting entity because of the nature and significance of its relationship with the PG? (GASBS No. 14, para. 40a, as amended by GASBS No. 39) (See the GASBS No. 39, para. 5, criteria in the practical considerations.)

- **If Yes, then this PCU should be included in the financial reporting entity and should be presented discretely.**
- **If No, then go to step 12**

- **The PCU should be included in the reporting entity if all of the following criteria established by GASBS No. 39, paragraph 5, are met:**
  - **Is the PCU a tax-exempt organization?**
  - **Are the economic resources received or held by the PCU held entirely, or almost entirely, for the direct benefit of the PG, its CUs, or its constituents?**
  - **Is the PG, or its CUs, entitled to, or does it have the ability to otherwise access, a majority of the economic resources received by the PCU?**
  - **Are the economic resources received or held by the PCU that the PG or its CUs is entitled to, or has the ability to otherwise access, significant to the PG?**

Component Unit Determination

Determining whether an entity qualifies as a component unit

12. In management's professional judgment, should this PCU be included in the reporting entity because, due to its close relation to, or financial integration with, the PG, its exclusion would render the financial statements misleading? (GASBS No. 14, para. 12, as amended by GASBS No. 61, paras. 4 and 5)

- **If Yes, then go to step 13.**
- **If No, then the PCU is not a component unit.**

13. Could the PCU be part of another financial reporting entity?

- **If Yes, then go to step 14**
- **If No, then go to step 15**

14. Has the accountant concluded that the PCU should be included in the financial statements of this reporting entity?

- **If Yes, then go to step 15**
- **If No, then the PCU is not a component unit.**

Component Unit Determination

Determining whether an entity qualifies as a component unit

15. Is the CU engaged in a fiduciary activity? (GASBS No. 14, para. 19, as amended by GASBS No. 84, para. 5
    - If Yes, then the PCU should be included in the financial reporting entity as a fiduciary CU.
    - If No, then go to step 16.

16. Is the CU's governing body substantively the same as the governing body of the PG? (GASBS No. 14,para.53a, as amended by GASBS No. 61, para. 8; and GASBS No. 85, para.4)
    - If Yes, then go to step 17
    - If No, then go to step 19

17. Does a financial benefit or burden relationship exist between the PG and the PCU? (GASBS No. 14, para. 53a,as amended by GASBS No. 61, para. 8; and GASBS No. 85, para. 4)
    - If Yes, then this PCU should be included in the financial reporting entity and should be presented as a blended entity.
    - If No, then go to step 18

Component Unit Determination

Determining whether an entity qualifies as a component unit

18. Does the operational responsibility for the CU rest with the management of the PG? (GASBS No. 14, para. 53a,as amended by GASBS No. 61, para. 8; and GASBS No. 85, para. 4)

- If Yes, then this PCU should be included in the financial reporting entity and should be presented as a blended entity.
- If No, then go to step 19.

19. Does the CU provide services entirely, or almost entirely, to the PG or otherwise exclusively, or almost exclusively, benefit the PG even though it does not provide services directly to it? (GASBS No. 14, para. 53b, as amended by GASBS No. 61, para. 8; and GASBS No. 85, para. 4)

- If Yes, then this PCU should be included in the financial reporting entity and should be presented as a blended entity.
- If No, then go to step 20

Component Unit Determination

Determining whether an entity qualifies as a component unit

20. Is the CU's debt, including leases, expected to be repaid entirely or almost entirely with the PG's resources?(GASBS No. 14, para. 53c, as amended by GASBS No. 61, para. 8; and GASBS No. 85, para. 4)

- **If Yes, then this PCU should be included in the financial reporting entity and should be presented as a blended entity.**
- **If No, then go to step 21.**

21. Is the CU organized as a not-for-profit corporation with the PG as the sole corporate member, as identified in the CU's articles of incorporation or bylaws? (GASBS No. 80, para. 5)

- **If Yes, then this PCU should be included in the financial reporting entity and should be presented as a blended entity.**
- **If No, then this PCU should be included in the financial reporting entity and should be presented discretely.**

Questions

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GOVERNMENTAL FRAUD – TRENDS, TACTICS, & TOOLS

May 4th, 2023

Leader: Karl Ahlrichs

Materials for this course are currently unavailable.
Please check back later for updates.

GASB 87 LEASES, POST-IMPLEMENTATION AFTERMATH

May 4th, 2023

Leaders: Chris Pembrook, CPA

GASB 87: Year 2…Are We Done Yet?

Chris Pembrook, MBA, CPA, CGAP, CRFAC
Crawford & Associates, P.C.
www.crawfordcpas.com

Topics

- General overview of GASB 87
- Areas of implementation issues
- Common Questions

- Open FAQ

SCOPE – Is It Still A Lease?

- Applicability:
  - GASB Statement 94 - P3s
  - GASB Statement 96 – SBITAs
    - See next slide

- Require a review of leases identified in previous year to determine appropriate classification with adoption of Statements 94&96

What is a lease?

A contract (e.g., an agreement between two or more parties that creates enforceable rights and obligations) that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.

- In order to "convey control of the right to use of the underlying asset", a contract should have both of the following:
  - The right to obtain the present service capacity from use of the underlying asset
  - The right to determine the nature and manner of use of the underlying asset

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What's a PPP (P3)

Public-private partnerships and **public-public partnerships (P3s)** are arrangements "in which a government (the transferor) contracts with an operator [governmental or nongovernmental] to provide public services by conveying control of the right to operate a nonfinancial assets, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction."

Availability payment arrangements (APA):

- Government contracts with another entity to operate or maintain the government's nonfinancial asset
- Entity receives payments from the government based on the asset's availability for use
- Asset's availability may be based on the physical condition of the asset or the achievement of certain performance measures
- May include design, finance, construction, or service components

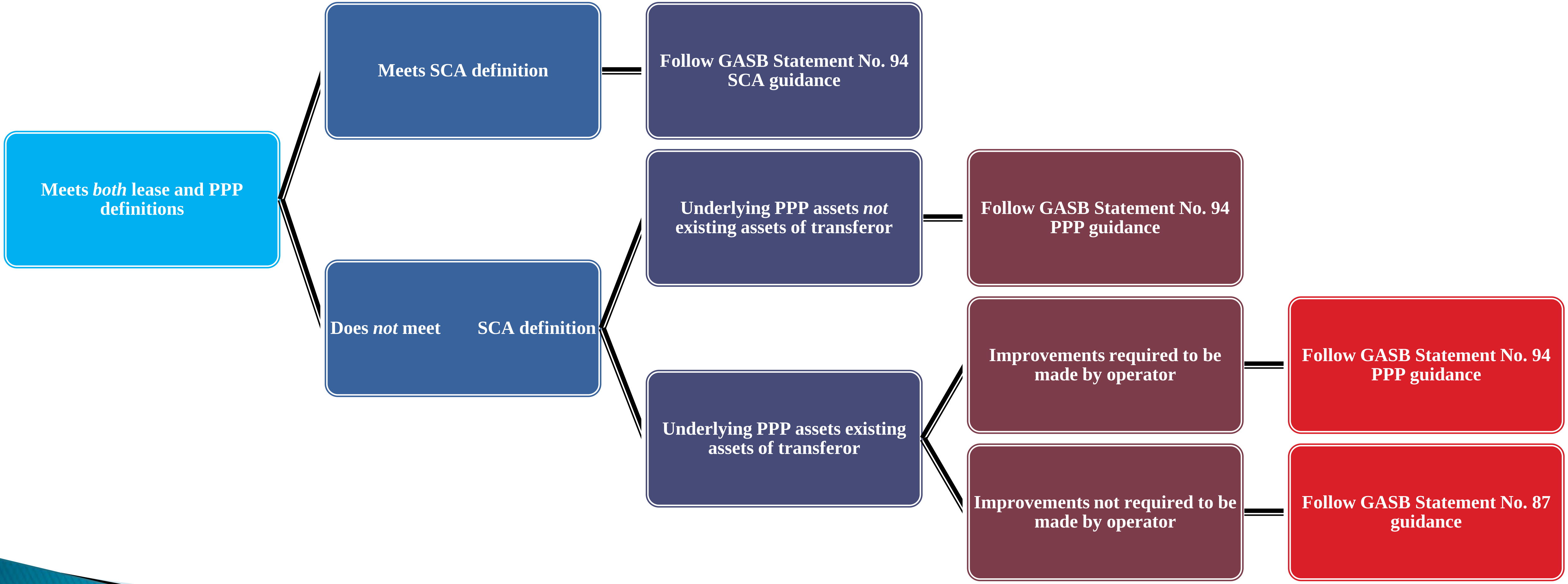
What's a SBITA?

A subscription-based information technology arrangement (SBITA) "is a contract that conveys control of the right to use another party's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets (the underlying IT assets) as specified in the contract for a period of time in an exchange or exchange-like transaction."

To determine whether a contract conveys control of the right to use the underlying IT assets, a government should assess whether it has both:

- The right to obtain the present service capacity from use of the underlying IT assets as specified in the contract
- The right to determine the nature and manner of use of the underlying IT assets as specified in the contract.

Relationship Between Leases and PPPs



Relationship Between Leases and SBITAs

- All SBITAs meet definition of lease
- Accounting depends on what the underlying asset is:
  - Tangible capital assets alone – GASB Statement No. 87
  - IT software alone – GASB Statement No. 96
  - IT software in combination with tangible capital assets:
  - Software component is insignificant compared to cost of underlying tangible capital asset – GASB Statement No. 87
  - Otherwise – GASB Statement No. 96

Wish we would have implemented early!!!???

Transition challenges

Completeness & the Population Year 2

- Start with existing population
  - Perform evaluation to determine if any impact from Stmts 94&96
  - Perform procedures to ensure evaluation of any new lease agreements
  - Perform procedures to identify any missed leases!
    - Never happens right!!!
    - Determine appropriate accounting (consideration of materiality, measurement)

Lease Term

Inconsistent conclusions

Noncancelable period

+

Optional renewal periods if lessee is *reasonably certain to exercise*

+

Periods after an optional termination date if lessee is *reasonably certain not to exercise that option*

+

Optional periods to extend if lessor is *reasonably certain to exercise*

+

Periods after an optional termination date if lessor is *reasonably certain not to exercise that option*

The lease term excludes periods in which both the lessee and lessor have options to terminate regardless of probability.

Fiscal funding or cancelation clauses ignored *unless* reasonably certain of being exercised

Term vs Maximum Possible Term

- Lease Term – See previous slide
- Short-Term lease - Lease that has a ***"maximum possible term"*** under the contract, including any options to extend, of 12 months or less

  - Evaluation of 12 months or less (Q4.11 in IG 2021-1)
    - …a three-year contract for the right to use a piece of equipment. However, the government only obtains the right to use the equipment from January through March for each of those three years…
    - Short-Term? Or Not Short-Term?

Short-Term Considerations

- GASB Statement No. 99
  - Par. 12 - … a lease that previously had been determined to be short-term and that has been modified to extend the initial maximum possible term under the lease contract should be reassessed from the inception of the lease.

  - If reassessment is greater than 12 months – No Longer Short-Term!
    - Lease term to be assessed at the date of modification for measurement of receivable/liability

Reassessment of Lease Term

- Reassess the lease term only if one or more of the following occurs:
  - Lessee or lessor elects to exercise an option even though originally determined that the lessee or lessor would not exercise that option
  - Lessee or lessor elects to not exercise an option even though previously determined that the lessee or lessor would exercise that option
  - An event specified in the contract that requires an extension or termination of the lease takes place

Perpetual/Automatic Renewal

- Common question – "Period of Time" if a contract automatically renews and there is no specific end date, is this outside the scope of the lease definition?
  - No, provision under which the licensing agreement automatically renews until cancelled is an option to terminate
    - Proposed IG 2023-1

Term - Cancellable

- What is really ***Cancellable***? Does probabilities matter?
  - If contract gives either party the option to cancel, even if it is highly unlikely that they wont, it is a cancellable period (Q4.15 in IG 2019-3)
- What if there is a termination penalty? What if penalty is significant? (Q4.15 in IG 2019-3)

Termination Options

- GASB 99 – application of par 12 of 87:
  - Option to terminate is an unconditional right that exists within the lease contract

  - Termination based on certain circumstances are not considered termination options:
    - Due to violation of contract provisions (terms and conditions)
    - Default on payment

Lease Termination

Lessee	Lessor
• **Reduce the carrying values of the lease asset and lease liability**	• Reduce the carrying values of the lease receivable and deferred inflow of resources
• **Recognize a gain or loss for the difference**	• Recognize a gain or loss for the difference
• **Exception: If the termination occurs because the lessee purchases the underlying asset, then the lease asset should be reclassified to the proper asset class**	• Exception: If the termination occurs because the lessee purchases the underlying asset, then the carrying value of the underlying asset should be derecognized and included in the resulting gain or loss

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Lease Modifications

Are both of the following conditions present?

- Modification gives the lessee an additional lease asset by adding one or more underlying assets that were not included in the original lease
- Increase in lease payments for the additional lease asset does not appear to be unreasonable

Yes

Account for amendment as a separate lease

No

Remeasure lease liability (lessee) or lease receivable (lessor)

Lease modifications

See IG 2021-1, 4.20

Q—In Question 4.67 in Implementation Guide 2019-3, the school district remeasures the lease liability. Does that remeasurement require reassessment of the discount rate?

A—Yes. In accordance with paragraph 73 of Statement 87, a lease modification requires remeasurement of the lease liability. A remeasurement because of a lease modification is the same as reperforming an initial measurement. Therefore, reassessment of the discount rate is required.

Options vs New Contract

- Not just semantics – Can affect the accounting!
- If renewal is an option within the contract *versus* there being a new contract:
  - Could change the short-term lease evaluation (Q4.10 in IG 2020-1) –
  - Q—A governmental housing authority enters into a 12-month residential lease contract that states the lessee may renew. If the lessee decides to renew, the housing authority and the lessee will enter into a separate lease contract at a later date for the subsequent 12-month period. Is the existing 12-month residential lease contract a short-term lease under Statement 87?
  - It determines whether renewal history matters – it matters if there is a renewal option and it does not matter if it is a new contract (Q4.11 in IG 2020-1)
  - Q—A city leases boat slips in its marina to boat owners. Each lease is for 12 months and does not contain an option to extend. A certain boat owner has signed a new lease every year for the past 20 years, and the city expects her to continue to do so. Is this a short-term lease?

Transfer of Ownership

- Transfers ownership of the underlying asset to the lessee by the end of the contract and does not contain termination options
  - Exclude non-appropriation clause
  - These will meet the definition of debt – GASB Stmt 88

- Common question Bargain Purchase Options:
  - Basis of conclusions – Stmt 87 par B14.:
    - “.. the Board concluded that a lease that contains any purchase option, including a bargain purchase option, should not be treated as a financed purchase or sale until that option is exercised.”

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Existing Leases – Don’t set it and forget it!

- Don’t just roll information to the next year!

- Determine if existing lease terms are still applicable:
  - Any leases terminated?
  - Any lease terms modified?
    - Type of modification
  - What about assumptions used to evaluate options?
    - Did assumption occur?
    - Did assumption not occur?
    - Did my basis of evaluation change? Do I care ☺

Considerations - Preparer

- Completeness ex.
- Establish key individual(s) to be responsible for leases
- Consideration for Centralized vs Decentralized data/support
  - Consider centralized data collection
  - Better understating for Year 2
- Policy/Procedures
  - Term – Options/Evaluation
  - Multiple Components - observable information, writing of contracts to included stated prices, professional judgement
  - Discount rate setting – process/how to determine
  - Materiality – reporting unit/opinion unit consideration
    - Capitalization

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Considerations - Auditor

- Completeness ex.
- Inquire of management and key individuals within organization to determine process and controls surround development of lease inventory
  - Including materiality consideration - Lease asset and lease liability
  - Procedures/assessment of expiring or terminated leases
  - Contracts/agreements determined to not be a lease and appropriateness

Considerations - Auditor

- Completeness ex.
- Based on risk/procedure considerations:
  - Review board minutes and approvals
  - Scan gl detail and accounts that may be indicative of lease/rental payments/receipts (review support to ensure not a lease)
  - Evaluate lease contracts from population identified: conclusions where appropriate
  - Evaluate contracts concluded not to be leases: conclusions where appropriate (be aware of the embedded leases)

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Common Issues - Statement Presentation

- Classified Format:
  - Current/Non-Current presentation
    - Required for enterprise funds
- Leased assets – not reported as capital assets
- Reclassification of current year payments
  - Payments made on leases are debt service
    - Principal & Interest
- Current year activity – Lessee
  - New leases result in recognition of an expenditures and other financing source

Common Issues - Note Disclosures

- Missing or inaccurate note disclosures, including –
  - Accounting policy descriptions
    - Capital assets – policies/thresholds inclusion of right to use assets (leased assets)
    - Deferred inflows of resources – existing disclosures not addressing those resulting from lessor agreements
  - Use of old lease language
  - Leasing arrangements – completeness of required disclosures
    - Lessee and Lessor
    - Regulated leases
  - Capital Asset Disclosures
  - Long-term Obligations
  - Over disclosing:
    - Are you an over disclosure?

Disclosures - Lessees

1. General description of leasing arrangements
2. Total amount of lease assets, related accumulated amortization
3. Amount of lease assets by major classes of underlying assets
4. Amount of variable payments not previously included in liability
5. **Amount of other payments not previously included in liability**
6. Principle and interest requirements to maturity
7. Commitments under leases before commencement date
8. Impairment loss and any related change in lease liability

Additional disclosures are required for any sublease transactions, sale-leaseback transactions and lease-leaseback transactions, if applicable.

What about capital asset or long-term liabilities disclosures?

Disclosures: Lessee

Q—Should lease assets be included in the disclosure of changes in capital assets?

A— Yes. Lease assets are capital assets and, therefore, should be included in the disclosure of changes in capital assets. Paragraph 37c of Statement 87 requires lessees to disclose "the amount of lease assets by major classes of underlying assets. . . separately from other capital assets." Paragraphs 116 and 117 of GASB Statement No. 34, as amended, require disclosure of information about major classes of capital assets, including disclosure of changes in capital assets.

GASB IG 2019-3, Q 4.41

Similarly, changes in the lease liability should be included in the long-term liabilities roll forward as required by GASB Statement No. 34.

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Disclosures - Lessor

1. General description of leasing arrangements
2. Amount of inflows of resources recognized, if amount cannot be determined from face financial statements
3. Amount of inflows of resources recognized for variable and other payments not previously included in lease receivable
4. Existence, terms and conditions of lessee options to terminate lease or abate payments if lessor has issued debt which is secured by lease payments

Disclosures – Lessor (continued)

Relevant disclosures should be provided for the following, if applicable:

- Leases of assets that are investments
- Certain regulated leases
- Sublease transactions
- Sale-leaseback transactions
- Lease-leaseback transactions

If the lessor's principal ongoing operations consist of leasing assets to other entities, a schedule of future payments that are included in the measurement of the lease receivable for each of the next five years and in five-year increments thereafter should be provided

Regulated Leases

- Lessors would scope out from balance sheet impact if the following criteria are met:
  - Lease rates cannot exceed a reasonable amount, with reasonableness being subject to determination by an external regulator
  - Lease rates should be similar for lessees that are similarly situated
  - The lessor cannot deny potential lessees the right to enter into leases if facilities are available, provided that the lessee's use of the facilities complies with generally applicable use restrictions

Regulated Leases

- Specific examples provided by GASB 87:
  - U.S. Department of Transportation and the Federal Aviation Administration regulate aviation leases between airports and air carriers and other aeronautical users
    - Meet criteria of aeronautics – out of financial statement recognition for receivable/D.Inflow
    - Not aeronautics – would be applicable to GASB 87 recognition
      - Cell tower agreements
      - Concessionaire agreements
      - Other Property/land/building agreements
        - Ex. Rental Car – property/office space agreements

Disclosures – Regulated Leases

1. General description of leasing arrangements
2. Extent to which capital assets are subject to preferential or exclusive use (by class of asset/major counterparty)
3. Amount of inflows of resources recognized, if amount cannot be determined from face financial statements
4. Amount of inflows of resources recognized for variable and other payments not included in expected future minimum payments
5. Existence, terms and conditions of lessee options to terminate lease or abate payments if lessor has issued debt which is secured by lease payments
6. Schedule of expected future minimum payments under these agreements for each of the subsequent five years and in five-year increments

Regulated Leases

- Q—A port authority is a marine terminal operator as defined by the Federal Maritime Commission. The United States Shipping Act requires, in part, that a "marine terminal operator may not (1) agree with another marine terminal operator or with a common carrier to boycott, or unreasonably discriminate in the provision of terminal services to, a common carrier or ocean tramp; (2) give any undue or unreasonable preference or advantage or impose any undue or unreasonable prejudice or disadvantage with respect to any person; or (3) unreasonably refuse to deal or negotiate." For leases subject to those regulations, has the requirement in paragraph 43c of Statement 87 been met?

- A—**Yes**. Paragraph 43c of Statement 87 requires prohibition of unjust discrimination in leasing. The requirements of the United States Shipping Act quoted above related to terminal services meet that requirement.

See IG 2020-1, Q 4.14

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Intra Entity/Related parties

- Leases with/between blended component units
  - Eliminations for internal leasing activity take place before the financial statements are aggregated
- Leases with/between discretely-presented component units
  - Treat like normal leases, but - present receivables and payables separately
- Leases between ISF and departments/governmental funds
  - Doesn’t convey control of another legal entities assets – not within scope
    - (Q4.4 in IG 2021-1)
- Recognize substance of the transaction, when substance is significantly different from legal form
  - For example, intent of short-term agreement is long-term
  - Disclose the nature and extent of related-party leases

Materiality

- Year 2: Considerations:
  - Est. Materiality for year 2:
    - Reminder materiality considerations by aggregate (Q4.23 of IG 2019-3)
    - Receivables/Deferred inflows – Lessor
    - Capital Assets/Liabilities by Lessee
  - Capital Assets – (Q5.1 of IG 2021-1)
    - directing governments to capitalize the **collective** amount if material in total
  - Prior year leases determined to be immaterial
    - Consider Prior & Current year leases not recognized in the aggregate
    - Consider amounts by reporting unit as a preparer
    - Consider amounts by Opinion unit as an auditor

Questions?

NEW AGREES-UPON PROCEDURES FOR SMALL OKLAHOMA MUNICIPALITIES

May 4th, 2023

Leaders: Frank Crawford, CPA

Audits and Proposed Agreed-Upon Procedures Engagements for Oklahoma Municipalities

OSCPA GAA Conference
May 4-5, 2023
Presented by – Frank Crawford, CPA

CRAWFORD & ASSOCIATES P.C.

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Audit and AUPs at a Glance

* Why attestation (Audit and AUPs) at all?
* Types of Audits and AUPs
* Statutes Related to Audits and AUPs

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Why any attestation at all?

* In most cases, it’s required
* Accountability
* Reliability
* Assurance
* Loans and grants

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Types of Audits

* External (Financial)
* Internal
* Forensic (Investigative)
* Performance
* Single Audit of Federal Grant Funds

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Current Statutes Related to Audits

- Cities and Towns (O.S. Title 11, Section 17-105)
- Public Trusts (O.S. Title 60, Section 180.1)

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Cities and Towns

* Population greater than 2,500 (as of most recent Federal Decennial Census) and General Fund income greater than $25,000 (excludes grants from governments)
  * Audit required
  * Must be ordered within 30 days of the close of the fiscal year
  * Must be filed with the State Auditor and Inspector and with the governing body within 6 months after close of fiscal year
  * Audit in accordance with generally accepted auditing standards and Government Auditing Standards
  * Performed by an independent licensed PA or CPA

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Cities and Towns

* Population less than 2,500 (as of most recent Federal Decennial Census) and General Fund income greater than $25,000 (excludes grants from governments)
  * Can opt to have same audit as listed on previous slide OR
  * Can opt to have an Agreed Upon Procedures performed IF audit not required by another law, regulation or contract
    * Performed by an independent licensed PA or CPA
    * In accordance with attestation standards of AICPA
    * Specific procedures performed (Exhibit A)

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Cities and Towns

* General Fund income less than $25,000 (excludes grants from governments)
  * No audit or Agreed-Upon Procedures required
  * Must complete SA&I Form 2644

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Public Trusts

* More than $50,000 of assets or annual revenue
  * Audit required
  * Ordered within 30 days of close of fiscal year
  * Audit in accordance with generally accepted auditing standards and Government Auditing Standards
  * Performed by an independent licensed PA or CPA
  * Filed with the State Auditor and Inspector within 6 months after close of fiscal year and with trustees and with governing body of beneficiary(ies)

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Public Trusts

* More than $50,000 of assets or annual revenue AND for whom annual audit not required by another law, regulation or contract – has options:
  * Financial statement audit OR
  * Agreed-Upon Procedures
    * Performed by an independent licensed PA or CPA
    * In accordance with attestation standards of AICPA
    * Specific procedures performed (Exhibit A)
    * Must be ordered within 30 days of close of fiscal year

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Public Trusts

* Less than $50,000 in annual revenue AND
* Less than $50,000 in assets AND
* For whom annual audit not required by another law, regulation or contract AND
* Did not have financial activity exceeding $50,000 since last audit
* May apply to State Auditor and Inspector for waiver of requirements in previous slides.

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House Bills 1058 and 2362

* 1058 passed, was signed by Gov earlier this year, but sunset due to inaction by the Legislature on HB 2362 on April 27, 2023
* Would have caused significant changes to nearly all the aspects of the Title 11 current law (and Title 60 by default)
  * Changing threshold limits of how much and what to include as revenue
  * Certain size governments would have qualified for biennial audits instead of annual audits or biennial AUPs, each of which would have included the activity from both years of the biennial period
  * New revised AUP procedures were determined by the State Auditor's office, with input and assistance from other organizations and individuals (HB 2362), but did not pass due to inaction by the legislature on April 27, 2023
  * It would have also set up a fund for the State Auditor's office to utilize for special investigative audits of municipalities, the would have been funded primarily by municipalities forfeited gas excise taxes (depending upon the lateness of the audit or AUP), and other funds provided for such by the Oklahoma Legislature

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HB 1058 and 2362 Cities and Towns: what would have occurred effective June 30, 2023

- Population greater than 2,500 (as of most recent Federal Decennial Census) and revenue from all funds and component units of greater than $50,000 (excludes grants from all other governments and excluding Title 60 non-utility public trusts), but <u>does include</u> revenue from Title 60 Public trusts that are utility based
  - Annual Audit required
  - Must be ordered within 30 days of the close of the fiscal year
  - Must be filed with the State Auditor and Inspector and with the governing body within 6 months after close of fiscal year
  - Audit in accordance with generally accepted auditing standards and Government Auditing Standards
  - Performed by an independent licensed PA or CPA

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HB 1058 and 2362 Cities and Towns: what would have occurred effective June 30, 2023

* Population less than 2,500 (as of most recent Federal Decennial Census) and revenue from all funds and component units of greater than $50,000 (excludes grants from all other governments and excludes Title 60 non-utility public trusts), but does include revenue from Title 60 Public trusts that are utility based
  * Can opt to have a biennial financial statement audit covering both years OR
  * Can opt to have a biennial Agreed Upon Procedures engagement covering both years IF an annual financial statement audit is not required by another law, regulation or contract
    * Performed by an independent licensed PA or CPA
    * In accordance with attestation standards of AICPA
    * Specific procedures to be determined by State Auditor in collaboration with others
    * Ordered within 30 days of the close of the of fiscal year that the audit is due (the biennial year)
    * Filed with governing body and State Auditor no more than 9 months after the close of the 2nd fiscal year of the biennial audit or AUP period
    * The deadline to order the audit/aup and the deadline to file the audit/aup can be extended by the State Auditor for special circumstances or emergencies

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HB 1058 and 2362 Cities and Towns: what would have occurred effective June 30, 2023

* Revenue from all funds and component units of less than $50,000 (excludes grants from all other governments and excludes Title 60 non-utility public trusts), but <u>does include</u> revenue from Title 60 Public trusts that are utility based
  * No audit or Agreed-Upon Procedures required
  * Must complete SA&I Form 2644

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HB 1058 and 2362 Cities and Towns: what would have occurred effective June 30, 2023

- A few other items of the laws to note
  - If a municipality misses the filing deadlines (6 months or 9 months as mentioned on the previous slides)
    - Gas excise tax will be temporarily withheld by the OK Tax Commission
    - If the municipality files the audit/aup within 2 years of the close of the audit/aup period, all the gas tax will be released to the municipality
    - If the municipality does NOT file the audit/aup within 2 years of the close of the audit/aup period, the gas excise tax of the municipality will be forfeited into a new revolving fund established for the State Auditor to help offset the cost of municipal special investigations

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HB 1058 and 2362 Cities and Towns: what would have occurred effective June 30, 2023

- A few other items of the laws to note, cont.
  - The effective date was to be for all audits and AUPs for the period ending June 30, 2023. However, now that HB 2362 did not get heard on or before April 27, 2023, HB 1058 sunsets and all audits and AUPs will be performed under the old rules for the period ending June 30, 2023.
  - The procedures, defined in HB 2362, should have been ratified by the Legislature no later than April 27, 2023, but was not. So they sunset, for at least another year
  - I believe the plan is to try again next year, maybe when the political climate at the Capital isn't so dysfunctional
  - Just for fun, let's take a few minutes to look at the proposed new AUP procedures and contrast them to the current AUP procedures

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First, let's look at the current AUP procedures

* Let's go to Exhibit A for a closer look
* These are the procedures still in effect now by default for the June 30, 2023 fiscal year

Now, let's take a look at the new proposed procedures on the following slides

* Remember, these are not in effect for the June 30, 2023 fiscal year, BUT will be considered again next year in time for the June 30, 2024 fiscal year

New proposed AUP Procedures

* 1. Determine the establishment of policies related to adjustments, write-downs, or write-offs for various receivables due to the municipality and/or the utility-related trust and select a sample of adjustments to test for adherence to policies and for appropriate supporting documentation

New proposed AUP Procedures

* 2. Obtain two (2) months of bank statements of the General Fund and Utility Fund and confirm that cash deposits were made in the appropriate account(s) and verify utility billing receipts and/or posting reports agree to the daily deposits

New proposed AUP Procedures

* 3. For the following four positions: city manager/town administrator, city/town clerk, city/town treasurer, and payroll clerk, the governing body shall agree upon a pay rate to be authorized and documented in the personnel file or in approved meeting minutes. Inquire of the payroll clerk or equivalent if any employees received compensation over and above their authorized salary or hourly rate, and if so, trace to appropriate documentation of authorization for such pay. This shall not include expense reimbursements, but shall include any allowances considered taxable

New proposed AUP Procedures

* 4. For entities that use debit or credit cards, determine the establishment of policies of use, select a sample of transactions to test for supporting documentation, proper municipal purpose, and adherence to prescribed policies

New proposed AUP Procedures

* 5. Prepare a cash basis schedule of changes in fund balances for each fund and determine compliance with the statutory prohibition of creating fund balance deficits

New proposed AUP Procedures

* 6. Agree material fiscal year-end bank account balances to bank statements and trace significant reconciling items to subsequent clearance; shall determine if any bank accounts exist that are not under city council purview

New proposed AUP Procedures

* 7. Compare uninsured deposits at fiscal year-end to the fair value of pledged collateral

New proposed AUP Procedures

* 8. Inquire if any instances of known fraud, illegal acts, or noncompliance with law and regulations have occurred

New proposed AUP Procedures

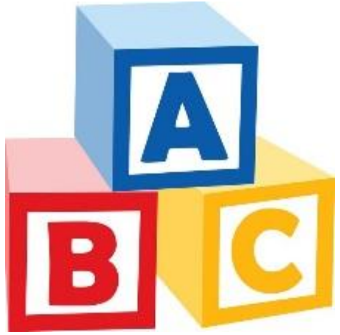
* 9. Compare the use of material-restricted revenues and resources to their restrictions

TOP TEN
UDIT and AUP prep -LISTERS

AUDIT and AUP prep A-LISTERS

#10

DAILY DUTIES



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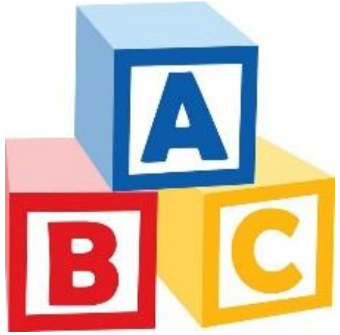
#9

<u>START EARLY</u>



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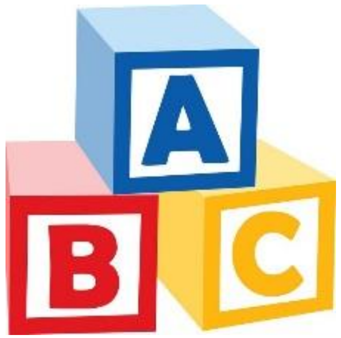
#8

MAJOR CHANGES



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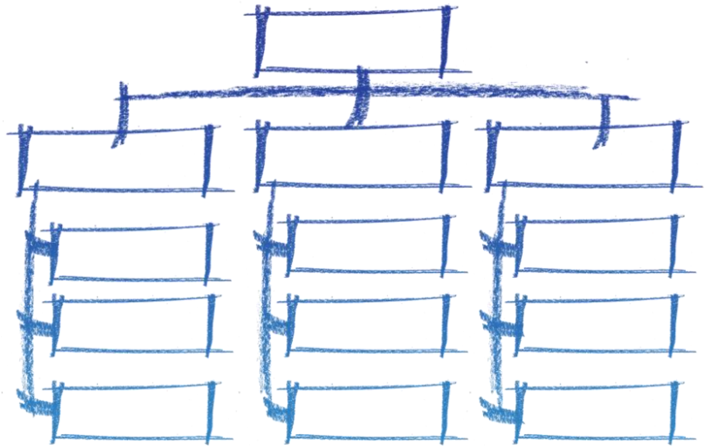
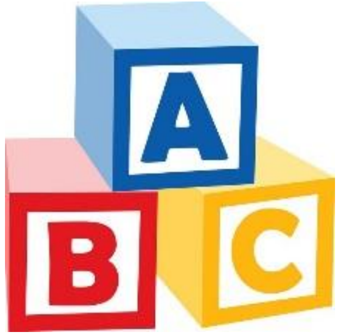
#7

COMPONENT UNITS





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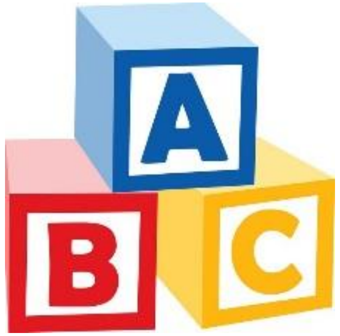
#6

ACCRUALS (except for AUPs)



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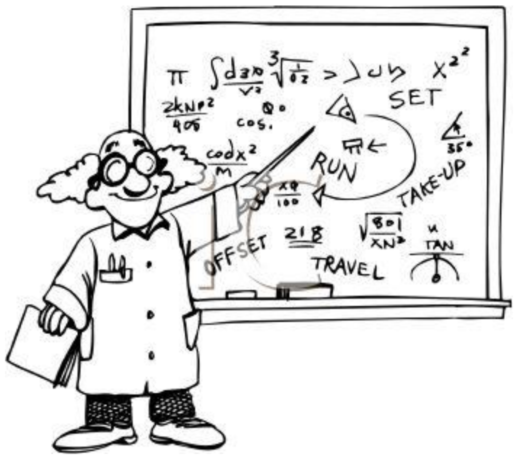
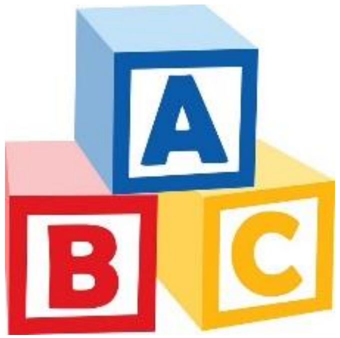
#5

ACTUARIAL STUDIES (except for AUPs)





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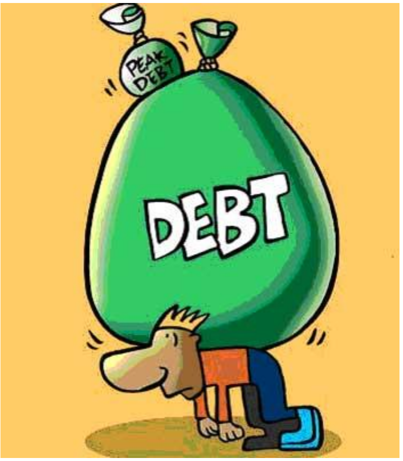
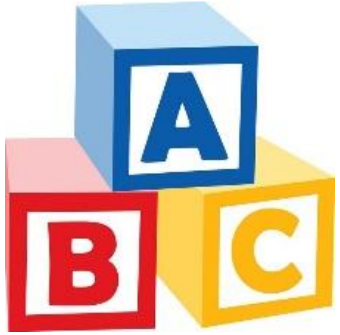
#4

NEW DEBT





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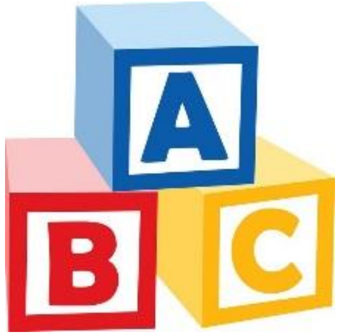
#3

GRANTS



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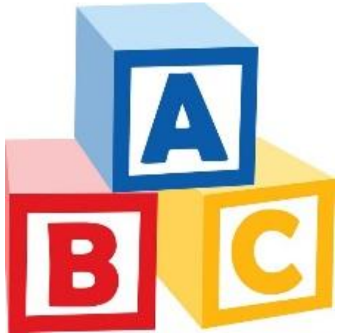
#2

CAPITAL ASSETS



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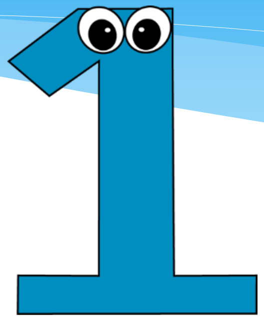
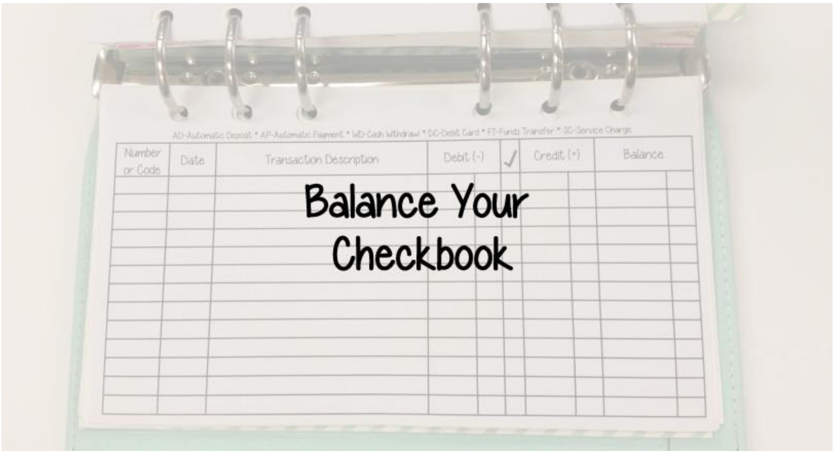
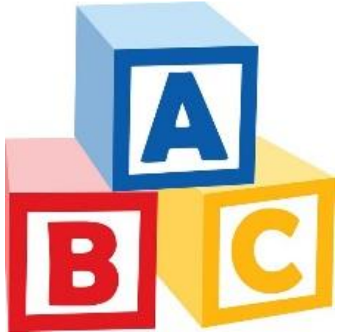


BANK RECONCILIATIONS





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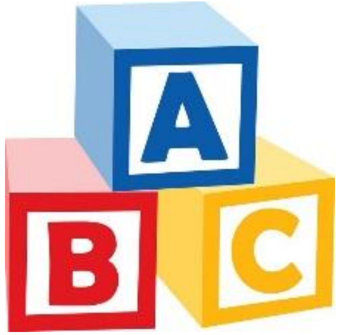
QUESTIONS



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GASB UPDATE

May 5th, 2023

Leader: Lisa R. Parker

Oklahoma Society of CPA's – Governmental Accounting and Auditing Conference

GASB UPDATE

Lisa R. Parker, CPA, CGMA, Senior Project Manager

May 5, 2023

The views expressed in this presentation are those of Ms. Parker.
Official positions of the GASB are reached only after extensive due process and deliberations.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD FAF FINANCIAL ACCOUNTING FOUNDATION

Presentation Overview

- Pronouncements being implemented
- Projects currently being deliberated by the Board
- Pre-agenda research activities
- Post-implementation review

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Effective Dates

December 31: Fiscal Year 2022

- Statement 87 – leases
- Statement 91 – conduit debt
- Statement 92 – omnibus 2020 (multiple effective dates)
- Statement 93 – LIBOR removal and lease modifications
- Statement 97 – certain component unit criteria and Section 457 plans
- Statement 99 – omnibus 2022 (extension of LIBOR, SNAP distributions, nonmonetary transaction disclosures, pledges of future revenues, clarification of provisions in Statement 34, and terminology updates)
- IG 2019-3 – leases
- IG 2020-1 – update
- IG 2021-1 – update (4.22)

December 31: Fiscal Year 2023

- Statement 94 – public-private partnerships
- Statement 96 – SBITAs
- Statement 99 – omnibus 2022 (leases, PPPs, and SBITAs)
- IG 2021-1 – update (4.1–4.21, 4.23, 5.2, and 5.4)

December 31: Fiscal Year 2024

- Statement 99 – omnibus 2022 (financial guarantees and classification of derivatives)
- Statement 100 – accounting changes and error corrections
- Statement 101 – compensated absences
- IG 2021-1 – update (5.1)

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Effective Dates

June 30: Fiscal Year 2023

- Statement 91 – conduit debt
- Statement 94 – public-private partnerships
- Statement 96 – SBITAs
- Statement 99 – omnibus 2022 (leases, PPPs, and SBITAs)
- IG 2020-1 – update (4.6–4.17 and 4.19–4.21)
- IG 2021-1 – update (4.1–4.21, 4.23, 5.2, and 5.4)

June 30: Fiscal Year 2024

- Statement 99 – omnibus 2022 (financial guarantees and classification of derivatives)
- Statement 100 – accounting changes and error corrections
- IG 2021-1 – update (5.1)

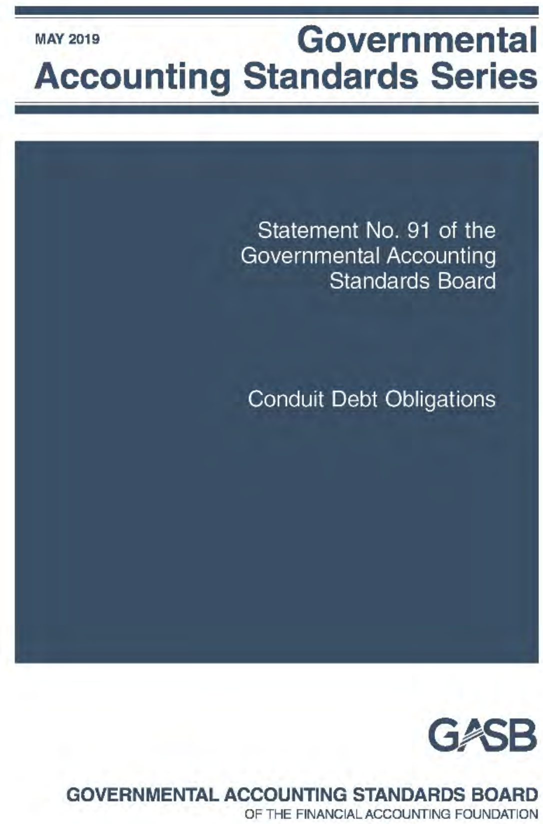
June 30: Fiscal Year 2025

- Statement 101 – compensated absences

Pronouncements Being Implemented

Conduit Debt Obligations

Statement No. 91


MAY 2019

Governmental Accounting Standards Series

Statement No. 91 of the Governmental Accounting Standards Board

Conduit Debt Obligations

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GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Conduit Debt

What?

The Board improved the standards related to conduit debt obligations by providing a single reporting method for government issuers

Why?

Interpretation 2 had been in effect for 20 years before its effectiveness was evaluated; based on GASB research, improvements were needed to eliminate diversity in practice

When?

Effective for periods beginning after December 15, 2021

Earlier application is encouraged

Definition of Conduit Debt

1. There are at least three parties involved: the government-issuer, the third-party obligor (borrower), and the debt holder or trustee.
2. The issuer and the third-party obligor are *not* within the same financial reporting entity.
3. The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
4. The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
5. The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation.

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Limited, Additional & Voluntary Commitments Extended by Issuers

Generally, issuers' commitments are **limited** to the resources provided by the third-party obligor.

Occasionally, an issuer may extend an **additional commitment** to support debt service in the event of the third-party obligor's default.

For example:
- Extending a moral obligation pledge
- Extending an appropriation pledge
- Extending a financial guarantee
- Pledging its own property, revenue, or other assets as security

Under a **voluntary commitment**, issuer voluntarily decides to make a debt service payment or request an appropriation for a payment in the event that the third-party is, or will be, unable to pay.

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Recognition by the Issuer

- Do *not* recognize a conduit debt obligation as a liability
- May have a related liability arising out of an additional or voluntary commitment
- **Additional commitment**: report a liability when qualitative factors indicate it is *more likely than not* that the issuer will support debt service payments for a conduit debt obligation
- **Voluntary commitment**: if a certain event or circumstance has occurred, evaluate likelihood, then report a liability if it is *more likely than not* that the issuer will support debt service payments
- Voluntary commitments for which a liability is recognized and all additional commitments: At least annually reevaluate whether recognition criteria are met while conduit debt is outstanding

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Arrangements and Capital Assets

Some conduit debt obligations include arrangements* that involve capital assets to be used by the third-party obligor but owned by the issuer.

- Capital asset is built or acquired with proceeds of the conduit debt obligation.
- Issuer retains title to the capital asset from the beginning of the arrangement.
- Payments from the third-party obligor are to cover debt service payments.
- Payment schedule of the arrangement coincides with the debt service repayment schedule.

*Often characterized as “leases”

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Arrangements and Capital Assets (continued)

Accounting by the issuer:

- Do *not* report those arrangements as leases
- Do *not* recognize a liability for the related conduit debt obligations
- Do *not* recognize a receivable for the payments related to those arrangements
- If the arrangement meets the definition of a service concession arrangement, follow Statement 60

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Arrangements and Capital Assets (continued)

Does title pass to third-party obligor at end of arrangement?	Does the issuer recognize a capital asset?	Does the issuer recognize a deferred inflow of resources?
Yes	No	No
No, and third party has exclusive use of *entire* capital asset	Yes, when the arrangement ends	No
No, and third party has exclusive use of only *portions* of the capital asset	Yes, at the inception of the arrangement	Yes, at the inception of the arrangement; deferred inflow recognized as revenue over the term of the arrangement

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Disclosures by Type of Commitment

A general description of the issuer's conduit debt obligations

- Description of limited commitments
- Description of additional commitments (legal authority and limits; length; arrangements for recovering payments from third-party obligors, if any)
- Aggregate outstanding principal amount

If the issuer recognizes a related liability

- Description of timing of recognition and measurement of the liability
- Beginning balances, increases, decreases, ending balances
- Cumulative payments that have been made
- Amounts expected to be recovered, if any, for those payments

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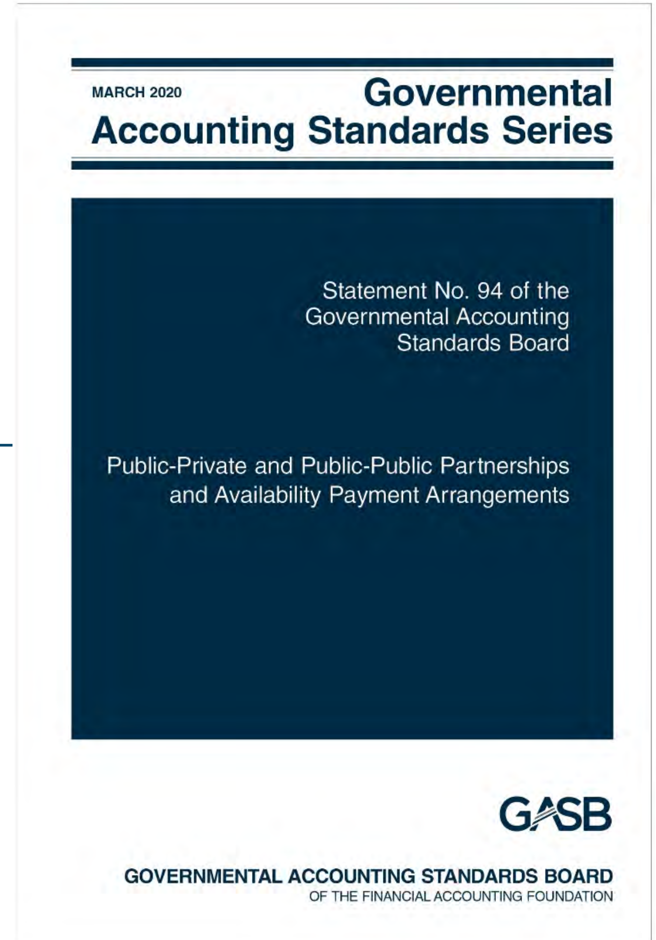
Public-Private and Public-Public Partnerships and Availability Payment Arrangements

Statement No. 94



P3s, APAs, and SCAs

What?

The Board issued guidance for public-private and public-public partnerships (P3s) that are not subject to Statements 60 or 87, and improvements to Statement 60

Why?

GASB research found that some P3 transactions are outside the scope of Statement 60 and identified opportunities to improve Statement 60's guidance for service concession arrangements (SCAs)

When?

Effective for reporting periods beginning after June 15, 2022

Definitions: PPPs and APAs

Public-private partnerships and **public-public partnerships (P3s)** are arrangements "in which a government (the transferor) contracts with an operator [governmental or nongovernmental] to provide public services by conveying control of the right to operate a nonfinancial assets, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction."

Availability payment arrangements (APA):

- Government contracts with another entity to operate or maintain the government's nonfinancial asset
- Entity receives payments from the government based on the asset's availability for use
- Asset's availability may be based on the physical condition of the asset or the achievement of certain performance measures
- May include design, finance, construction, or service components

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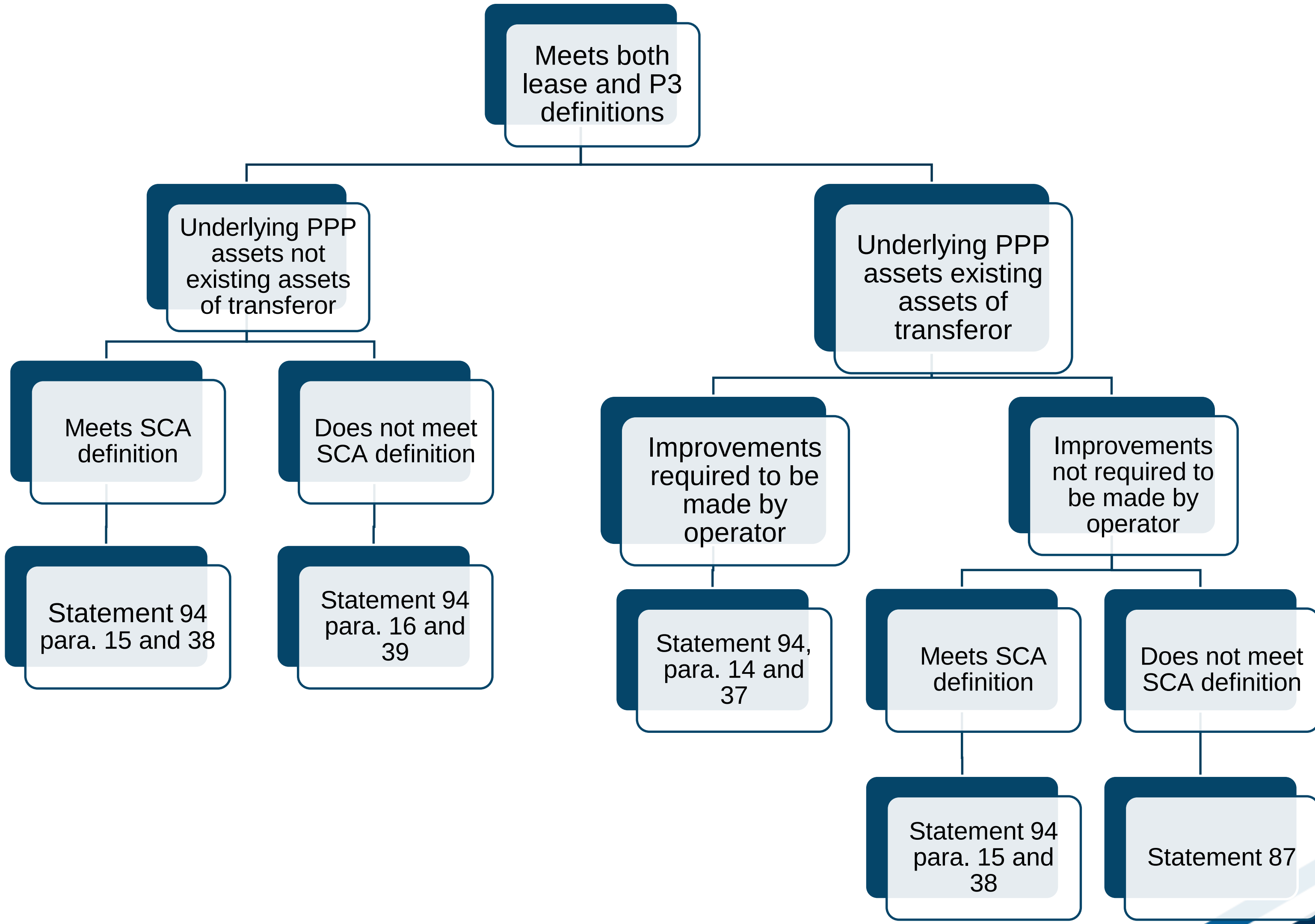
Other Provisions: Recognition and Measurement Guidance



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Other Provisions

An APA that is related to the design, finance, or construction of an infrastructure or other nonfinancial asset in which ownership of the asset transfers by the end of the contract would be reported as a financed purchase of the asset.

An APA that is related to operations would be accounted for as flows of resources (for example, expense) in the period to which the payments relate.

Transferor Reporting

For all P3s, recognize:	If underlying P3 asset is a new asset or an existing asset that has been improved…
• Receivable for installment payments to be received, if any • Deferred inflow of resources for the assets recognized, including payments received from the operator at or before start of the P3 term	• …and the P3 is an SCA: also recognize the capital asset at acquisition value when placed into operation • …and the P3 is not an SCA: also recognize a receivable for the capital asset, measured at operator's estimated carrying value as of the future date of the transfer in ownership

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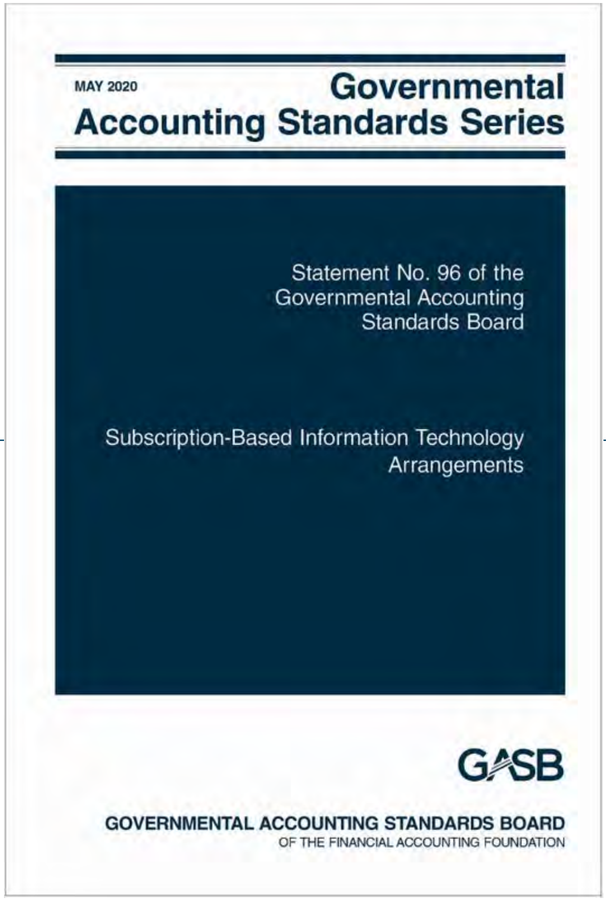
Operator Reporting

For all P3s, recognize:	If underlying P3 asset is (a) existing asset or improvement or (b) new asset and the P3 is an SCA…	If underlying P3 asset is a new asset and the P3 is not an SCA…
• Liability for installment payments to be made, if any	• …also recognize an intangible right-to-use asset	• Also recognize the underlying P3 asset until ownership is transferred • And a liability for the underlying P3 asset, measured at the estimated carrying value as of the future date of the transfer

Subscription-Based Information Technology Arrangements

Statement No. 96


MAY 2020

Governmental Accounting Standards Series

Statement No. 96 of the Governmental Accounting Standards Board

Subscription-Based Information Technology Arrangements

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Statement 96 on SBITAs

What?

The Board issued standards related to reporting subscription-based information technology arrangements (SBITAs), such as cloud computing contracts

Why?

Stakeholders were concerned that those transactions were not covered by the guidance in Statements 51 or 87; diversity existed in practice

When?

Effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter

Earlier application is encouraged

Scope and Applicability

A subscription-based information technology arrangement (SBITA) “is a contract that conveys control of the right to use another party’s (a SBITA vendor’s) IT software, alone or in combination with tangible capital assets (the underlying IT assets) as specified in the contract for a period of time in an exchange or exchange-like transaction.”

To determine whether a contract conveys control of the right to use the underlying IT assets, a government should assess whether it has both:

- The right to obtain the present service capacity from use of the underlying IT assets as specified in the contract
- The right to determine the nature and manner of use of the underlying IT assets as specified in the contract.

Scope and Applicability (continued)

- Statement 96 does not apply to:
  - Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets that meets the definition of a lease in Statement 87, in which the software component is insignificant compared to the cost of the underlying tangible capital asset
  - Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs
  - Contracts that meet the definition of a P3 in Statement 94
  - Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software, which are subject to Statement 51

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Relationship between Leases and SBITAs

- All SBITAs meet definition of lease
- Depends on what the underlying asset is:
  - Tangible capital assets alone – Statement 87
  - IT software alone – Statement 96
  - IT software in combination with tangible capital assets:
    - Software component is insignificant compared to cost of underlying tangible capital asset – Statement 87
    - Otherwise – Statement 96

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Recognition and Measurement

An SBITA should be reported under provisions effectively the same as those for a lessee under Statement 87—recognize a subscription asset and a subscription liability (except for short-term SBITAs)

Measurement of the subscription asset should include certain capitalizable implementation costs based on stages similar to those for internally developed software in Statement 51:

- Preliminary project stage
- Initial implementation stage
- Operation and additional implementation stage

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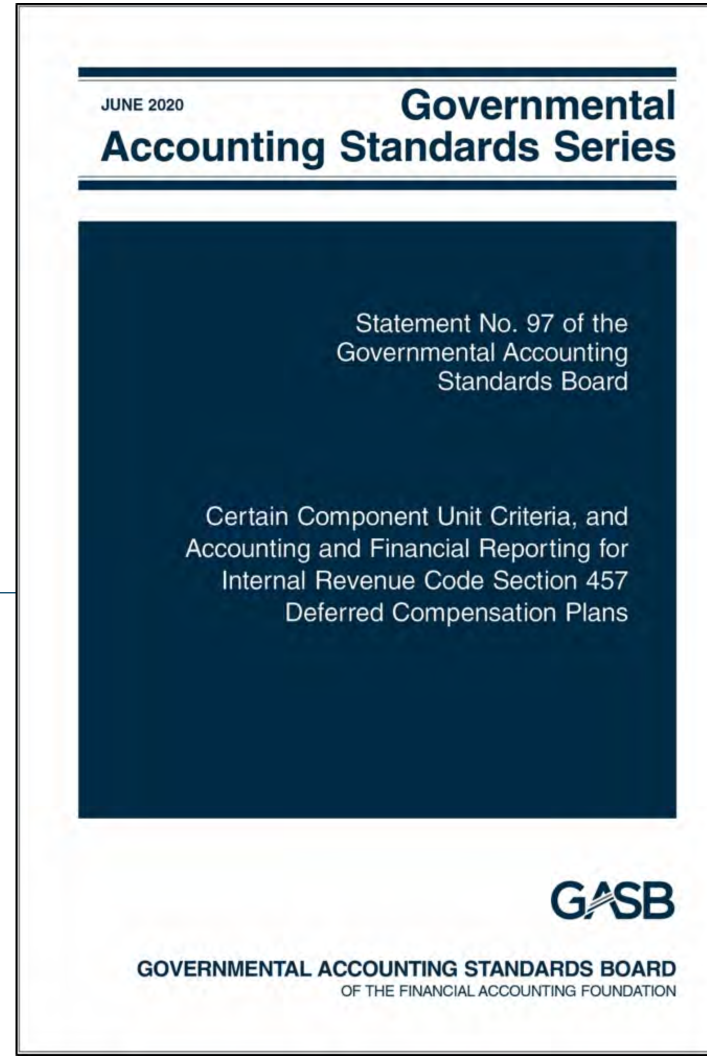
Accounting for Activities Associated with a SBITA

Preliminary project stage	Initial implementation stage	Operation & additional implementation stage
• Outlays should be expensed as incurred	• In general, outlays should be capitalized • However, if no subscription asset is recognized (such as for a short-term SBITA), outlays should be expensed as incurred	• Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

Statement No. 97


JUNE 2020

Governmental Accounting Standards Series

Statement No. 97 of the Governmental Accounting Standards Board

Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

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Fiduciary Component Units and Deferred Compensation Plans

What?

The GASB has changed the criteria for including certain employee benefit plans as component units and improvements to Statement 32 on IRC Section 457 plans

Why?

Some 457 plan characteristics have changed due, in part, to changes in the IRC; questions have been raised about whether certain employee benefit plans should be included as component units

When?

Effective dates vary by topic

Earlier application is encouraged and permitted for certain topics

Relevant Guidance on Fiduciary Component Units

Paragraph 7 of Statement 84 amended Statement 14 to indicate that a primary government is considered to have a financial burden if it is legally obligated or has otherwise assumed the obligation to make contributions to a pension plan or OPEB plan

Implementation Guide 2019-2 provided guidance that in the absence of a governing board, a government performing the duties of a governing board for a defined contribution (DC) plan that is administered through a trust that meets the criteria in Statement 67 is effectively the same as appointment of a voting majority

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Relevant Guidance on Fiduciary Component Units (continued)

The implication of that existing and considered guidance is that many governments would be required to report DC plans and other employee benefit plans as component units in their fiduciary fund financial statements

The Board directed the staff to conduct additional outreach on the structure of those types of arrangements and user needs for information about them

Based on the outreach, the Board decided to expand the project and issue guidance on component units

Component Unit Criteria

For purposes of determining whether a primary government is financially accountable, the absence of a governing board (when the government is perform the duties a governing board normally would perform) should be treated the same as the appointment of a voting majority of a governing board, *except for DC pension plans, DC OPEB plans, or other employee benefit plans*

The criterion that a legal obligation to contribute (or otherwise assuming the obligation) is considered to be a financial burden applies only to defined benefit plans

457 Plans

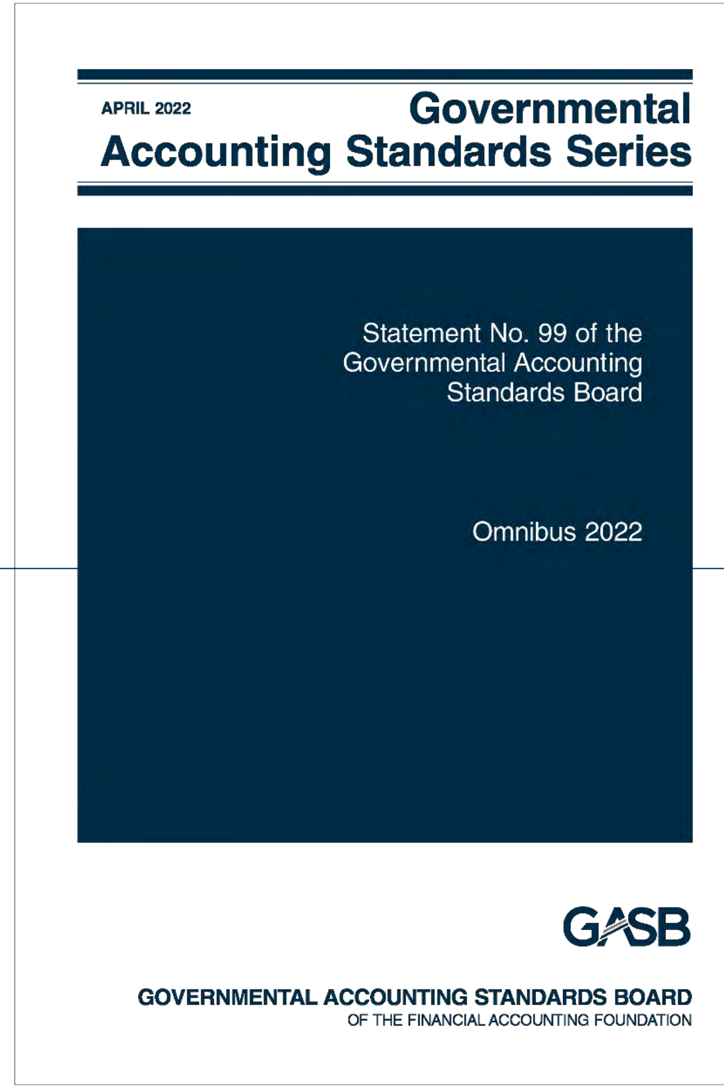
All requirements relevant to pension plan reporting should be applied to Section 457 plans that meet the definition of a pension plan

All requirements relevant to pensions should be applied by employers to benefits provided through Section 457 plans that meet the definition of a pension plan

Investments should be valued as of the end of the reporting period (allowance to use the most recent report of the plan administrator is eliminated)

Omnibus 2022

Statement No. 99


APRIL 2022 Governmental Accounting Standards Series

Statement No. 99 of the Governmental Accounting Standards Board

Omnibus 2022

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Omnibus 2022

What?

Practice issues identified during implementation and application of certain GASB Statements and accounting and financial reporting for financial guarantees

Why?

Omnibus Statements are issued to address issues in multiple pronouncements that, individually, would not justify a separate pronouncement

When?

Various effective dates:

1) Upon issuance

2) Fiscal years beginning after June 15, 2022

3) Fiscal years beginning after June 15, 2023

General Omnibus Topics

- Financial Guarantees
- Other Derivative Instruments
- Leases, PPPs, and SBITAs
- Extended Use of LIBOR
- Technical Updates/Corrections

Financial Guarantees

Definition

- A guarantee of an obligation of a legally separate entity or individual that requires the guarantor to indemnify a third-party obligation holder under specified conditions.

Existing Guidance (Prior to Statement 99)

- Exchange or Exchange-like Financial Guarantees – Statement 62, paragraphs 96 – 110.
- Nonexchange Financial Guarantees – Statement 70

Financial Guarantees

Statement 99 DOES

- Apply the liability recognition, liability measurement, and disclosure requirements in Statement 70 to governments that extend exchange or exchange-like financial guarantees.

Statement 99 DOES NOT

- Prescribe expense classification.
- Prescribe recognition guidance for the consideration received in an exchange or exchange-like financial guarantee transaction.

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Financial Guarantees (cont.)

	Exchange (Stmt 62)	Nonexchange (Stmt 70)
Liability Recognition	Probable	More likely than not
Liability Measurement	Estimate of the future outflows expected	Discounted present value of the best estimate of the future outflows expected
Disclosure Requirements	• Description of the financial guarantee • Total amount of all outstanding guarantees extended • Amounts expected to be recovered	• Description of the financial guarantee • Total amount of all outstanding guarantees extended • Description of the timing of recognition and measurement of liabilities • Cumulative amount of indemnification payments • Amounts expected to be recovered

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Other Derivative Instruments

New Category – Other Derivative Instruments

- Derivative Instruments that do not meet the definition of investment derivative instruments or hedging derivative instruments.
  - Investment derivative instruments – held primarily for the purpose of income or profit and has a present service capacity based solely on its ability to generate cash or be sold to generate cash.
  - Hedging derivative instruments – associated with a hedgeable item and significantly reduces an identified risk by substantially offsetting changes in cash flow or fair values of hedgeable items.

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Other Derivative Instruments (cont.)

Other Derivative Instruments

- Change in fair value should be reported on flow statement separately from investment revenues
- Disclosures should be distinguished from hedging derivative instruments and investment derivative instruments
- Disclose fair value of derivative instruments that were reclassified from hedging derivative instruments

Termination of hedge accounting

- If hedging derivative instruments cease to be effective, the balance of the deferrals should be reported on the flows statement separately from investment revenues.

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Leases, PPPs, and SBITAs

Remeasurement of certain assets and liabilities (ALL)

- **Should not be (instead of is not required to be)** remeasured solely for a change in an index or rate used to determine variable payments

Option to Terminate (ALL)

- Unconditional right that exists within the contract - the **right to terminate due to the action or inaction of the other party** is not an option to terminate
- For leases only - the **option to purchase the underlying asset** would be considered an option to terminate for purposes of measuring the lease term

Short-term Leases and SBITAs

- Modified short-term leases or SBITAs should be remeasured from the inception of the lease or SBITA **(classify out if maximum possible term exceeds 12 months)**

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Leases, PPPs, and SBITAs (cont.)

Variable Lease Payments

- Variable lease payments, **other than those that depend on an index or rate or those that are fixed in substance**, should not be included in the measurement of the lease liability.

Lease Incentives

- An incentive **includes** the assumption of or *an agreement to pay* a lessee's preexisting lease obligation to a third party

PPP Remeasurement

- The receivable for the underlying PPP asset **should be remeasured if there is a change in the PPP term**
- Deferred outflow of resources should be adjusted by the same amount as any remeasurement change to the liability for the underlying PPP asset

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Replacement of Interbank Offered Rates

Extended Use of LIBOR

- **Statement 93, *Replacement of Interbank Offered Rates*, paragraph 11b**:

  "LIBOR is not an appropriate benchmark interest rate for a derivative instrument that hedges the interest rate risk of taxable debt."

  Paragraph 15:

  "The requirement in paragraph 11b is effective for reporting periods after December 31, 2021."

- On December 4, 2020, the LIBOR administrator published its intention to extend the publication of certain U.S. LIBOR tenors until June 30, 2023.

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Replacement of Interbank Offered Rates (cont.)

London Interbank Offered Rate (LIBOR)

- Date at which it is not an appropriate benchmark interest rate changes to when it is no longer determined by the ICE Benchmark Administration using the methodology in place as of December 31, 2021.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Technical Updates/Corrections

SNAP/ Food Stamps

- States no longer use paper food stamp coupons. Specialized guidance in **Statement 24 is no longer relevant**. States should recognize distribution of benefits from SNAP by **applying the provisions in Statement 33, as amended,** instead.

Nonmonetary Transactions

- A government that enters into one or more nonmonetary transactions during a period and that is required to apply Statement 62 to those transactions, should **disclose (in the notes) measurement attribute(s),** rather than basis of accounting for assets transferred.

Pledges of Future Revenue

- Blending guidance provided for a debt issuing component unit when the primary government pledges revenue for that debt
  - PG- Reclassify amount due to the component unit as an **interfund payable and interfund transfer out** when pledged revenues are recognized
  - CU- Recognize an **interfund receivable and a transfer in** when the primary government is obligated to make the payment

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Technical Updates/Corrections (cont.)

Government-Wide Statements

- Clarifies that no total column is required for the financial reporting entity as a whole.

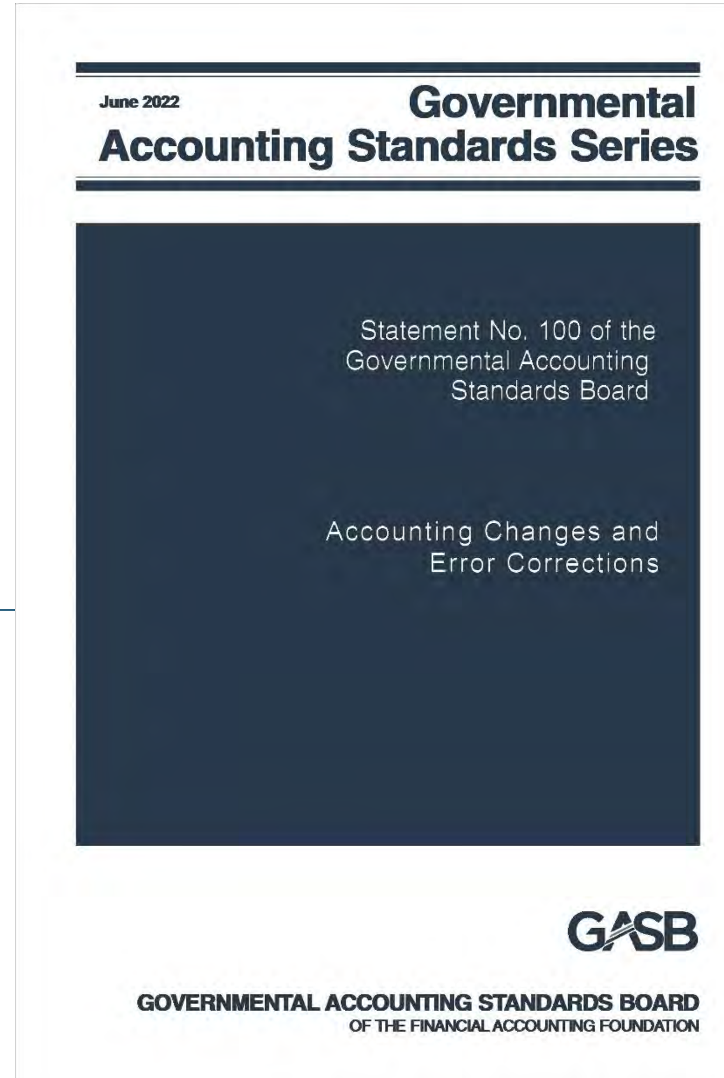
Terminology Updates

- Balance sheet – Statement of net position
- Balance sheet date – Date of financial statements or Statement of net position date
- Equity Funds – Other assets used
- Fund Equity – Equity interest
- Flow of resources statement – Resource flows statement

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Accounting Changes and Error Corrections

Statement No. 100


June 2022

Governmental Accounting Standards Series

Statement No. 100 of the Governmental Accounting Standards Board

Accounting Changes and Error Corrections

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Accounting Changes and Error Corrections

What?

Based on a reexamination of the requirements in Statement 62, the Board has replaced the guidance that previously existed in Statement 62 with new standards for accounting changes and error corrections.

Why?

The previous guidance was based on several sources of accounting standards, some of which had been superseded, and much of which was been in effect without review by the GASB for decades.

When?

Effective for changes made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

Earlier application is encouraged.

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More about Why…

- Research showed issues related to:
  - Changes in accounting principle vs. correction of an error
  - How to classify changes in measurement methodology of estimates versus changes in inputs to estimates versus changes in accounting policy
  - Certain currently required disclosures were often missing
- Common questions regarding:
  - How to account for changes in reporting entity
  - Impact of changes of prior balances on RSI and SI

Classification

Accounting changes

- Change in accounting principle
- Change in accounting estimate
- Change to or within the financial reporting entity

Correction of an error in previously issued financial statements

Change in Accounting Principle

- A change in accounting principle results from either:
  - A **change** from one generally accepted accounting principle to another that is justified on the basis that the newly adopted accounting principle is preferable
    - Preferability based on the qualitative characteristics of financial reporting
  - Implementation of new pronouncements

Accounting Estimates

- Accounting estimates are:
  - Amounts subject to measurement uncertainty that are recognized or disclosed in basic financial statements
  - Outputs determined based on inputs such as data, assumptions, and measurement methodologies

Change in Accounting Estimate

- A *change* in accounting estimate occurs when the inputs change
  - Inputs include data, assumptions, and measurement methodologies
- Changes in inputs result from:
  - Change in circumstance
  - New information
  - More experience
- Change in measurement methodology should be justified on the basis that new methodology is preferable
  - Based on qualitative characteristics of financial reporting

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Change to or within the Financial Reporting Entity

- A change to or within the financial reporting entity results from:
  - Addition/removal of a fund that results from movement of continuing operations within the primary government, including its blended component units
  - A change in the fund presentation as major or nonmajor
  - Addition/removal of a component unit (except for acquisitions, mergers, and transfers of operations, and Statement 90 component units)
  - Change in presentation (blended or discrete) of a component unit

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Correction of an Error

- An error results from:
  - Mathematical mistakes
  - Misapplication of accounting principles
  - Oversight or misuse of facts that existed at the time the financial statements were issued about conditions that existed as of the financial statement date
    - Facts that could reasonably be expected to have been obtained and taken into account at that time about conditions that existed as of the financial statement date

Accounting for Accounting Changes and Error Corrections

Change in accounting principle	• Reported retroactively by restating prior periods presented, if practicable • If not practicable, restate beginning balances of current period
Change in accounting estimate	• Reported prospectively • Recognized in current-period flows
Change to/within the reporting entity	• Reported by adjusting current period beginning balances
Error correction	• Reported retroactively by restating prior periods presented

Display

Shown separately

- Aggregate amount of adjustments to and restatements of beginning balances (net position, fund balance, or fund net position) should be displayed for each reporting unit
  - For purposes of these requirements, means each separate column in the basic financial statements except for the total columns.

Note Disclosures

Disclosures vary depending on the type of item, but common disclosures include:

- The nature of the change or error and its correction
- Reason for the change
- The effects on beginning net position, fund balance, or fund net position, as applicable, presented in a tabular format

RSI and SI

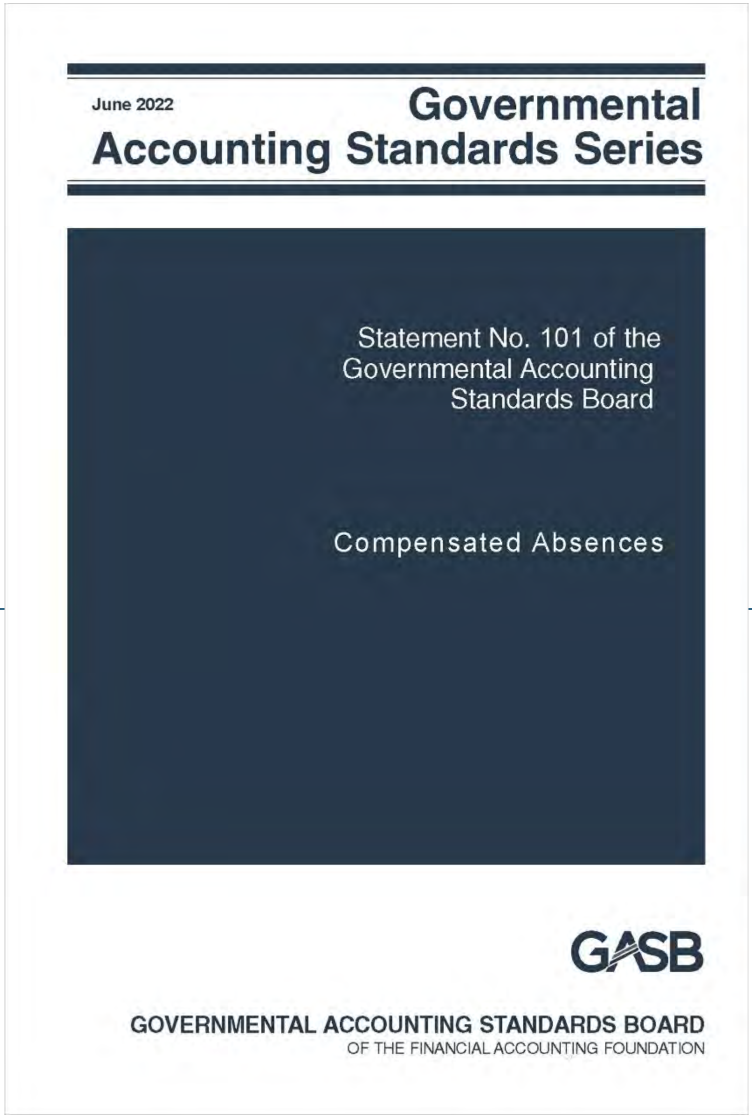
The Statement addresses how to present in RSI and SI information that is affected by an accounting change or error correction

Periods earlier than those presented in basic financial statements should ***not*** be restated for changes in accounting principles

Periods earlier than those presented in basic financial statements should be restated for error corrections, if practicable

Compensated Absences

Statement No. 101


June 2022

Governmental Accounting Standards Series

Statement No. 101 of the Governmental Accounting Standards Board

Compensated Absences

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OF THE FINANCIAL ACCOUNTING FOUNDATION

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Compensated Absences

What?

The Board has amended existing guidance for compensated absences

Why?

A review of Statement 16 indicated opportunities for improvement and additional guidance for certain types of leave

When?

Effective for fiscal years beginning after December 15, 2023.

Earlier application is encouraged

More about Why…

- Types and application of paid leave has changed since 1992 when Statement 16 was issued.
  - How should certain types of leave accounting for?
    - PTO
    - Unlimited leave
    - Compensatory time
    - Parental leave
    - Military leave
    - Sabbaticals
  - Does it make sense that vacation and sick leave are treated differently given how these are applied and used?

Scope and Applicability

A compensated absence is	Examples:

• Leave for which employees may receive one or more:
  • Cash payments when the leave is used for time off
  • Other cash payments, such as payment for unused leave upon termination of employment
  • Noncash settlement, such as conversion to postemployment benefits
	• Vacation and sick leave
	• Paid time off (PTO)
	• Holidays
	• Parental leave
	• Certain types of sabbatical leave

Recognition Criteria – Leave that has not been used

Leave is attributable to services already rendered

- Employee has performed the services required to earn the leave

Leave accumulates

- Can be carried forward from reporting period when earned to a future reporting period when it will be used or otherwise paid or settled

Leave is *more likely than not* to be used for time off or otherwise paid or settled

- Likelihood of more than 50 percent

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Exceptions to the General Recognition Approach

Leave more likely than not to be settled through conversion to defined benefit postemployment benefits

- Excluded from liability

Leave that is dependent upon the occurrence of a sporadic event that affects a relatively small proportion of employees in any particular reporting period

- Recognize liability when leave commences
- Parental leave, military leave, jury duty recognized when commences
- Not sick leave or sabbatical leave

Unlimited leave and holiday leave taken on specific date

- Recognize liability when used

Measurement

Pay rate

Generally the employee's pay rate at financial reporting date

Exception: more likely than not to be paid at a different rate

Salary-related payments

Directly and incrementally related

DC pension or OPEB recognized as related leave is earned – not pension or OPEB liability

DB pension or OPEB excluded

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Leave Used But Not Paid

Liability for amount of cash payment or noncash settlement

Include applicable salary-related payments

Current Financial Resources Measurement Focus

Expenditures for amount that normally would be liquidated with expendable available financial resources

Interpretation No. 6 – liability upon the occurrence of relevant events such as employee resignations and retirements

Note Disclosures and Effective Date

- Note disclosures
  - No new note disclosures
  - Exceptions to existing long-term liability disclosures for compensated absences:
    - Option to present net increase or decrease with indication that it is a net amount
    - Not required to disclose governmental fund used to liquidate
- Effective date
  - Fiscal years beginning after December 15, 2023

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Implementation Guidance Updates

2020-1, and 2021-1

Implementation Guidance Updates

What?

The need for updates to Q&A implementation guidance is considered annually.

Why?

New guidance is added as new pronouncements are issued and new issues arise.

When?

Effective dates vary by Q&A from periods beginning after June 15, 2020 through periods beginning after June 15, 2023.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Implementation Guide 2020-1

Adds new questions on standards regarding

- Certain asset retirement obligations
- Conduit debt obligations
- External investment pools
- Fiduciary activities
- Financial reporting entity
- Leases

Updates existing Q&A guidance related to

- External investment pools
- OPEB
- Pensions
- Deferral of certain Implementation Guide questions and answers

Implementation Guide 2021-1

Adds new questions on standards regarding

- Derivative instruments
- Fiduciary activities
- Leases, including
  - Definition of a lease
  - Lease term: options to extend or terminate; reassessment
  - Short-term leases
  - Lessee recognition and measurement
  - Lessor recognition and measurement
  - Lease incentives
  - Modifications and terminations
- Nonexchange transactions

Updates existing Q&A guidance related to

- Financial reporting model
- Sales and pledges and intra-entity transfers (Statement 48)

Current Technical Agenda Projects

Classification of Nonfinancial Assets

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Classification of Nonfinancial Assets

What?

The Board will review the existing classification of nonfinancial assets and other related sub-classifications (for example, capital assets or intangible assets)

Why?

A review of existing standards found that they generally were effective, but that there were aspects that could be significantly improved

When?

Deliberations scheduled to begin July 2022

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Tentative Board Decisions

Asset	Classification
Tangible capital assets held for sale	Major class of capital assets
Intangible owned capital assets	Major class(es) of capital assets
Intangible lease assets (Stmt 87)	Major class(es) of capital assets
Intangible subscription assets (Stmt 96)	Separate from other capital assets
Assets representing right to use intangible assets	Not separate from assets representing right to use tangible underlying assets - but – Separate from owned intangible assets

Scope of project limited to classification and related presentation and disclosure issues

Project Timeline

Pre-Agenda Research Started	August 2020
Added to Current Technical Agenda	December 2021
Deliberations Begin	July 2022
Exposure Draft Scheduled to Be Considered for Issuance	August 2023

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Conceptual Framework: Recognition

Exposure Draft: *Recognition of Elements of Financial Statements*

What?

The Board issued an Exposure Draft of a Concepts Statement on recognition of financial statement elements

Why?

Recognition concepts are one of the components needed to complete the conceptual framework

When?

A final Concepts Statement is scheduled to be considered for issuance in Q1 2024

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Recognition Concepts

The **measurement focus** of a specific financial statement determines *what* items should be reported as elements of that financial statement.

The related **basis of accounting** determines *when* those items should be reported.

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Tentative Decisions: Recognition Hierarchy

Follow a specific order when evaluating an item for recognition:

Does it meet the definition of an asset or liability?	
Yes: Recognize asset or liability	No: go to next step

Does it meet the definition of a deferred outflow of resources or a deferred inflow of resources?	
Yes: Recognize deferral	No: go to next step

Does it meet the definition of an outflow of resources or an inflow of resources?	
Yes: Recognize inflow/outflow	No: Do not recognize the item

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Tentative Decision: Recognition Framework

Two Measurement Focuses

Economic Resources	Short-Term Financial Resources
(applied in government-wide, proprietary fund, and fiduciary fund financial statements)	(would replace current financial resources in the governmental funds)

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Tentative Decisions: Recognition Framework (continued)

Item meets definition of an element under the measurement focus

+

Measurement of item sufficiently reflects qualitative characteristics

=

Recognize the item in financial statement

Project Timeline

Preliminary Views Issued	September 2018
Redeliberations Began	June 2019
Exposure Draft Approved	June 2020
Redeliberations Began	May 2021
Final Concepts Statement Scheduled to Be Considered for Issuance	March 2024

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Financial Reporting Model Reexamination

Financial Reporting Model Improvements

What?

The Board proposed improvements to the financial reporting model—Statements 34, 35, 37, 41, and 46, and Interpretation 6

Why?

A review of those standards found that they generally were effective, but that there were aspects that could be significantly improved

When?

A final Statement is scheduled to be considered for issuance in Q1 2024

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Overview of the Proposals

Measurement focus and basis of accounting for the governmental funds

Format of governmental funds financial statements

Clarification of operating and nonoperating in proprietary funds

Presentation of proprietary funds statement of revenues, expenses, and changes in net position

Management's discussion and analysis

Budgetary comparisons

Major component unit presentations

Unusual or infrequent items

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Tentative Decisions: Recognition in Governmental Funds

Short-term financial resources measurement focus and modified accrual basis of accounting

Elements from *short-term* transactions or other events recognized *as the underlying transaction or other event occurs*

Elements from *long-term* transactions and other events recognized *when payments are due except for long-term financings issued for a short-term purpose which would be recognized like a short-term transaction*

Financial assets: cash, assets that are available to be converted to cash, and assets that are consumable in lieu of cash

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Recognition in Governmental Funds (cont.)

Short-Term Transactions	Long-Term Transactions
Period from inception to conclusion is one year or less	Period from inception to conclusion is more than one year

Inception	generally is when a party to the transaction takes an action that results in the initial recognition of an asset or liability
Conclusion	generally is when the final payment of cash or other financial assets is due according to the terms of the binding arrangement (or estimated payments)

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Tentative Decisions: Presentation of Governmental Funds

Financial statements presented in ***current and noncurrent activity*** format

Current activity— all other

Noncurrent activity— related to purchase and disposition of capital assets and issuance and repayment of long-term debt

Proposed Statement of Short-Term Financial Resource Flows

Current and Noncurrent Activity Format

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
INFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES				
Taxes:				
Property tax	$ 20,322,167	$ 5,311,156	$ 2,015,047	$ 27,648,370
Sales tax	45,034,789	-	4,430,774	49,465,563
Use tax	3,586,753	-	-	3,586,753
Motor fuel tax	-	-	2,889,647	2,889,647
Other taxes	3,975,895	-	2,698,909	6,674,804
Payments in lieu of taxes	2,721,420	-	-	2,721,420
Special assessments	-	-	41,500	41,500
Licenses and permits	1,303,889	-	-	1,303,889
Fees for services	7,052,692	-	202,273	7,254,965
Franchise fees	1,968,522	-	-	1,968,522
Fines and citations	1,476,364	-	-	1,476,364
Intergovernmental	14,595,019	-	6,192,493	20,787,512
Investment earnings	5,829	11,384	119,043	136,256
Transfers in	500,000	-	155,204	655,204
Miscellaneous	4,216,940	654,482	771,287	5,642,709
Total inflows of short-term financial resources for current activities	106,760,279	5,977,022	19,516,177	132,253,478
OUTFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES				
General government	14,053,444	6,961,201	2,213,691	23,228,336
Public health and safety	70,880,913	-	590,383	71,471,296
Highway and streets	12,137,714	-	4,715,808	16,853,522
Culture and recreation	3,581,583	335,659	1,808,065	5,725,307
Economic development	496,141	-	3,374,045	3,870,186
Transfers out	155,204	-	500,000	655,204
Total outflows of short-term financial resources for current activities	101,304,999	7,296,860	13,201,992	121,803,851
Net flows of short-term financial resources for current activities	5,455,280	(1,319,838)	6,314,185	10,449,627
NET FLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR NONCURRENT ACTIVITIES				
Transfers in	-	-	10,651,605	10,651,605
Debt service	(2,434,544)	(366,412)	(9,198,505)	(11,999,461)
Capital outlay	(111,987)	(1,515)	(1,346,497)	(1,459,999)
Transfers out	(7,680,875)	(6,445)	(2,420,900)	(10,108,220)
Net flows of short-term financial resources for noncurrent activities	(10,227,406)	(374,372)	(2,314,297)	(12,916,075)
Net change in short-term financial resources fund balances	(4,772,126)	(1,694,210)	3,999,888	(2,466,448)
Short-term financial resources fund balances at beginning of year	9,319,621	9,776,474	27,892,592	46,988,687
Short-term financial resources fund balances at end of year	$ 4,547,495	$ 8,082,264	$ 31,892,480	$ 44,522,239

Proposals: Proprietary Funds

Separate presentation of operating and nonoperating revenues and expenses

Operating	• Activities other than nonoperating activities
Nonoperating	• Subsidies received and provided • Revenues and expenses of financing • Resources from the disposal of capital assets and inventory • Investment income and expenses • Contributions to permanent and term endowments

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Proposals: Proprietary Funds (cont.)

"Subsidies" as proposed

- Resources received from another party or fund to keep rates lower than otherwise would be necessary to support the level of goods and services to be provided
- Resources provided to another party or fund that results in higher rates than otherwise would be established for the level of goods and services to be provided

Add a new subtotal for operating income (loss) and noncapital subsidies

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Proposals: Proprietary Funds (cont.)

“Subsidies” Board tentative decisions

- Indicate that all transfers are included
- Clarify that subsidies can have a direct or an indirect impact on user fees and charges
- Clarify that subsidies should be classified as noncapital subsidies unless limited to capital purposes

	2016	2015
Operating revenues:		
Tuition and fees (net of discounts)	$ 574,168	$ 525,791
Grants and contracts	292,962	278,481
Sales and services	271,345	272,244
Other operating revenues	7,868	14,861
Total operating revenues	1,146,343	1,091,377
Operating expenses:		
[Natural or functional expenses]		
Total operating expenses	1,681,544	1,596,059
Income (loss) generated by operations	(535,201)	(504,682)
Noncapital subsidies:		
Appropriations	407,702	394,767
Taxes	8,026	7,660
Grants	42,978	37,567
Gifts	99,395	90,063
Total noncapital subsidies	558,101	530,057
Operating income (loss) and noncapital subsidies	22,900	25,375
Financing and investing activities:		
Investment income	235,820	138,649
Interest expense	(12,412)	(12,853)
Loss from the disposition of capital assets	(2,385)	518
Total financing and investing activities	221,023	126,314
Income before other items	243,923	151,689
Other items:		
Capital contributions	23,231	74,830
Increase (decrease) in net position	267,154	226,519
Net position—beginning	3,061,111	2,834,592
Net position—ending	$ 3,328,265	$ 3,061,111

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Proposals: Management's discussion and analysis

Users of MD&A "have different levels of knowledge and sophistication about governmental accounting and finance," "may not have a detailed knowledge of accounting principles" (as in Concepts Statement 1, paragraph 63)

Add clarification and structure to the requirement for brief discussion of the basic financial statements, including their relationships and significant differences

Emphasize the level of thoroughness required for the analysis of year-to-year changes and the need to avoid unnecessary duplication

Amend the requirements for currently known facts, decisions, or conditions with examples, such as economic trends; subsequent year's budget; actions government has taken on postemployment benefits, capital improvement plans, and long-term debt; actions other parties have taken that affect the government

Move budgetary analysis and discussion of infrastructure assets (if applicable) to the relevant parts of RSI

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Proposals: Management's discussion and analysis (continued)

Board Tentative Decisions

- Reference to the SSAP not should not be required
- Presenting an analysis of balances and transactions of nonmajor funds in the aggregate should not be required
- Discussion of significant variations between the original and final budget amounts and between the final budget amounts and actual results for the general fund and major special revenue funds should be presented as notes to budgetary comparison information, which is proposed to be presented as RSI
- Information about infrastructure assets accounted for using the modified approach should be removed

Other Proposals

Budgetary comparisons

- Would be presented as required supplementary information (no option for basic statements)
- Required variances would be final-budget-to-actual and original-budget-to-final-budget

Major component unit presentations

- If it is not feasible to present major component unit financial statements in separate columns in the reporting entity's financial statements, the financial statements of the major component units would be presented in the reporting entity's basic financial statements as combining financial statements

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Other Proposals (continued)

Unusual or Infrequent Items

- Separately present inflows and outflows of resources that are unusual in nature and/or infrequent in occurrence (replacing extraordinary and special items)
- Disclose additional information about those inflows and outflows, including the programs, functions, or identifiable activities to which they are related and whether they are within the control of management

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Proposed Effective Dates

Based on total annual revenues in fiscal year beginning after June 15, 2022

$75 million or more	Less than $75 million
Apply in fiscal years beginning after June 15, 2024	Apply in fiscal years beginning after June 15, 2025

Project Timeline

Pre-Agenda Research Started	April 2013
Added to Current Technical Agenda	September 2015
Invitation to Comment Issued	December 2016
Preliminary Views Issued	September 2018
Exposure Draft Approved	June 2020
Redeliberations Began	May 2021
Final Statement Scheduled to Be Considered for Issuance	March 2024

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Going Concern Uncertainties and Severe Financial Stress: Reexamination of Statement 56

Going Concern Uncertainties and Severe Financial Stress

What?

The Board will review existing standards related to going concern and address issues related to disclosures regarding going concern uncertainties and severe financial stress

Why?

As it is currently defined, going concern may not be meaningful for governments, which hardly ever go out of business; users need information about governments' severe financial stress, but that information is not readily available

When?

The Board added the project to its current technical agenda in December 2021

Topics to Be Considered

How should the existing guidance on going concern uncertainties (including the definition of a going concern) be clarified or improved to reduce diversity in practice in applying the guidance?

How should severe financial stress be defined? How should that definition differ from going concern uncertainties?

If a government is determined to be exposed to severe financial stress, what relevant information should a government disclose in notes to financial statements?

Project Timeline

Pre-Agenda Research Started	April 2015
Added to Current Technical Agenda	December 2021
Deliberations Begin	July 2022
Preliminary Views Scheduled to Be Considered for Issuance	August 2024
Exposure Draft Scheduled to Be Considered for Issuance	March 2026

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Implementation Guide Update

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Exposure Draft: *Implementation Guidance Update—2023*

What?

Proposed new Q&As and proposed amendments to existing Q&As on various topics were issued in an Exposure Draft in October 2022.

Why?

New guidance is added as new pronouncements are issued and new issues arise.

When?

A final Implementation Guide is scheduled to be considered in June 2023.

Proposed Implementation Guide Update

Adds new questions on standards regarding

- Leases
- SBITAs
- Changes to or within the financial reporting entity (Statement 100)

Updates existing Q&A guidance related to

- Leases

Proposed effective date

- Fiscal years beginning after June 15, 2023, and all reporting periods thereafter

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Project Timeline

Exposure Draft Cleared	October 2022
Comment Period Ends	January 2022
Redeliberations Scheduled to Begin	March 2023
Final Implementation Guide Update Scheduled to Be Considered for Issuance	June 2023

Revenue and Expense Recognition

Revenue and Expense Recognition

What?

The Board proposed a comprehensive model for recognition of revenues and expenses

Why?

Guidance for exchange transactions is limited; guidance for nonexchange transactions could be improved and clarified

When?

The Board is scheduled to consider the issuance of an Exposure Draft in Q1 2025

Broad Project Objective

Develop a comprehensive, principles-based model that establishes guidance applicable to a wide range of revenue and expense transactions to:

- Expand on areas where there is no guidance—expenses
- Expand on areas where there is limited guidance—certain revenues
- Consider practice issues and challenges identified in current guidance—Statement 33
- Consider the conceptual framework—issued after Statement 33
- Consider performance obligation recognition

Scope of the Project

- The scope is defined broadly to include revenues and expenses except for those ***explicitly excluded:***

- **Financial instruments**
  - Investments
  - Derivative instruments
  - Long-term debt
- **Capital assets and inventory**
  - Purchase, sale, or impairment
  - Capitalization and depreciation
  - Inventory valuation
- **Post-employment**
  - Pensions
  - OPEB
  - Other: compensated absences

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Proposed Recognition Model Components

Categorization

Identify the *type* of transaction

Recognition

Determine *what* element should be reported and *when*

Measurement

Determine the *amount* to report

Proposed Categorization Methodology

Identify the Binding Arrangement and the Parties

Are there identifiable rights and obligations that are substantive?

No → Category B Transaction

Yes

Are the rights and obligations interdependent?

No → Category B Transaction

Yes → Category A Transaction

Outcomes of the Proposed Model *

Category A	Category B
Fees for service (water, electric, garbage)	Taxes (property tax, income tax, sales tax)
Eligibility-based grants	Punitive fees
Research grants and revolving loans	Special assessments
Medicaid fees for services	Donations
Tuition fees	Regulatory fees (drivers licenses, building permits, marriage licenses, professional licenses)
Most expenses	Purpose-restricted grants
	Capital fees (developer fees, PFCs)
	Medicaid supplementary payments

* Transactions highlighted in blue would have different outcomes than under current literature

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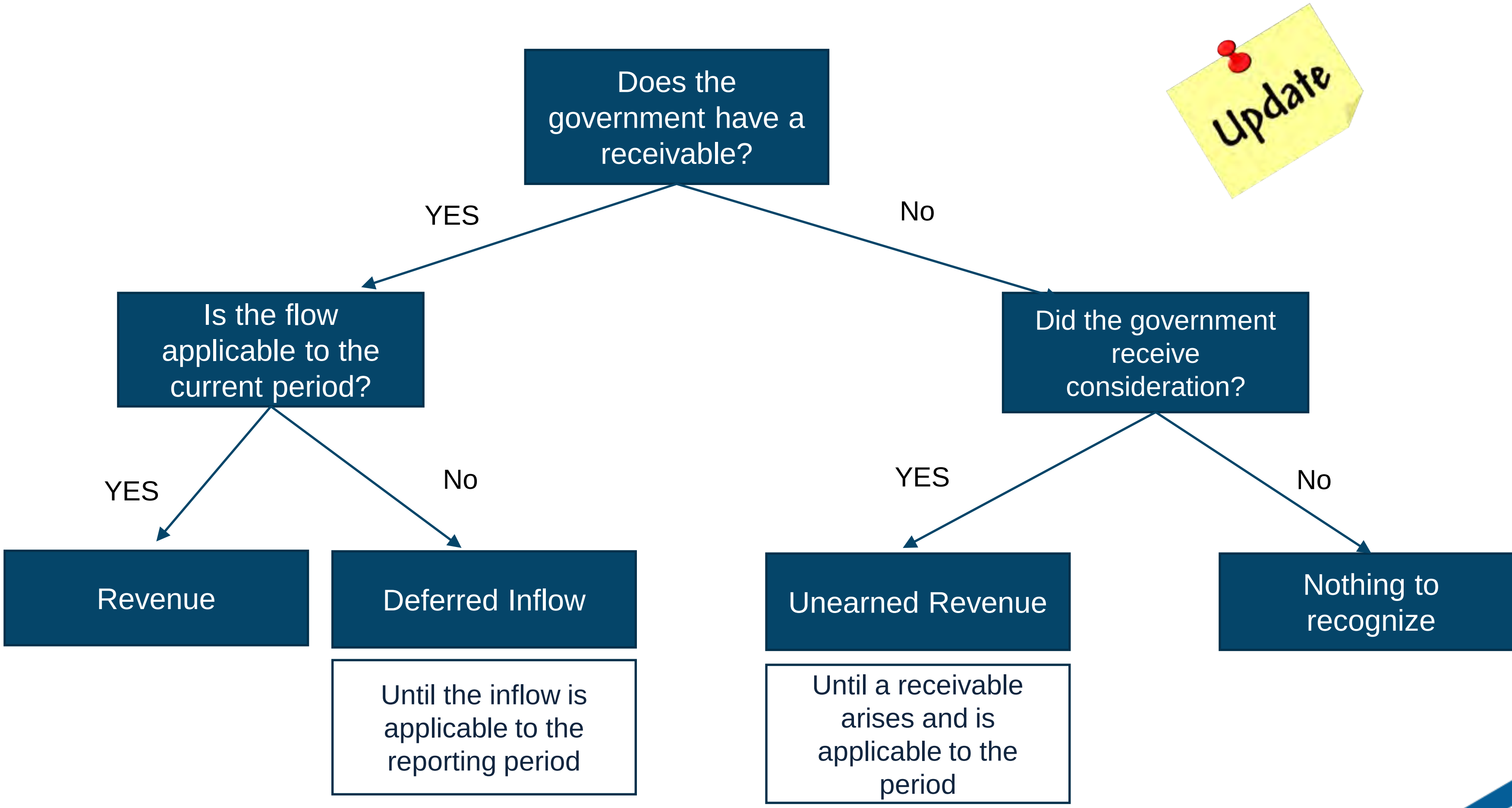
Proposed Revenue Recognition Principles



Proposed Revenue Recognition Principles

A **receivable** should be recognized when a **legally enforceable claim** arises in a revenue transaction. A legally enforceable claim arises at different points based on the terms and conditions specified in the binding arrangement.

Advances in revenue transactions are resources received before a **legally enforceable claim** arises and should result in a **liability** being recognized, regardless of whether those advances are refundable.

Category A Proposed Revenue Recognition Principles

Categorization

Contain the following characteristics:

- Identifiable rights and obligations that are substantive
- Rights and obligations are interdependent

Recognition

Revenues and expenses are recognized based on the satisfaction of a **performance obligation**

Category A Expense Recognition Examples

A performance obligation is satisfied when there is a transfer of control of resources

City orders supplies	Expense is recognized as the city receives the supplies
School district hires CPA	Expense is recognized as the CPA firm carries out the expected work, such as an audit
Public utility employees	Expenses for wages are recognized as the employees perform services over time

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Category B Proposed Revenue Recognition Principles

Categorization

Fails one of the following:

- Identifiable rights and obligations that are substantive
- Rights and obligations are interdependent

Recognition

Revenues and expenses are recognized based on **five subcategories**

Category B Proposed Revenue Recognition Principles Continued

Receivable
- Recognized when a legally enforceable claim arises

Revenue
- Recognized at the same time as the receivable, unless there are time requirements

Liability
- Resources received prior to the establishment of a legally enforceable claim

Deferred Inflow of Resources
- If the transaction includes a time requirement, assess the recognition of a deferred inflow of resources

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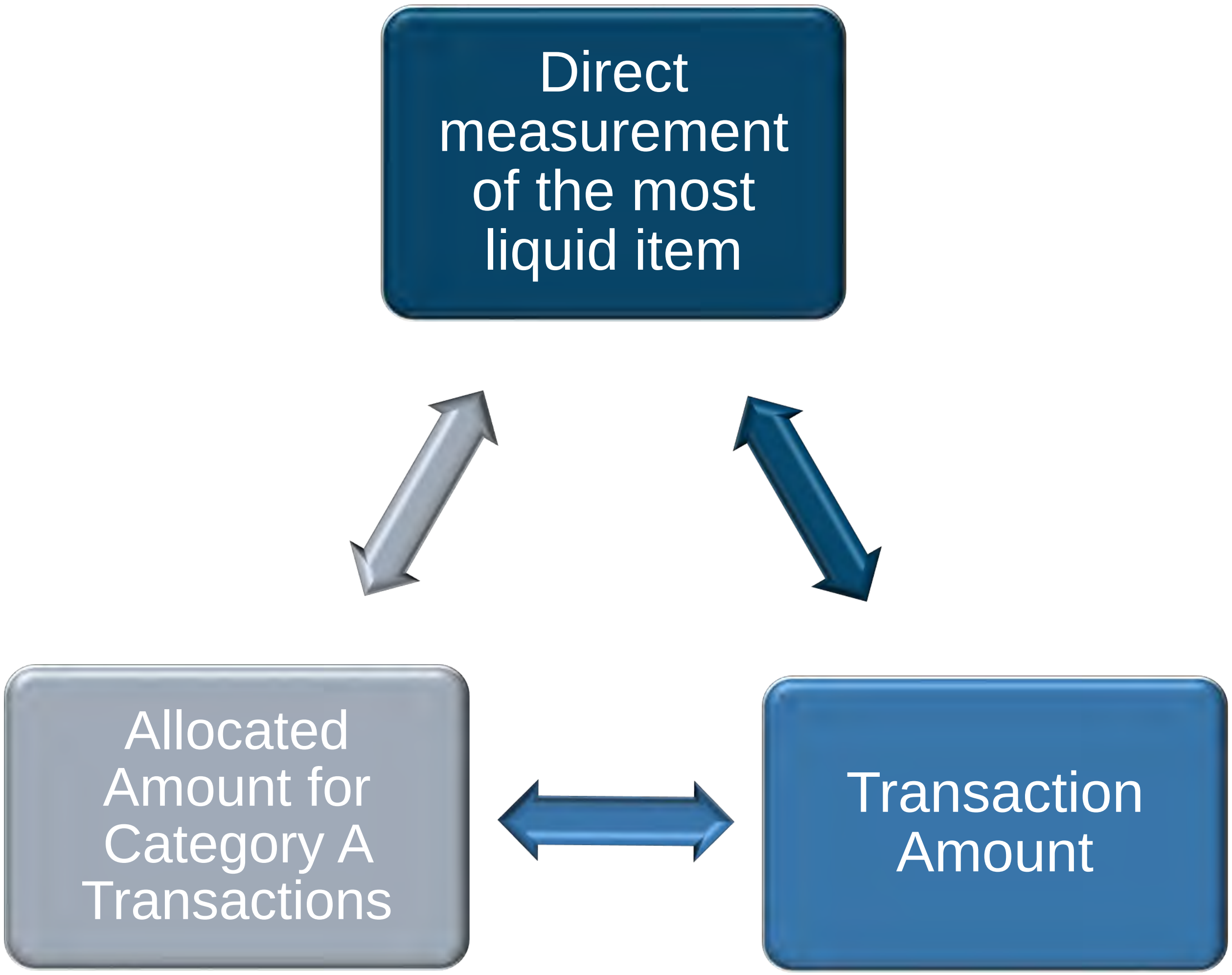
Category B Expense Recognition Examples

Expense is recognized at the same time as the ***payable***, unless there are time requirements

- Contractual arrangements
- Shared revenue (outflows)
- General aid (outflows)

Proposed Measurement Principles



Project Timeline

Pre-Agenda Research Started	September 2015
Added to Current Technical Agenda	April 2016
Invitation to Comment Cleared	January 23, 2018
Preliminary Views Approved	June 2020
Redeliberations Began	May 2021
Exposure Draft Scheduled to Be Considered for Issuance	March 2025

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Certain Risk Disclosures

Certain Risk Disclosures

What?

The Board has proposed standards to identify and disclose risks faced by governments

Why?

Stakeholders asked the GASB to address this issue

When?

A final Statement is scheduled to be considered for issuance in Q3 2023

Exposure Draft: Scope and Purpose

Current vulnerabilities due to certain concentrations

- For example, (1) principal employers, (2) principal industries, (3) principal resource providers, (4) composition of principal inflows of resources, (5) workforce covered by collective bargaining agreements, and (6) suppliers of material, labor, or services

Current vulnerabilities due to certain constraints common in the government environment

- For example, (1) limitations on raising revenue, (2) limitations on spending, (3) limitations on the incurrence of debt, and (4) mandated spending

Objective: To provide users essential information about risks faced by governments that may impact their ability to continue to provide services at the current level or to meet their obligations as they come due

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Exposure Draft: Disclosure Criteria

Disclosures should be required when the government determines that:

- An event associated with a concentration or constraint either has occurred or is more likely than not to begin to occur within 12 months of the financial statement date or shortly thereafter (3 months)
- It is at least reasonably possible that the event will cause there to be a substantial effect within 3 years of the date of the financial statement

Substantial effect is one that affects the government's ability (1) to continue to provide services at the level provided in the current reporting period or (2) to meet its obligations as they come due

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Exposure Draft: Disclosure Requirements

Disclose sufficient detail to enable users to understand the general nature of the risks and their potential effect on the government's ability to provide services at the current level or meet its obligations.

- Description of concentration or constraint
- Description of each event associated with the concentration or constraint, including the criteria that were met
- Description of actions taken to mitigation the substantial effect.

Disclosure not required if mitigating actions cause any of the disclosure criteria to no longer be met.

Disclosures should be made at the primary government level unless a risk is specific to a reporting unit relative to other reporting units and has a substantial effect on that reporting unit but not on the primary government. In that case the disclosure should be made for the reporting unit.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Project Timeline

Added to Current Technical Agenda	July 2020
Deliberations Began	September 2020
Exposure Draft Issued	June 2022
Redeliberations Began	November 2022
Final Statement Scheduled to be Considered for Issuance	August 2023

Pre-Agenda Research Activities

Capital Assets

Capital Assets

What?

The GASB is evaluating existing guidance related to capital assets and the usefulness of information reported by governments

Why?

Stakeholders have asked the GASB to review various aspects of capital asset reporting; the most relevant standards have been in effect 15-20 years

When?

The Board added the pre-agenda research in August 2019

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Topics to Be Considered

What choices do governments make with respect to their capital asset-related accounting policies? Why do they select those policies?

How do governments determine when outflows enhance the service capacity or extend the useful life of an asset?

How do governments report exchanges of capital assets?

How do depreciation and estimated useful lives compare with the actual diminution of service capacity?

What has been the experience with the modified approach to reporting infrastructure? How has it affected comparability of statement information?

Should changes in the condition of capital assets be reflected as flows of resources in the financial statements? How would it be measured?

What information do governments collect and report about deferred maintenance? How is it estimated?

Subsequent Events

Subsequent Events

What?

The GASB is evaluating existing guidance related to subsequent events and the usefulness of information reported by governments

Why?

Existing guidance is based on other literature dating back to 1972 and generally have not be reevaluated

When?

The Board added the pre-agenda research in December 2021

Topics to Be Considered

- How prevalent are recognized and nonrecognized subsequent events?
- How prevalent are subsequent event disclosures?
- What types of subsequent events are disclosed in practice?
- What difficulties do governments have, if any, distinguishing between subsequent events that require adjustments to the financial statements and those that are limited to disclosure?
- What difficulties do governments have, if any, determining whether information that became available prior to the issuance of the financial statements reflects conditions that existed as of the date of the financial statements?

Topics to Be Considered (continued)

- How are the standards applied to events occurring after the issuance of the financial statement when a government reissues the financial statements?
- What impact might the proposed changes to MD&A in the Financial Reporting Model project have on subsequent events reporting?
- What information are governments disclosing about subsequent events? Is that information essential to users for making decisions and assessing government accountability?
- What disclosures do users need, if any, about subsequent events that they are not currently receiving? How would they use that information?
- What essential information, if any, do users need regarding recognized subsequent events?

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Post-Implementation Review (PIR)

What is PIR?

The GASB monitors and supports implementation of all of its pronouncements

For Statements resulting from comprehensive projects and major projects that address a fundamental aspect of the standards, the GASB also:

- Examines a random some of financial reports for the year prior to, year of, and year after implementation
- Collects information from their preparers regarding staff hours and nonstaff costs for those three years
- Examine financial reports for the same random sample in the fifth year of implementation
- Conduct stakeholder roundtables and surveys regarding their experience with the standards
- Reports the findings publicly

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Why does the GASB conduct PIRs?

To provide general support to stakeholders when implementing significant new pronouncements

To identify and address practice issues that arise

To answer technical inquiries from stakeholders and develop and publish Q&A implementation guidance

To collect timely information that the Board can use to evaluate cost-benefit considerations as it develops other pronouncements and when it reexamines the standards in the future

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How does the GASB involve stakeholders in PIR?

Stakeholders bring potential implementation issues to the GASB's attention

→

Governments are recruited to keep track of their staff hours and nonstaff costs related to the pronouncement and provide that information for the year prior to implementation and the first and second years of implementation

→

Stakeholders of all types are invited to participate in roundtable discussions and to respond to surveys regarding their experience with the standards in practice

Which Statements are under review?

Statement 67—Pension plan reporting
Statement 68—Employer reporting for pensions
Statement 72—Fair Value measurement & reporting
Statement 75—Employer reporting for other postemployment benefits (OPEB)
Statement 84—Fiduciary activities
Statement 87—Leases

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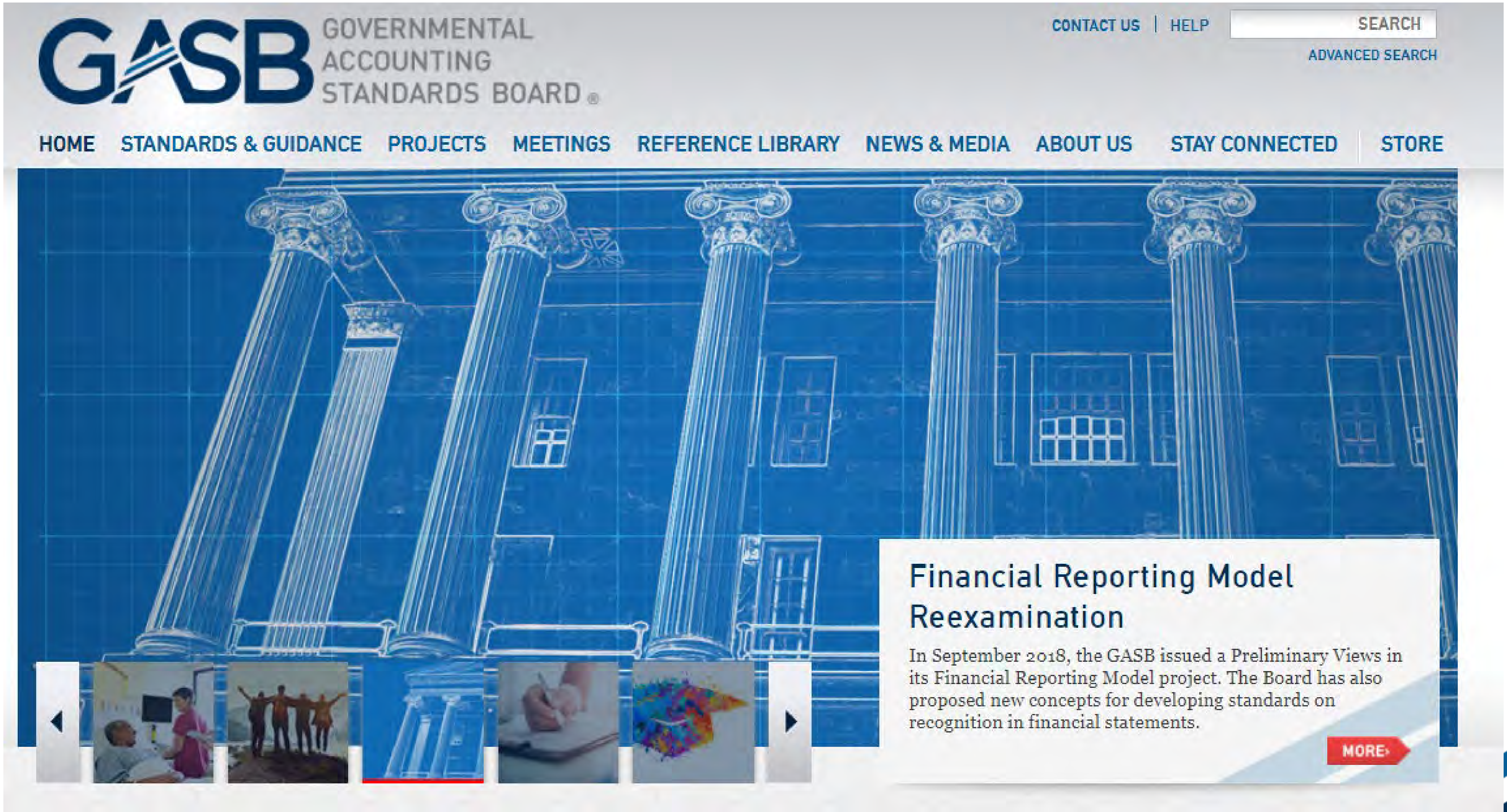
What is the status of the PIRs?

Pensions	Conducting 5 separate surveys of stakeholders to obtain additional information about certain topics raised at stakeholder roundtables, including surveys of actuarial firms, pension plans, employers/preparers, auditors, and users
Fair value	Beginning collection and analysis of fifth-year reports
OPEB	Analysis of prior year and implementation year reports completed, second year analysis nearly completed; collection of implementation effort and cost information completed and being analyzed
Fiduciary activities	Recruitment of governments completed; collection of implementation effort and cost information has begun
Leases	Collection of implementation effort and cost information and pre-implementation year reports has begun

Questions?

Visit www.gasb.org

www.gasb.org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HOME STANDARDS & GUIDANCE PROJECTS MEETINGS REFERENCE LIBRARY NEWS & MEDIA ABOUT US STAY CONNECTED STORE
Financial Reporting Model Reexamination
In September 2018, the GASB issued a Preliminary Views in its Financial Reporting Model project. The Board has also proposed new concepts for developing standards on recognition in financial statements.
MORE

Website Resources

- Free download of Statements, Implementation Guides, Concepts Statements and other pronouncements
- Free access to the basic view of Governmental Accounting Research System (GARS)
- Free copies of proposals
- Up-to-date information on current projects
- Form for submitting technical questions
- Educational materials, including podcasts

Thank You

DEEPER DIVE INTO GASB 94 AND 96, P3S AND SIBITAS

May 5th, 2023

Leader: Lisa R. Parker, and Christopher D. Pembrook

Oklahoma Society of CPAs – Governmental Accounting and Auditing Conference

GASB Statements 94, and 96

May 5, 2023

Lisa R. Parker, CPA, CGMA, Senior Project Manager, GASB
Chris Pembrook, CPA, Partner, Crawford and Associates

The views expressed in this presentation are those of Ms. Parker and Mr. Pembrook.
Official positions of the GASB are reached only after extensive due process and deliberations.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD FAF FINANCIAL ACCOUNTING FOUNDATION

Public-Private and Public-Public Partnerships and Availability Payment Arrangements

Statement 94

Subscription-Based Information Technology Arrangements

Statement 96

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

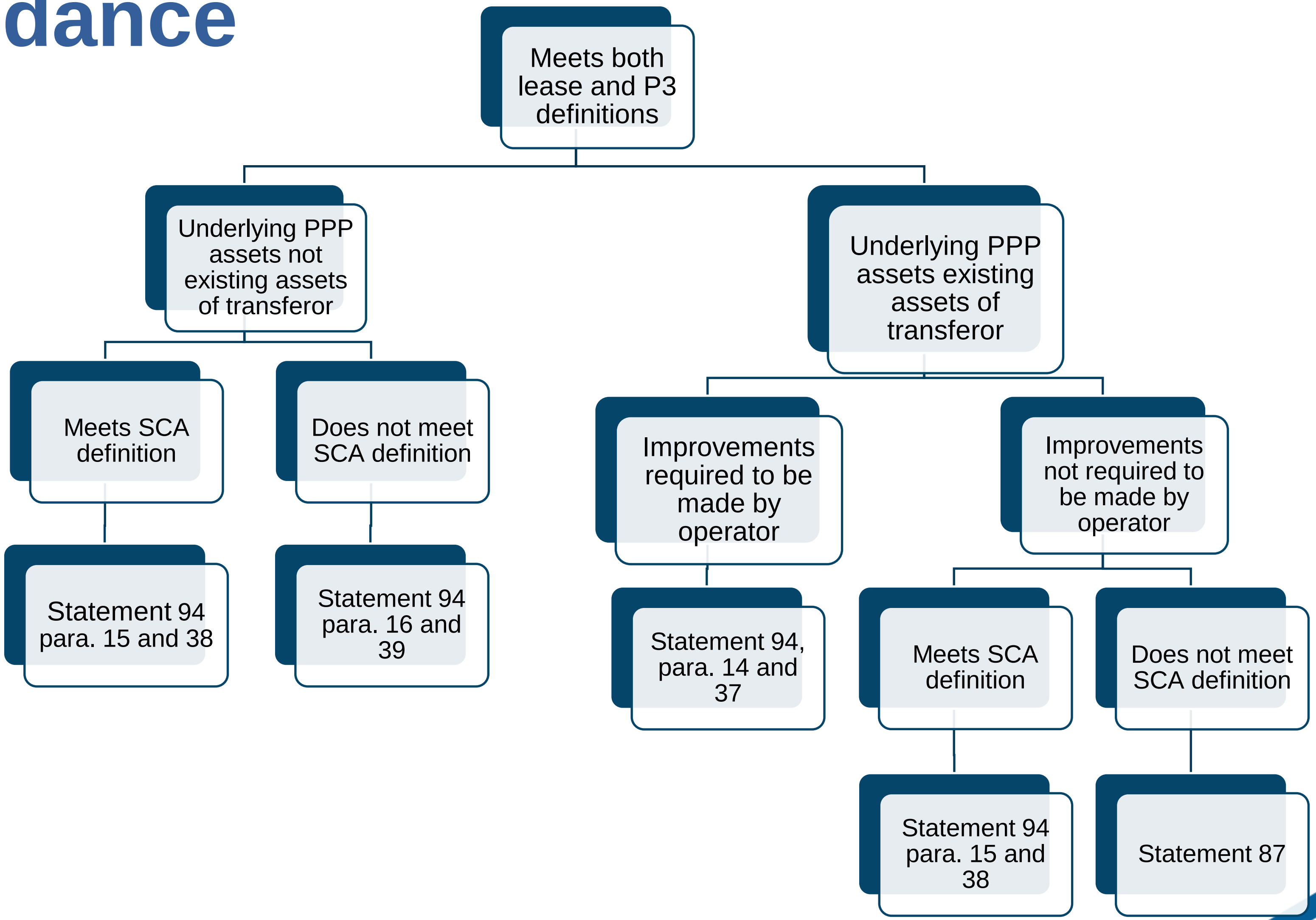
Definitions

Lease - a **contract** that **conveys control of the right** to use another entity's nonfinancial asset (the **underlying asset**) as specified in the contract for a **period of time** in an **exchange or exchange-like transaction**.

P3 - arrangement in which a government (the transferor) **contracts** with an operator [governmental or nongovernmental] to provide public services by **conveying control of the right** to operate a nonfinancial asset, such as infrastructure or other capital asset (the **underlying PPP asset**), for a **period of time** in an **exchange or exchange-like transaction**.

SBITA - a **contract** that **conveys control of the right** to use another party's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets (the **underlying IT assets**) as specified in the contract for a **period of time** in an **exchange or exchange-like transaction**.

Recognition and Measurement Guidance



Relationship between Leases and SBITAs

- All SBITAs meet definition of lease
- Depends on what the underlying asset is:
  - Tangible capital assets alone – Statement 87
  - IT software alone – Statement 96
  - IT software in combination with tangible capital assets:
    - Software component is insignificant compared to cost of underlying tangible capital asset – Statement 87
    - Otherwise – Statement 96
- Also excluded from Statement 96:
  - Governments acting as SBITA vendors
  - Contracts that meet the definition of a P3 in Statement 94
  - Perpetual software licenses

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Proposed SBITA Questions and Answers

Q—Is a licensing agreement for a vendor's computer software that automatically renews until cancelled a licensing agreement that provides a perpetual license?

A—**No**. A provision under which a licensing agreement automatically renews until cancelled is an option to terminate the agreement at each renewal date. An agreement that includes an option to terminate is not a purchase, whereas a perpetual license is a purchase in which a government is granted a permanent right to use the vendor's computer software. Therefore, a licensing agreement for a vendor's computer software that automatically renews until cancelled does not provide a perpetual license.

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Topics That Are The Same as Statement 87

- Lease/PPP/Subscription Term
- Short-Term Lease/SBITA
- General recognition and measurement

Lease/PPP/Subscription Term

- For financial reporting purposes, when does the lease/PPP/subscription term start and end?
  - Start with the noncancelable period

2021…………………………………………………..2027……………………………………….2031

  - Plus periods covered by options to:
    - Extend, if reasonably certain of being exercised
    - Terminate, if reasonably certain of *not* being exercised
  - Excludes cancelable periods
    - Periods for which lessee/transferor and lessor/operator both have option to extend or terminate (such as rolling month-to-month leases/PPPs/subscriptions)
  - Fiscal funding and cancellation clauses are ignored unless reasonably certain of being exercised

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Short-Term Leases/SBITAs

Definition	At beginning of lease/SBITA, *maximum possible term* under the contract is 12 months or less • Includes all one-party options to extend • Excludes cancellable periods
Lessee accounting	• Recognize expenses/expenditures based on the terms of the contract • Do not recognize assets or liabilities associated with the right to use the underlying asset
Lessor accounting	• Recognize lease payments as revenue based on the payment provisions of the contract • Do not recognize receivables or deferred inflows

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Initial Reporting

	Assets	Liability	Deferred Inflow
Lessee/ Operator/ SBITA	Intangible lease asset (right to use underlying asset)—value of lease liability plus prepayments and initial direct costs that are ancillary to place asset in use	Present value of future lease payments (incl. fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.)	NA
Lessor/ Transferor	• Lease receivable (generally includes same items as lessee's liability) • Continue to report the underlying asset	NA	Equal to lease receivable plus any payments received up front that relates to a future period

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Subsequent Reporting

	Assets	Liability	Deferred Inflow
Lessee/ Operator/ SBITA	Amortize the intangible lease asset over shorter of useful life or lease term	Reduce by lease payments (less amount for interest expense)	NA
Lessor/ Transferor	• Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition) • Reduce receivable by lease payments (less amount needed to cover accrued interest)	NA	Recognize revenue over the lease term in a systematic and rational manner

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Other Topics That Are The Same as Statement 87

- Contracts with multiple components
  - Generally, account for lease (etc) and non-lease (etc) components as separate contracts and multiple underlying assets as separate lease (etc) components
  - Allocate contract price to different components
- Modifications and terminations

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Modifications

- Both parties – account for an amendment resulting in a modification to the contract as a separate contract (separate from the most recent contract before the modification) if the following conditions are met:
  - The modification adds one or more underlying assets that were not included in the original contract
  - The increase in payments for the additional asset does not appear to be unreasonable based on (1) the terms of the amended contract and (2) professional judgment

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Terminations

- When the lessee’s/operator’s/SBITA’s right to use the underlying asset decreases – partial or full termination
  - Lessee/Operator/SBITA-
    - Reduces the carrying values of the asset and liability
    - Recognizes a gain or loss for the difference
  - Lessor-
    - Reduces the carrying value of the receivable and related deferred inflow of resources
    - Recognizes a gain or loss for the difference

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Topics Unique to Statement 94

- Service Concession Arrangements
  - Retained definition from Statement 60
    - Except for public services do not have to relate to primary function of underlying asset
  - Retained general approach from Statement 60

Topics Unique to Statement 94

- New or Improved Underlying PPP Assets
  - Transferor:
    - SCA – recognize at acquisition value when placed in service
    - Not SCA – recognize receivable at operator's estimated carrying value at date of future transfer and additional deferred inflow
  - Operator:
    - SCA – recognize intangible right-to-use asset
    - Not SCA – recognize deferred outflow and liability for future transfer

Transferor Reporting

For all P3s, recognize:	If underlying P3 asset is a new asset or an existing asset that has been improved…
• Receivable for installment payments to be received, if any • Deferred inflow of resources for the assets recognized, including payments received from the operator at or before start of the P3 term	• …and the P3 is an SCA: also recognize the capital asset at acquisition value when placed into operation • …and the P3 is not an SCA: also recognize a receivable for the capital asset, measured at operator's estimated carrying value as of the future date of the transfer in ownership

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Operator Reporting

For all P3s, recognize:	If underlying P3 asset is (a) existing asset or improvement or (b) new asset and the P3 is an SCA…	If underlying P3 asset is a new asset and the P3 is not an SCA…
• Liability for installment payments to be made, if any	• …also recognize an intangible right-to-use asset	• Also recognize the underlying P3 asset until ownership is transferred • And a liability for the underlying P3 asset, measured at the estimated carrying value as of the future date of the transfer

Topics Unique to Statement 94

- Availability Payment Arrangements
  - Government contracts with another entity to operate or maintain the government's nonfinancial asset
  - Entity receives payments from the government based on the asset's availability for use
  - Asset's availability may be based on the physical condition of the asset or the achievement of certain performance measures
  - May include design, finance, construction, or service components

Other Provisions

An APA that is related to the design, finance, or construction of an infrastructure or other nonfinancial asset in which ownership of the asset transfers by the end of the contract would be reported as a financed purchase of the asset.

An APA that is related to operations would be accounted for as flows of resources (for example, expense) in the period to which the payments relate.

Topics Unique to Statement 96

- Implementation Costs
  - Preliminary project stage
    - Expense
  - Initial implementation stage
    - Generally capitalize
    - Expense if short-term SBITA
  - Operation and additional implementation stage
    - Generally expense
    - Capitalize if specific criteria met
  - Training costs always expensed

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Accounting for Stages of Implementation

Preliminary Project Stage	Initial Implementation Stage	Operational & Additional Implementation Stage
• Outlays expensed as incurred	• Outlays should be capitalized as part of the subscription asset • If no subscription asset is recognized (for example, short-term SBITA), outlays should be expensed as incurred	• Outlays expensed as incurred unless they meet specific capitalization criteria

Outlays related to the implementation of the SBITA can overlap or occur in multiple cycles and are recognized based on the nature and timing of the outlay (activity).

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Stages of Implementation

Preliminary Project Stage	Initial Implementation Stage	Operation and Additional Implementation Stage
• Conceptual formulation and evaluation of alternatives • Determination of the existence of needed technology • Final selection of alternatives for the SBITA	• Ancillary charges related to designing the chosen path, such as configuration, coding, testing, and installation associated with the government's access to the underlying IT assets • Other ancillary charges necessary to place the subscription asset into service • Initial implementation stage completed when the subscription asset is placed into service	• Maintenance, troubleshooting, and other activities associated with the government's ongoing access to the underlying IT assets • Additional implementation activities, such as those related to additional modules that occur after the subscription asset is placed into service

Data conversion is considered an activity of the initial implementation stage ***only*** when necessary to place the subscription asset into service. Otherwise, considered an activity of the operation and additional implementation stage.

Training cost are expensed as incurred, regardless of the stage the costs are incurred

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Old But Applicable Guidance – Z.51.22

- Q—Statement 51 provides guidance for the treatment of outlays associated with data conversion and user training activities for internally generated computer software. How should such outlays be accounted for when the activities are associated with the acquisition of computer software that is not considered internally generated?

- …Outlays associated with **data conversion activities** should be capitalized as an ancillary cost of the acquired computer software only if those activities are determined to be necessary to make the software operational. Otherwise, such outlays should be expensed as incurred. **Outlays associated with user training should not be considered an ancillary cost of acquired computer software**, and, therefore, those outlays should be expensed as incurred.

Topics Unique to Statement 96

- Subscription Term
  - Commences when initial implementation stage is completed
  - No subscription liability or subscription asset until then
  - Payments made before are prepayment until commencement
- Multiple Modules
  - Subscription term begins when first module (or set of interdependent modules) is implemented

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Proposed SBITA Questions and Answers

Q—A government enters into a six-year subscription-based information technology arrangement (SBITA) contract with no options to extend or terminate the contract and begins making semi-annual subscription payments to the SBITA vendor immediately after the contract takes effect. The initial implementation stage is not completed until the end of the second year after the contract takes effect. What is the subscription term?

A—The subscription term is four years. The initial implementation stage is completed at the end of the second year of the contract. Therefore, in accordance with paragraphs 9 and 15 of Statement 96, the subscription term commences at the beginning of the third year and ends at the conclusion of the sixth year when the SBITA contract ends.

Proposed SBITA Questions and Answers

Q—Does a cloud computing arrangement meet the definition of a subscription-based information technology arrangement (SBITA)?

A—A cloud computing arrangement may or may not meet the definition of a SBITA in paragraph 6 of Statement 96. Cloud computing arrangements have three common deployment models: Software as a Service, Platform as a Service, and Infrastructure as a Service. All three deployment models provide the customer with the right to use a combination of another party's IT software and tangible capital assets. The definition of a SBITA requires, in part, that a contract convey control of the right to use another party's IT software, alone or in combination with tangible capital assets (the underlying IT assets). Therefore, as part of its determination of whether a cloud computing arrangement meets the definition of a SBITA, a government should evaluate whether the contract conveys control of the right to use the underlying IT assets in accordance with paragraph 7 of Statement 96.

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Disclosures - SBITAs

1. General description of SBITA arrangements
2. Total amount of subscription assets, related accumulated amortization, separate from other capital assets
3. Amount of variable payments not previously included in liability
4. Amount of other payments not previously included in liability
5. Principal and interest requirements to maturity
6. Commitments under SBITAs before commencement date
7. Impairment loss and any related change in subscription liability

For disclosure purposes, SBITAs may be grouped. Disclosure of major classes of subscription assets is not required. Required for GASB Statement No. 87.

For disclosure purposes, subscription liabilities are not considered debt that is subject to disclosures required in GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.*

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

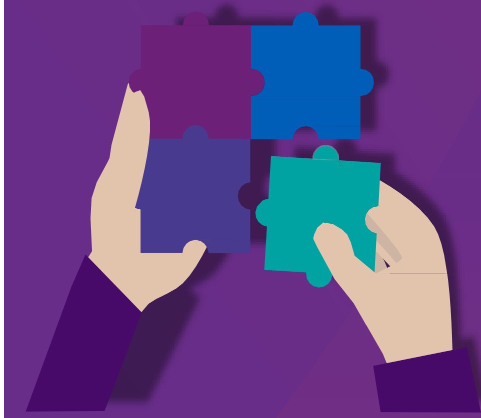
Key Considerations For Disclosures

Summary of Significant Accounting Policies

- Modification to basis of accounting
- Modification to capital assets
- New SBITA policy
- Modification to deferred outflows of resources/deferred inflows of resources (if applicable)

Where to include the new required disclosures

- New SBITA note; or,
- Modifications to the capital assets, long-term debt, and commitments note



GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Effective Dates

Pronouncement	Beginning After
Statement 87	June 15, 2021*
Statement 94	June 15, 2022**
Statement 96	June 15, 2022*
Implementation Guide 2019-3	June 15, 2021*
Implementation Guide 2020-1 (Statement 87 questions)	December 15, 2021*

* Fiscal years beginning after this date, and all reporting periods thereafter
** Reporting periods beginning after this date

Questions?

Visit www.gasb.org

Oklahoma Society of CPAs

SINGLE AUDIT UPDATE

May 5th, 2023

Leader: Tyler Bernier, and Vanessa M. Dutton

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CPAs & BUSINESS ADVISORS

SINGLE AUDIT UPDATE

PRESENTERS

Tyler Bernier, CPA
Partner
Oklahoma City, OK

Vanessa Dutton, CPA
Partner
Oklahoma City, OK

AGENDA

- Single Audit Basics Recap
- 2022 Compliance Supplement Update
- Testing and Common Deficiencies
- Single Audit Reporting Reminders
- Subrecipient vs. Beneficiary

SINGLE AUDIT BASICS RECAP

AUDITOR RESPONSIBILITIES - TESTING INTERNAL CONTROLS AND COMPLIANCE - 2CFR200.514

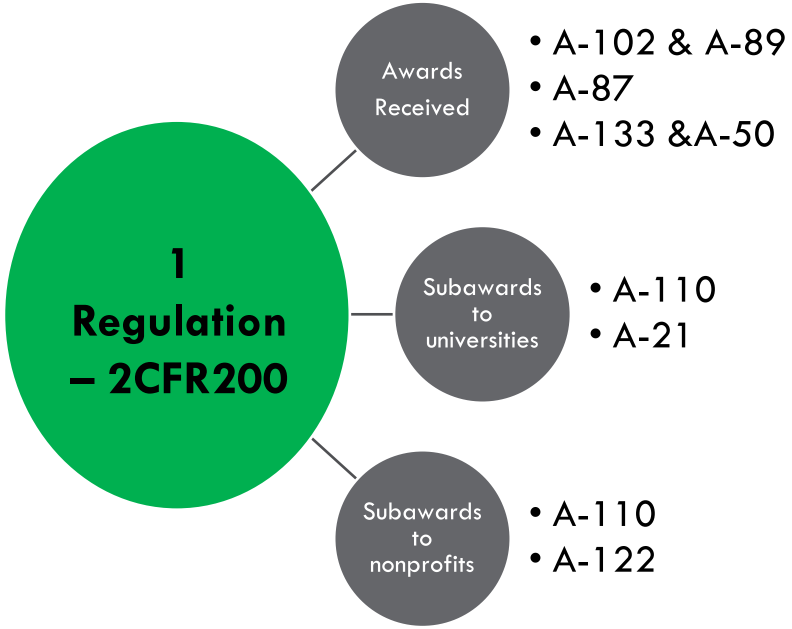
- Audit the financial statements (GAAS / GAGAS)
- Determine whether the financial statements are presented fairly in all material respects in accordance with GAAP
  - Determine whether the SEFA is stated fairly in all material respects in relation to the auditee's financial statements as a whole.
- Understand internal control over federal programs and plan the audit to support low assessed level of control risk of noncompliance for major programs

AUDITOR RESPONSIBILITIES - TESTING INTERNAL CONTROLS AND COMPLIANCE - 2CFR200.514

- Determine whether the auditee has complied with Federal statutes, regulations, and the terms and conditions of Federal awards that may have a direct and material effect on each of its major programs
  - Tests of transactions / procedures provide sufficient appropriate audit evidence to support opinion on compliance
- Follow-up occurs on prior audit findings
- Findings reported in single audit compliance report
- Auditor completes and signs specific sections of DCF prior to submittal by auditee

THE *UNIFORM ADMINISTRATIVE REQUIREMENTS...*

- Latest iteration of Title 2, Code of Federal Regulations (CFR) Part 200:
  - Single Audit Act of 1996 delegated responsibility from federal agencies to independent auditors for single audits:
    - Increased minimum expenditure amount of federal awards to trigger a single audit to $300,000 annually:
      - Increased to $500,000 after a few years.
    - Initialized detailed requirements for single audits.
  - 2CFR200 Codified in late 2013 to current form:
    - Minimum threshold increased to $750,000.
    - Duplicative / inconsistent requirements removed.



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ORGANIZATION OF 2 CFR PART 200 UNIFORM GUIDANCE

Subpart A	• Acronyms & Definitions
Subpart B	• General Provisions (Section 200.1xx)
Subpart C	• Pre-Award Requirements (Section 200.2xx)
Subpart D	• Post Award Requirements (Section 200.3xx)
Subpart E	• Cost Principles (Section 200.4xx)
Subpart F	• **Audit Requirements Section (200.5xx)**

Appendices and *Annual* ***Compliance Supplement***

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OMB *COMPLIANCE SUPPLEMENT*

- Published every summer online
  - Identifies the important compliance requirements that the federal government expects to be considered as part of a single audit
  - One of the most important pieces of guidance that you use in performing single audits.
  - Provides a source of information for auditors to understand federal program objectives, procedures, and compliance requirements
  - Includes audit objectives and suggested audit procedures for determining compliance with the noted requirements
- Auditors must use most recent compliance supplement and all applicable parts (2-7 and appendices) even if planning is completed before publication

COMPLIANCE REQUIREMENTS

A. Activities Allowed or Unallowed
B. Allowable Costs/Cost Principles
C. Cash Management
D. Reserved
E. Eligibility
F. Equipment and Real Property Management
G. Matching, Level of Effort, Earmarking
H. Period of Performance
I. Procurement and Suspension and Debarment
J. Program Income
K. Reserved
L. Reporting
M. Subrecipient Monitoring
N. Special Tests and Provisions

OMB *COMPLIANCE SUPPLEMENT – AUDIT PROGRAM?*

- Part 3
  - Requirements are generic
  - Audit procedures are generic
  - Applicable to all grants, not grant specific
  - Audit programs tailored to match suggested audit procedures, as applicable
- Part 4
  - Include program-specific compliance requirements
  - Limited program audit procedures
  - Must use with other parts (2-3) – cannot be stand-alone

2022 COMPLIANCE SUPPLEMENT UPDATE

2022 COMPLIANCE SUPPLEMENT

- Issued May 12, 2022 and effective for audits of fiscal years beginning after June 30, 2021.
- No addendums for the 2022 Supplement.
- Start with Appendix V to review changes from the prior year:
  - Identifies all changes at a high level and by specific ALN.

NEW AND DELETED PROGRAMS

NEW

- 14.888 - Lead-Based Paint Capital Fund Program and Housing-Related Hazards Capital Fund
- 21.023 - Emergency Rental Assistance Program
- 21.026 - Homeowner Assistance Fund Program
- 21.029 - Coronavirus Capital Projects Fund
- 32.009 - Emergency Connectivity Fund Program
- 59.075 - Shuttered Venue Operators Grant
- 93.671 - Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services

DELETED

- 14.169 - Housing Counseling Assistance Program
- Several programs deleted from “other clusters” (see next slide)

OTHER CLUSTERS CHANGES

Cluster	Changes
Child Nutrition Cluster	• Added the Fresh Fruit and Vegetable Program (FFVP) (10.582) • Removed the Child Nutrition Discretionary Grants Limited Availability program (10.579)
Employment Service Cluster	• Removed Local Veterans' Employment Representative (LVER) Program (17.804)
Highway Safety Cluster	• Removed the following programs, noted by AL#: 20.601, 20.602, 20.609, 20.610, 20.612, and 20.613

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DEFINING COVID-19 FUNDING

- In year 1 of the pandemic the meaning of “COVID-19 funding” was more intuitive (primarily from CARES Act).
- In Years 2 and 3 of the pandemic, it includes all new programs and existing programs (subject to single audit) from the following:
  - Coronavirus Preparedness and Response Supplemental Appropriations Act (CPRSAA)
  - Families First Coronavirus Response Act (FFCRA)
  - Coronavirus Aid, Relief, and Economic Security Act (CARES Act)
  - Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA)
  - American Rescue Plan Act (ARPA)

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APPENDIX IV – HIGHER RISK – TYPE A PROGRAMS

- "Higher risk" designation will often result in type A program being audited as major.
- Auditor can determine that a "higher risk" A program/cluster qualifies as low risk if both of the following are met:
  - Program otherwise meets the criteria for a low-risk type A program/cluster.
  - Percentage of COVID-19 funding in the program/cluster during the entity's fiscal year is not material to the program/cluster as a whole.
- "Higher risk" Type A programs that are 100% COVID-19 funding cannot be concluded as low-risk.
- Special considerations for Research and Development Cluster.

APPENDIX IV – HIGHER RISK LISTING

Agency	Assistance Listing (CFDA) Number	Title
Education*	84.425	Education Stabilization Fund
FCC*	32.009	Emergency Connectivity Fund Program
HHS*	93.461	Testing for the Uninsured
HHS*	93.498	Provider Relief Fund
HHS**	93.778/93.777/93.775	Medicaid Cluster
Transportation**	20.106	Airport Improvement Program
Transportation**	20.500/20.507/20.525/20.526	Federal Transit Cluster
Transportation**	20.315	National Railroad Passenger Corporation Grants
Treasury*	21.023	Emergency Rental Assistance
Treasury*	21.027	Coronavirus State and Local Fiscal Recovery Funds

Note:

* These programs were created by one of the laws cited at the beginning of this section and are thus considered 100% COVID-19 funding.

** These programs were existing programs that received additional funding from one or more of the laws cited at the beginning of this section.

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APPENDIX IV – HIGHER RISK – TYPE B PROGRAMS

- No changes to the normal risk assessment process for type B programs.
- “Higher risk” identification must be considered with the other factors in section 200.519:
  - Likely will have several other risk factors, including lifespan of the program, new or changing regulations, first or last year of the program, etc.
- Auditor is not required to prioritize the assessment of risk for “higher risk” type B programs over other type B programs.

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APPENDIX VII – AUDIT ADVISORIES

- Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form (DCF/SF-SAC) must separately identify COVID-19 expenditures:
  - For existing programs that have both COVID-19 expenditures and non-COVID-19 expenditures, should be separately listed.
- Auditors should include the COVID-19 identification for audit findings that are applicable to programs that are entirely COVID-19 funded <u>and</u> existing programs with COVID-19 funding.

APPENDIX VII – AUDIT ADVISORIES

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. Department of Health and Human Services				
Head Start Cluster				
Head Start	93.600		$146,491,438	$ 121,979,390
COVID-19: Head Start	93.600		6,685,002	6,346,934
Subtotal Head Start Cluster			153,176,440	128,326,324

	CFDA #								Loan Programs		Federal Award	
Row Number (auto-generated)	Federal Awarding Agency Prefix [1]	CFDA Three-Digit Extension [2]	Additional Award Identification [3]	Federal Program Name	Amount Expended ($)	Cluster Name	Federal Program Total [4] (auto-generated) ($)	Cluster Total [5] (auto-generated) ($)	Loan/Loan Guarantee (Loan) Y/N	If Loan, the End of the Audit Period Outstanding Loan Balance [6] ($)	Direct Award (Direct) Y/N	If not Direct, list Name of Pass-through Entity
1	93	600		HEAD START	$146,491,438	HEAD START CLUSTER	$153,176,440	$153,176,440	N		Y	
2	93	600	COVID-19, 93.600	HEAD START	$6,685,002	HEAD START CLUSTER	$153,176,440	$153,176,440	N		Y	

APPENDIX VII – AUDIT ADVISORIES

- Donated Personal Protective Equipment (PPE) unaudited footnote to SEFA.
- Agency Guidance Document References for COVID-19 Programs:
  - Changing programmatic guidance issued via FAQs.
- Identification of COVID-19 Related Awards:
  - Compiled listing of ALNs with COVID-19 funding.
- Alternative Compliance Examination Engagement for Eligible SLFRF Recipients:
  - More on this later!

APPENDIX VII – AUDIT ADVISORIES

- Federal Audit Clearinghouse Transition from Census to General Services Administration (GSA):
    - The Data Collection Form is moving to GSA and will most likely have some new and different data elements.
    - DCFs for any fiscal years in 2022 will not be considered late if submission was not possible due to the change over to GSA.
    - Was supposed to go live on October 1, 2022, but is unofficially delayed by one year (continue submitting as normal until further guidance is provided).

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REMINDERS – DATA COLLECTION FORM

- Federal agencies have shared that they are seeing discrepancies in Data Collection Form submissions:
  - Amounts in the SEFA do not match correlating information in the DCF.
  - Issues with findings reported.
- Auditors should have quality control practices in place to ensure that:
  - Information in the DCF matches the SEFA and audit documentation and reports.
  - Required SEFA elements are properly identified on the DCF (clusters names and totals, COVID-19 funding, direct/indirect award, etc.).
- Consider initial data input of the Data Collection Form before issuance as an additional review of the SEFA.

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REMINDERS – REPORTING

- If Reporting is marked as subject to audit in the Compliance Supplement Part 2 Matrix, auditors are expected to test:
  - Reporting requirements identified in the Compliance Supplement.
  - AND any required reporting identified in grant agreements by the Pass-Through Entity for subrecipients.
- For Performance and Special Reporting:
  - Testing is only required for key line items that are quantifiable and capable of evaluations against objective criteria.
  - If no key line items are identified, auditor only needs to test that performance/special reports were submitted timely.

REMINDERS – FFATA TESTING

- **Subawards not expenditures!**
  - Common mistake is to identify the sample by expenditures.
  - Common mistake is to report findings by expenditures.
  - Common mistake is to miss the required reporting elements (quantity and dollar amounts).
- **How to Test?**
  - Identity total subawards issued during the year.
  - Identify if the federal agency has adopted the UG amendment or not ($25,000 vs $30,000 reporting).
  - Search for the award on usaspending.gov:
    - Note: To examine the date submitted, you will need to look this up in the client's portal.
    - Unfortunately, the date submitted is the "last action", thus if there were amendments and they did not keep a printout or evidence of the original submission, you will not be able to verify the original date of submission. This would be considered a document retention issue and considered for a finding (should be evaluated as appropriate depending on the facts and circumstances between a SD/MW and immaterial vs MNC).

REMINDERS – SEFA CHALLENGES

- Out of Period Issues:
  - ESF/HEERF and PRF allowing institutions to go back to fiscal 2020 and grab expenditures/lost revenue.
  - SVOG allowing pre-award costs back to March 2020.
  - Could result in issues with previously issued SEFAs
- Determining completeness - certain COVID funding may be handled by departments unaccustomed to federal funding.
- Identification of COVID-19 funding on face of SEFA.
- Determining when awards exist and reviewing effects of award amendments.

REMINDERS – FINDINGS

- Especially important to focus this year on the development of findings and related documentation:
  - More findings expected related to pandemic funding and new or inexperienced auditees.
  - Oversight at federal agencies will be higher than usual, and many are contacting audit firms directly.
- Questioned costs reported for findings is under scrutiny:
  - If likely questions costs do not exceed $25,000, it is not required to report them in the finding – consider wording such as "None reported as less than $25,000" to provide better context to the reader.

TESTING AND COMMON DEFICIENCIES

COMMON FINDINGS – GENERAL

- Internal Controls:
  - Lack of documented review
  - Review not detecting errors
  - No internal control policy
- Prevention:
  - Documented policies
  - Understanding of compliance requirements

ALLOWABLE ACTIVITIES AND ALLOWABLE COSTS

- Allowable Activities or Unallowed
  - Unique to each program
  - Found in program legislation, federal statute, or terms and conditions of grant awards
  - Think of “activity” as the transaction purpose (i.e. training, communication, travel)
- Allowable Costs/Cost Principles
  - Prescribe cost accounting requirements
  - Apply to almost every grant (certain specific exclusions)
  - Think of “cost principle” as the underlying requirements (i.e. documentation)
  - **Necessary and reasonable**

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GOODS AND SERVICES

- Approved by federal awarding agency, if required
- For actual costs, not budgeted
- Consistent
- In accordance with GAAP
- Not used to meet match for other federal programs
- Net of applicable credits
- Not included as both a direct and indirect cost
- Adequately documented

COMPENSATION PRINCIPLES

Total wage or salary was reasonable for the services rendered and conforms to the established written policy and consistently applied

Payroll charge was supported and meets the following standards for documentation (more detail on next slide)

Incentive compensation is allowable to the extent that the overall compensation is reasonable

Fringe benefits – it depends

PAYROLL STANDARDS FOR DOCUMENTATION

- Supports that the charges are accurate, allowable, and properly allocated (across grants/activities)
- Be incorporated into the official records.
- Reasonably reflect the total activity for which the employee is compensated (not exceeding 100%).
- Encompass all activities compensated by the entity

PAYROLL STANDARDS FOR DOCUMENTATION

- Comply with established accounting policies and practices of the entity
- Budget estimates alone **do not** qualify, and if used, must be trued up after the fact to ensure the amount charged is accurate, allowable, and properly allocated.

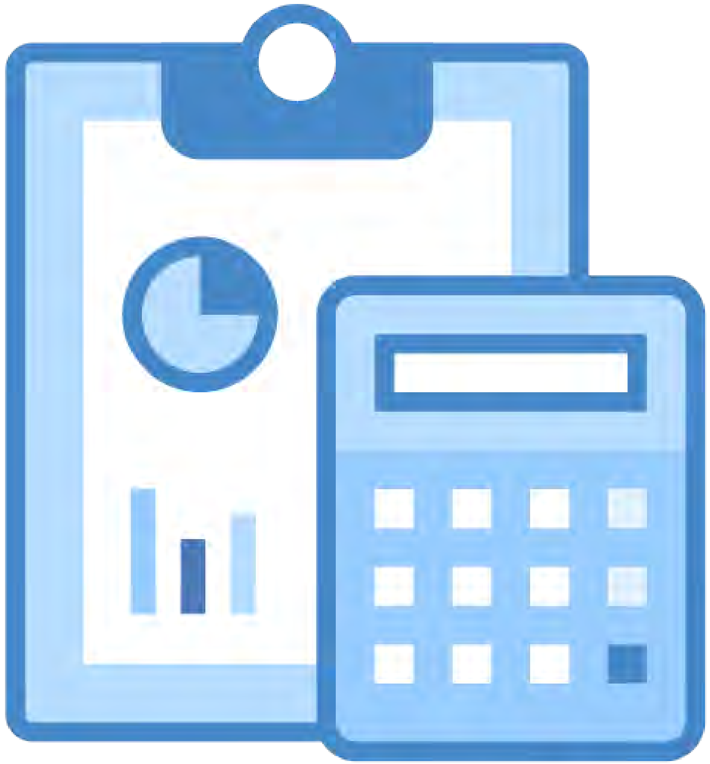
FRINGE BENEFITS

- Sick, Vacation, Comp Time
- Health Benefits
- Retirement Benefits
- Other allowances

- Generally allowable if required by law, employee agreement, or established policy.

TRANSACTION TESTING

- Generally will be Activities Allowed (A), Allowable Costs (B), and Period of Performance (H).
- Procurement, Suspension and Debarment (I) is sometimes included and sometimes separate.
- Think of the grant objectives when testing.
- Cost Principles:
  - Don’t need to know every one
  - Need to know where to look
  - 2 CFR Part 200 Subpart E (200.420 – 200.476)
  - Compliance supplement
  - Grant award



INDIRECT COSTS

- Supposed to reflect the common/shared services that benefit an entire organization
- Common ways that grants recognize indirect expenses
  - 10% de minimis rate
  - Negotiated indirect cost rate (indirect costs / direct cost base)
  - Cost allocation (indirect costs * allocation method)
- Two potential testing components
  - Did the auditee charge the correct amount to the grant
  - Did the auditee develop the rate appropriately

INDIRECT COST RATE PLAN

- If developed by the auditee
    - Indirect Cost Rate or Cost Allocation (**if material**)

- Audit procedures should consider the appropriateness of the developed rate or cost allocation to meet the following objectives:
    - Are the charges to the indirect cost pools allowable
    - Internal controls
    - Equitable distribution methods
    - Appropriately calculated

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INDIRECT COST RATE PLAN - PROCEDURES

- **Indirect Cost Pool** example procedures to meet the audit objectives (not all have to be performed – use appropriate judgment)
  - Testing a sample of costs in the indirect cost rate pool for allowability
  - Test for specific unallowable types of costs to ensure excluded (i.e. capital equipment purchases)
  - Identify significant changes in expense categories from prior ICRP
  - Trace the costs to appropriate accounting support (make sure it agrees to the G/L)

INDIRECT COST RATE PLAN - PROCEDURES

- **Direct Cost Base** example procedures
  - Determine proposed bases include all activities that benefit from the indirect cost being allocated
  - Determine if there are any distorting items in the base (i.e. capital expenditures)
- If using cost allocation, determine appropriateness/reasonableness of the allocation base/method
- Expectation that some consideration about the indirect cost rate plan itself will be included in the audit procedures

FREQUENTLY ASKED QUESTIONS

- If I have a negotiated indirect cost rate that is higher than the awarding agency's rate stipulated in the grant agreement, can I use my higher rate?
- I received a pass-through grant from a local City Foundation. The agreement did not specifically say that we are a subaward, but how can I verify this?

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ALLOWABLE ACTIVITIES/ALLOWABLE COSTS COMMON FINDINGS

Services and Supplies

- Sometimes basic cost principles are missed or specific terms and conditions of the grant award

Payroll

- Time and effort tracking
- Fringe benefits
- Budget vs actual
- Internal controls on salaried employees

Prevention

- Ensure your payroll records meet the standards for documentation!
- 2 CFR 200.430 and 2 CFR 200.431 for compensation related standards
- Subpart E in general for cost principles
- Read the terms and conditions of the grant award!

ALLOWABLE ACTIVITIES/ALLOWABLE COSTS COMMON FINDINGS

Indirect Costs

- Modified Total Direct Costs
- Costs not being allocated in accordance with the cost allocation plan, if applicable
- Unallowable costs in the cost allocation plan
- Double dipping (very prevalent with PPP, ERC, and all the new programs)

Prevention

- Monitoring changes in funding
- Reviewing your cost allocation plans or indirect cost rate plans, if applicable for significant changes
- See 2 CFR 200.414 and Appendix III or Appendix IV as applicable

CASH MANAGEMENT TESTING

- Will sometimes be the same document as the required Report (i.e. SF-425).
- Two methods (except States):
  - Advance.
  - Reimbursement.
  - States follow the Treasury State Agreement for large programs.
- Advance Method:
  - Must be for immediate cash needs.
  - Must limit interest earned.
- Reimbursement Method:
  - Make sure costs were incurred prior to the claim.
- For pass-through entities – do not forget testing of subrecipient payments:
  - Should be for immediate cash needs or a reimbursement basis.

CASH MANAGEMENT

- **Findings:**
- Immediate cash needs vs reimbursement basis.
- Program income.
- **Prevention:**
- Know the terms and conditions of the grant.
- Have a drawdown process that matches the allowable methods.
- Ensure program income, if applicable is reconciled as needed.

ELIGIBILITY

- Individuals
  - Very specific to each grant, eligibility components will be expressly communicated in the compliance supplement or grant award
  - Many different factors (i.e., income level, demographics, medical, etc.)
- Service Areas
  - Population or group based if a certain geographic area/population is eligible.
- Subrecipients
  - Some grants have specific conditions on what type of entities are allowed to be a subrecipient

ELIGIBILITY

- Overall purpose
  - Ensure beneficiaries meet the qualification criteria for being a beneficiary
  - Ensure organizations meet the qualification criteria to receive the grant
- Testing responsibilities
  - Computer/database is complete and reliable?
  - Documentation to support eligibility determination available?
  - Benefits were calculated correctly?
  - Benefits are terminated when period of eligibility expires?

EQUIPMENT AND REAL PROPERTY MANAGEMENT

- Equipment means tangible property with a useful life exceeding a year and a per unit cost that is the lesser of the capitalization policy or $5,000

Four key components

- Equipment additions
- Equipment disposals
- Equipment maintenance and record-keeping
- Disposition of real property

EQUIPMENT & REAL PROPERTY MANAGEMENT

- Requirement: inventory tracking and management.
- Requirement: property records must contain certain required elements.
- Requirement: physical inventory count at least every two years.
- Internal controls.

MATCHING

- Communicated in the grant award or compliance supplement.
- Can be calculated different ways, for example:
  - Out of every $100 = $66 dollars = federal, $34 = local.
  - For every $100 in federal dollars, local will match a % (i.e. 10% and total spent is $110).
  - Follow how the grant award calculates it.
- Sometimes met for each transaction.
- Sometimes met in total:
  - If match can be met in total and the grant is not closed, you might not be able to test yet!
  - They might meet the match in the period remaining on the grant (thus not effective to test in CY) or they might have met in CY (for whole grant) and you can test.
  - Or they might report match on an on-going basis on their period reports and you can test what was reported.
- Tailor the approach to the client and grant.

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LEVEL OF EFFORT

- Communicated in the grant award or compliance supplement
- Two different components
  - Maintenance of Effort (MOE)
  - Supplement not Supplant
- MOE
  - Usually requires a certain level of local expenditure (i.e. 90% of prior year or 100% of prior year) or certain level of services (i.e. number of people served)
- Supplement not Supplant
  - Can’t cut local programs and replace with federal dollars (i.e., local expenditures paid for 100 FTE’s to run a program in PY, now the grant pays for 60 FTE’s and local pays for 40 FTE’s – this would be supplanting)

EARMARKING

- Communicated in the grant award or compliance supplement
- Sets criteria for minimum levels or maximum levels of:
  - Participation
    - Minimum or maximum number of people served may be a requirement
  - Expenditures
    - Minimum or maximum expenditure types such as admin costs or pass-through requirements
  - Other Purposes
    - Could require minimum or maximum levels of participation or expenditures by specific grant purposes (i.e. a grant may be required to spend at least 10% in 4 different priority funding areas, with the remaining 60% to be used as appropriate)

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PERIOD OF PERFORMANCE

- Period of performance means the beginning of grant activity to the end of grant activity
  - Can include multiple budget periods
- Obligation
  - Means the date an order was placed for goods or services
- Liquidation
  - Means the time period allowed for the liquidation of obligations (generally 90 days after the grant period)

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PERIOD OF PERFORMANCE

- Three key testing areas
  - Pre-award costs
    - Obligations incurred prior to period of performance are generally not allowable unless otherwise approved in writing by the awarding agency
  - Post-award costs
    - Obligations incurred after the period of performance are not allowable
  - Liquidation
    - Ensure obligations are paid within the allowable liquidation period. If an obligation is incurred within the period of performance, but not paid within the liquidation period, it is generally not allowable (unless certain extensions are granted)

TRANSACTION TESTING - PROCUREMENT

- Policy must meet federal standards.
- Were they compliant with their policy?
- Procurement Thresholds:
  - Micro - < $10,000
  - Small Acquisition - > $10,000 and < $250,000
  - Competitive Bidding/Proposals - > $250,000
  - May meet requirements to raise micro level of certain conditions met
- Noncompetitive purchases:
  - Sole-source
  - Emergency
  - Competition is inadequate
  - Prior approval

TRANSACTION TESTING - PROCUREMENT

Will sometimes involve quotes

Will sometimes involve contracts/competitive bidding

- Don’t forget required contract provisions in Appendix II

Competitive Bidding Principle: Full and Open Competition

- Should not see factors that limit competition or provide preferences (i.e. geographical preference)

Should not be doing business with suspended or debarred parties

- What are their controls for checking?
- EPLS check, certificate, contract provision?

When is suspension and debarment applicable?

- Generally purchases > $25,000
- Don’t forget smaller purchases that are part of a larger contract
- All subawards regardless of amount

PROCUREMENT, SUSPENSION AND DEBARMENT

- Findings:
  - Lack of written policies (this is the #1 finding!).
  - Lack of documentation of quotes.
  - Lack of competitive bidding.
- Prevention:
  - Review your procurement policies.
  - Follow your procurement policies.
  - Keep the documentation on quotes/bids!

PROCUREMENT, SUSPENSION AND DEBARMENT

Requirement: written policies & procedures

- Must include the requirement elements of 2 CFR 200.317-.327.

Requirement: procurement levels

- Micropurchases – up to $10,000, no quotations, equitable distributions.
- Small purchases – up to $250,000, rate quotations.
- Sealed bids – over $250,000, construction projects, price is a major factor.
- Sole source – unique, public emergency, authorized by agency (or pass through entity), no competition.

Requirement: must check suspension and debarment for purchases and contracts in excess of $25,000 (cumulative).

Internal controls.

PROGRAM INCOME

- Income earned as a direct result of the federal activity (or supported by the federal activity)
- Included on the SEFA (the program income must be spent, so the expenditures that used program income is what is generally recorded)
- Must be spent prior to requesting funds
- Three general uses (communicated by each grant)
  - Deduction
    - Reduce each reimbursement request by program income earned to date
  - Addition
    - Add program income on top of any other grant expenditures
  - Cost-sharing/matching
    - Use to meet the matching requirement

REPORTING TESTING

- Test reports noted in compliance supplement as applicable (or grant award if direct and material).
- Test key line items (if identified) otherwise test the whole report.
- Do not sample from a sample.
- Many reports have instructions that are online.
- Test to reliable information!
  - The excel spreadsheet by itself is not good enough (trace to source documentation).
  - Use the G/L or other appropriate information.
- Follow-up on perceived errors:
  - SF-425 is “standard”, but many federal agencies have them completed differently.

REPORTING

- General findings for:
  - Lack of supporting documentation.
  - Lack of explanation for reconciling items.
  - Inaccurate reports.
- Prevention:
  - Independent review and approval (key for segregation of duties!).
  - Document retention.
  - Quality reconciliations and explanations of any variances.

SUBRECIPIENT MONITORING

- Subrecipient Risk Assessment:
  - Requirement: identify the award and applicable requirements.
  - Requirement: evaluate the risk of subrecipient's noncompliance with Federal award.
  - Requirement: consider imposing specific subaward condition on subrecipient, if appropriate.
  - Requirement: monitor the activities of the subrecipient.
- Internal controls.

§ 200.331 – REQUIREMENTS FOR PTE'S

- Requirements can generally be broken into 3 areas

Pre-award requirements	During the award requirements	Post-award (or after the fiscal year) requirements
Subaward communication	Monitoring	Single audits
	Findings	Findings
	Management decisions	Management decisions
	Corrective action	Corrective action

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DURING THE AWARD MONITORING REQUIREMENTS

- Monitoring of the subrecipient **<u>must</u>** include:
  - Review reimbursement requests and performance reports
  - Follow-up with subrecipient for corrective action.
  - Issuing management decisions
- May include on-site reviews, desk reviews and independent audits (rotated as necessary to achieve desired monitoring outcomes).
- The extent of the above is based on a risk based subrecipient monitoring policy (we need to consider their policy and risk assessment)

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COMMON FINDINGS – SUBRECIPIENT MONITORING

Subrecipient Monitoring:

- Subawards not updated for U.G.
- No risk assessment policies or procedures
- Risk assessment policies/procedures but lack of performance
- Lack of review of subrecipient audit reports
- Lack of management decisions
- Lack of suspension and debarment verification on subrecipients (or not documented)

SPECIAL TESTS

- Unique requirements that don't fit into the other categories
- Decided on a grant-by-grant basis
- May be included in cross-cutting compliance supplement (i.e., Department of Education has certain Special Tests that are applicable to multiple DOE grants)
- Can have many tests (i.e., Student Financial Aid)

SINGLE AUDIT REPORTING REMINDERS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Client Name
Schedule of Expenditures of Federal Awards
Year Ended December 31, 20X1

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-through Entity Identifying Number	Expenditures	(A) Amounts Passed-Through to Subrecipients
Department of Agriculture				
Passed through State				
Cooperative Extension Service	10.500	XX-XX01	$ -	$ -
SNAP Cluster				
Supplemental Nutrition Assistance Program (SNAP)	10.551	XX-XX02	-	-
State Administrative Matching Grant for Nutrition	10.561	XX-XXAB	-	-
Total SNAP Cluster			-	
Child and Adult Care Food Program	10.558		-	-
Total Department of Agriculture			-	-
Department of Health and Human Services				
Enhance Safety of Children Affected by Substance Abuse	93.087		-	-
Passed through State of ABC Department of Human Services				
Block Grants for Community Mental Health Services	93.958	MHDS-xx-0xx	-	-
Block Grants for Community Mental Health Services	93.958		-	-
Total Block Grants for Community Mental Health Services			-	-
Total Department of Health and Human Services			-	-

(A) The subrecipient's column can be deleted if there are no subrecipients. If this column is deleted, Note B should be modified as follows: No federal financial assistance has been provided to a subrecipient.

See Notes to Schedule of Expenditures of Federal Awards

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FINDINGS – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

EXAMPLE - Summary Schedule of Prior Audit Findings

Yellow Book EXAMPLE

Finding 20PY-001

Initial Fiscal Year Finding Occurred: 2011

Finding Summary: Eide Bailly LLP prepared our draft financial statements and accompanying notes to the financial statements.

Status: Ongoing. Due to cost considerations, we will continue to have Eide Bailly LLP prepare our draft financial statements and accompanying notes to the financial statements.

Single Audit EXAMPLE

Finding 20PY-001
Federal Agency Name:
Program Name:
CFDA #

Initial Fiscal Year Finding Occurred: 20PY

Finding Summary:

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FINDINGS – CORRECTIVE ACTION PLAN FOR CURRENT YEAR FINDINGS

EXAMPLE – Corrective Action Plan

Yellow Book EXAMPLE

Finding 20X1-001

Finding Summary:	Eide Bailly LLP prepared our draft financial statements and accompanying notes to the financial statements. They also proposed material audit adjustments that would not have been identified because of our existing controls and, therefore, could have resulted in a material misstatement of our financial statements.
Responsible Individuals:	John Smith, Executive Director
Corrective Action Plan:	It is not cost effective to have an internal control system designed to provide for the preparation of the financial statements and accompanying notes. We requested that our auditors, Eide Bailly LLP, prepared the financial statements and the accompanying notes to the financial statements as a part of their annual audit. We have designated a member of management to review the drafted financial statements and accompanying notes, and we have reviewed with and agree with the material adjustments proposed during the audit.
Anticipated Completion Date:	Ongoing

Single Audit EXAMPLE

Finding 20PY-001

Federal Agency Name:

Program Name:

CFDA #

Finding Summary:

Responsible Individuals:

Corrective Action Plan:

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RESOURCES

- OMB Compliance Supplement (2022): https://www.whitehouse.gov/wp-content/uploads/2022/05/2022-Compliance-Supplement_PDF_Rev_05.11.22.pdf
- ECRF, Title II: https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II
- Eide Bailly's Common Single Audit Findings and Remediation Series: https://www.eidebailly.com/insights/articles/2019/8/procurement-suspension-and-debarment

SUBRECIPIENT VS BENEFICIARY

THE GUIDANCE – DEFINITIONS

- The Uniform Guidance (2 CFR 200) sets the foundation:
- Contractor means an entity that receives a contract…
- Contract means, for the purpose of federal financial assistance, a legal instrument by which a recipient or subrecipient purchases property or services needed to carry out the project or program under a federal award (federal financial assistance or cost reimbursement contract under FAR).

THE GUIDANCE – DEFINITIONS

- Federal financial assistance means assistance that non-federal entities receive or administer in the form of:
  - Grants
  - Cooperative agreements
  - Surplus property
  - Direct appropriations
  - Food commodities
  - Other financial assistance/Loans/Guarantees/Insurance/Subsidies
- Federal financial assistance does not include amounts received as a reimbursement for services rendered to individuals under Medicare/ Medicaid.

THE GUIDANCE – DEFINITIONS

Pass-through entity means a non-federal entity that provides a subaward to a subrecipient to carry out part of a federal program.

Subrecipient means an entity, usually but not limited to non-federal entities, that receives a subaward from a pass-through entity to carry out part of a federal award; but does not include an individual that is a beneficiary of such award.

What is the hole in the guidance?

- A beneficiary is not defined by the UG and our only reference in UG is the **individuals.**
- Entities were thought to be either a **contractor** or a **subrecipient.**

CRF – FAQ #13

- What are the differences between a subrecipient and a beneficiary under CRF for purposes of the Single Audit Act and 2 CFR Part 200, Subpart F regarding audit requirements?
- "…audit requirements apply to any non-federal entity…that receives payments from the Fund in the amount of $750,000 or more. Non-federal entities include subrecipients…However, subrecipients would not include individuals and **organizations** (e.g., businesses, non-profits, or educational institutions) that are beneficiaries of an assistance program established using payments from the Fund…audit requirements do not apply to beneficiaries."

ARPA FAQS

- FAQ #1.8 – Can a nonprofit or private organizations receive funds? If so, how?
- "…a recipient can provide funds to an entity, including a nonprofit organization, for the purpose of directly benefitting the entity as a result of the entity experiencing a public health impact or negative economic impact of the pandemic. In this stance, these entities will be considered beneficiaries, not subrecipients, and will not be expected to comply with subrecipient reporting requirements. Beneficiary reporting requirements will apply."

ARPA FAQS

- FAQ #13.13 – What compliance and reporting requirements apply to subrecipients and beneficiaries?
- "…The distinction between subrecipients and beneficiaries is addressed in the supplemental information to Treasury's final rule. For example, when recipients of SLFRF funds provide award funds to individuals or entities as a result of experiencing a public health or negative economic impact of the pandemic, those receiving such funding are beneficiaries of the funds. In contract, when recipients provide award funds to an entity to carry out a program in response to the public health emergency or its negative economic impacts, the entities receiving such funding are subrecipients."

SUBRECIPIENT VS BENEFICIARY

- Very important for subrecipients who received federal monies passed through from States/local governments
- Subrecipient = subject to single audit
- Beneficiary = not subject to single audit
- General rule of thumb:
  - If being provided a subsidy as an "end user" and not for the purpose of carrying out a program = beneficiary (common for lost revenue or small business assistance type grants and programs)
  - If being provided reimbursements or monies to carry out a program on behalf of the State/local government = subrecipient (more standard operating procedures)
- Sometimes a non-profit will be a vendor (State/local government is responsible for the determination)

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QUESTIONS?

THANK YOU!

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WHAT'S THE PROPER WAY TO ACCOUNT FOR THIS? VARIOUS FINANCIAL STATEMENT TRANSACTION CLASSES AND ACCOUNTING BALANCES (REPEAT)

May 5th, 2023

Leaders: LaDonna S. Sinning, CPA and Jacob W. Winkler, CPA

Arledge
certified public accountants

How Do I Account For That?

Presented by:
Jake Winkler
LaDonna Sinning

Presenters

LaDonna Sinning

- Partner at Arledge & Associates
- 20+ years of Governmental Audit Experience
- Municipal, Higher Ed, School Districts, Healthcare, Non-profit, and Tribal expertise

Presenters

Jake Winkler

- Partner at Arledge & Associates
- 13 years of Governmental Audit Experience
- Municipal, Higher Ed, School Districts, Healthcare, Non-profit, and Tribal expertise

Presentation Outline

- Accounting for Capital Assets
- Accounting for Compensated Absences
- Accounting for Bond Defeasance
- Accounting for Federal Grants

Presentation Outline

- Accounting for self-insurance
- Component Unit Determination
- Determining type of Funds
- Questions

Capital Assets

- **Acquisition of Capital Assets**
- **Capital contributions**
- **Transfers of Capital Assets between funds**
- **Accounting for trade-ins of vehicles and equipment**

Capital Assets

Acquisition of Capital Assets

- The current financial resources measurement focus and modified accrual basis of accounting are used to report governmental funds in the fund financial statements.
- The economic resources measurement focus and accrual basis of accounting are used to report proprietary and fiduciary funds in the fund financial statements and governmental and business-type activities in the government-wide financial statements.
- Acquisition of general capital assets is reported as a capital expenditure (Capital Outlay account) in the operating statement of the governmental fund making the purchase

Capital Assets

Acquisition of Capital Assets

- Assume that the general fund purchases a police car for $20,000. For simplicity, assume that it pays for the car with cash available in the general fund.

To record police car as purchase in governmental fund	
Capital Outlay	20,000
Cash	(20,000)

Capital Assets

Acquisition of Capital Assets

- Assume that the general fund acquires two fire trucks for a total price of $150,000 and issues long-term general obligation bonds to finance the purchase. For simplicity, assume that there were no debt issue costs and that there is no legal mandate for use of a debt service fund and that the debt service on the bonds will be paid from unrestricted revenues of the general fund.

To record fire trucks as purchase in governmental fund	
Capital Outlay	150,000
Cash	(150,000)

To record issuance of GO bond debt to purchase fire trucks	
Cash	150,000
Proceeds from issuance of debt	(150,000)

Capital Assets

Acquisition of Capital Assets

- **In both of the previous scenarios, these would create reconciling items to the Government Wide Statement of Activities and Statement of Net Position.**
  - **Capital outlay and proceeds from debt would be eliminated and a capital asset and debt would be recorded**

To record police car in gov't wide statements (Capital Outlay will be on recon to SOA)	
Capital Assets – Vehicles	20,000
Capital Outlay	(20,000)

To record fire trucks in gov't wide statements (Capital Outlay and proceeds from issuance of debt will be on recon to SOA)	
Capital Assets – Vehicles	150,000
Capital Outlay	(150,000)
Proceeds from issuance of debt	150,000
GO Bond Obligation	(150,000)

Capital Assets

Capital contributions

- When a government receives a contribution or donation of an asset that it intends to use as a general capital asset, no entry is required in governmental funds since no current financial resource flow has taken place.
  - Example: donated land for right of ways or for parks
- At the government-wide level, a capital contribution would be recorded as revenue in the Statement of Activities and a capital asset would be recorded on the Statement of Net Position.
- The asset and contribution should be recorded at the fair value of the asset at the time of the donation.

Capital Assets

Capital contributions

- **Assume that the general fund receives a land donation for the purposes of constructing a park. The City has a valuation done on the land and determines the fair value of the land is $250,000.**

To record contribution of land for park (add land as addition on recon to statement of net position and add capital contributions on the recon to statement of activities)	
Capital Assets – Land	250,000
Capital Contributions	(250,000)

Capital Assets

Capital contributions

- Business-type activities and fiduciary funds will record these contributions at the fund level.
- Assume that the Utility Authority receives a donation for an easement to run water lines to a new neighborhood. The City has a valuation done on the land and determines the fair value of the land is $125,000.

To record contribution of land for water lines (all recorded at fund level)	
Capital Assets – Land	125,000
Capital Contributions	(125,000)

Capital Assets

Transfers of Capital Assets between funds

- **Transfers of assets may be made from a fund because the fund service will no longer be provided, will be provided through a different department, or management has determined that certain equipment would be of more value to the another department.**

- **These transfers can occur between governmental activities and business-type activities which can create some challenges at the fund level.**

Capital Assets

Transfers of Capital Assets between funds

- Assume that the Utility fund has a truck that it purchased for $50,000 and has accumulated depreciation of $25,000 and that the truck is being transferred for use by the fire department.
- Fund Level (Utility fund only)

To record transfer of truck to fire department	
Capital Assets – Vehicle	(50,000)
Accum Depreciation – Vehicle	25,000
Loss on disposal	25,000

- Government-wide entries

To record transfer of truck to fire department (Governmental Activities)	
Capital Assets – Vehicle	50,000
Accum Depreciation – Vehicle	(25,000)
Transfer in	(25,000)

To record transfer of truck to fire department (Business-Type Activities)	
Transfers out	25,000
Loss on disposal	(25,000)

Capital Assets

Transfers of Capital Assets between funds

- Now let's assume that the fire department has a truck that it purchased for $50,000 and has accumulated depreciation of $25,000 and that the truck is being transferred for use by the Utility fund.

- Fund Level (Utility fund only)

To record transfer of truck to utility fund	
Capital Assets – Vehicle	50,000
Accum Depreciation – Vehicle	(25,000)
Capital contributions	(25,000)

- Government wide entries

To record transfer of truck to utility fund (Governmental Activities)	
Capital Assets – Vehicle	(50,000)
Accum Depreciation – Vehicle	25,000
Transfers out	25,000

To record transfer of truck to utility fund (Business-Type Activities)	
Capital Contributions	25,000
Transfers in	(25,000)

Capital Assets

Accounting for trade-ins of vehicles and equipment

- When the purchase of a new general capital asset includes the trade-in of an old asset, a single entry is required to record an expenditure for the amount of cash paid or other current financial resources used (such as an account payable or short-term debt incurred) to acquire the new asset.
- However (in contrast to the trade-in of a proprietary fund asset), no gain or loss is recorded for the transaction. However, in the general capital assets ledger, the trade-in value of the old asset should be recorded and used to calculate the adjusted basis (value) of the new asset.

Capital Assets

Accounting for trade-ins of vehicles and equipment

- Assume that the general fund purchases a new police car costing $30,000 (fair value) by paying $25,000 cash and trading in an old police car. Also, assume that the original cost of the old car was $15,000 and accumulated depreciation was $8,000. The following entry would be made to record the trade-in:

To record purchase of police car (fund level)	
Capital outlay	25,000
Cash	(25,000)
To record trade-in of old capital asset (government-wide level)	
Net investment in capital assets	7,000
Accumulated depreciation	8,000
Capital asset – vehicles	(15,000)
To record purchase of police car (government-wide level)	
Capital asset – vehicles	30,000
Net investment in capital assets	(30,000)

Compensated Absences

- The Basics of accounting for Compensated Absences
- Determining short term and long-term portions of compensated absences
- Estimating and recording compensated absences

Compensated Absences

The Basics of accounting for Compensated Absences

- Compensated absences are accounted for at the fund level for proprietary, internal service, and fiduciary funds
- For governmental activities, they are only accrued at the government wide level
- GASBS No. 101, Compensated Absences, was issued in June 2022. This standard revises the accounting and reporting guidance for compensated absences, effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter.

Compensated Absences

Determining short-term and long-term portions of compensated absences

- Wherever recognized, a short-term and long-term portion of the compensated absences should be recorded.

- To calculate the ST portion, there are a few options:
  - PY actual PTO taken as a percent of total accrued
  - Use a PY figure and the percent increase.
  - Use actual taken to date and multiply by the remaining portion of the year.

Compensated Absences

Estimating and recording compensated absences

- **A liability should be recognized for leave that has not been used if all of the following are true:**
  - **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 in cash or settled through noncash means.**

Compensated Absences

Estimating and recording compensated absences

- We don't typically see issues with accrued vacation
- We don't always see the inclusion of sick leave as part of the accrual.
- Required by GASB 16 IF the benefit accrues and will be paid out upon termination of employment
- Calculation should be an estimate based on the third criteria from the previous slide (more likely than not)

Compensated Absences

Estimating and recording compensated absences

- **Let's assume:**
  - Employees earn one-half day of sick leave per month.
  - There is no limit on the amount of sick leave that can be accumulated.
  - Sick leave taken is paid at the employee's normal pay rate.
  - Employees who terminate after ten or more years of service are paid for unused sick leave up to a maximum of 25 days at one-half of their most recent pay rates.
  - Salary-related payments are an additional 9.5% of sick leave benefits paid.
  - The current average daily pay rate is $120.
  - Employees currently employed by the governmental entity have a combined 29 person-years of service.

Compensated Absences

Estimating and recording compensated absences

- **Two options for calculation**
  - **Termination Method**
    - **Recognizes an expenditure and liability to the extent it is probable that the employee will be paid for the benefit upon termination or retirement.**
  - **Vesting Method**
    - **Recognizes an expenditure/expense and liability based on leave accumulated by employees who are currently eligible to receive termination payments, as well as other employees who are expected to become eligible in the future.**

Compensated Absences

Estimating and recording compensated absences

- **Termination Payment Method**
  - **The first step is to determine past employee sick leave payments at termination. GASBS No. 16, Appendix C, suggests that payments to employees who have terminated within the past three to five years may be a reasonable time period. The required information is as follows:**

Employee	Years Worked	Year of Termination	Sick Days Paid
A	15	20X1	17
B	7	20X2	—
C	4	20X3	—
D	22	20X4	25
	48		42

Compensated Absences

Estimating and recording compensated absences

- **Termination Payment Method**
  - **Note: The days paid approach (see step 2. above) is commonly used in practice. However, other approaches are also used in practice.**

2. **Calculate the adjusted value of sick leave payments:**

Current average daily pay rate	$ 120
Sick days paid	×42
	$ 5,040
Termination payment rate	×50%
Adjusted value of sick leave	$ 2,520

3. **Calculate the sick leave paid per year of service:**

$$\frac{\text{Adjusted value of sick leave}}{\text{Years of service}} \quad \frac{\$\ 2{,}520}{48}$$

= $53 (adjusted sick leave paid per year of service)

4. **Calculate the sick leave liability:**

Adjusted sick leave paid per year of service	$ 53
Total person-years of service for active employees	×29
	$ 1,537
Additional salary-related payments	×1.095
Total sick leave liability	$ 1,683

Compensated Absences

Estimating and recording compensated absences

- **Vesting Method**

Employee	Years of Service	Daily PayRate	Earned Sick Days
A (Police)	11 Years, 2 months	$ 140	63
B (Fire)	8 Years, 9 months	125	44
C (Fire)	4 Years, 7 months	115	12
D (Police)	4 Years, 1 month	100	7

1. **The first step is to determine whether it is probable that employees with less than ten years of service will meet the ten year payment threshold in the future.** Generally, historical information, such as employee group averages or trends of attaining the sick leave payment threshold, is used in practice to determine the probability of payment.

2. **For this example, historical trend data is as follows:**

   a. Fire department employees who have reached six years of service generally reach ten years of service.

   b. Police department employees who reach five years of service generally reach ten years of service.

Compensated Absences

Estimating and recording compensated absences

- **Vesting Method**

3. **Calculate the sick leave liability:**

Employee	Accumulated Sick Leave	Accrued Sick Leave	Pay Rate	Pay Rate Percent	Sick Leave Liability
A	63	25	$ 140	50%	$ 1,750
B	44	25	125	50%	1,563
					$ 3,313
Additional salary-related payments	–	–	–	–	×1.095
Total sick leave liability					$ 3,628

A sick leave liability is not recorded for employees C and D because they do not meet the historical trend profile in step 2.

Bond Defeasance

- **Accounting for a bond defeasance**
- **Required disclosures**

Bond Defeasance

Accounting for a bond defeasance

- When a refunding is done, sometimes a government may be prevented from redeeming debt prior to maturity or a contractually agreed upon call date.
- If so, a government can still achieve most of the benefits of refinancing the debt by issuing the refunding bonds and placing the proceeds in escrow with a trustee pending the debt's maturity or call date.
  - This is known as an advance refunding

Bond Defeasance

Accounting for a bond defeasance

- In an advance refunding, the trustee of the escrow account often legally becomes the primary obligor on the refunded debt.
    - Government becomes only contingently liable for the debt's repayment.
    - Governments do not report contingent obligations as liabilities unless they are estimable and probable.
    - As such, the refunded debt, as well as the related escrow assets held in trust for repayment are removed from the financial statements.

Bond Defeasance

Accounting for a bond defeasance

- **Assume a government issues $3,365,000 in refunding bonds to replace $3,000,000 of existing debt. Of this amount, there are $65,000 in issuance costs**
  - **Government-wide funds would report the refunding as follows**

To record the issuance of refunding debt	
Cash with fiscal agent	3,300,000
Cost of issuance	65,000
Debt issued for refunding	(3,365,000)
To record placement of refunding debt proceeds into escrow	
Refunded debt	3,000,000
Deferred outflow of resources – debt refunding	300,000
Cash with fiscal agent	(3,300,000)

Bond Defeasance

Accounting for a bond defeasance

- The deferred charge would then be amortized as an adjustment to interest expense over the shorter of either
  - The original life of the refunded debt
  - The life of the debt issued for refunding

Bond Defeasance

Accounting for a bond defeasance

- The in-substance defeasance described in the previous slides is based on the issuance of new debt to refund existing debt.
- In some instances, governments have excess cash available and use the excess cash to advance refund outstanding existing debt.
- The accounting in these scenarios are similar but have a few differences.

Bond Defeasance

Accounting for a bond defeasance

- **To qualify as an in-substance defeasance of debt using only existing resources, a trust account is established with an escrow agent and all of the following conditions must be met:**
  - **Government deposits only cash or monetary assets that it has from existing resources (not proceeds of any debt issuance)**
  - **The placement of the resources in escrow is irrevocable**
  - **Escrow resources can be used only for schedule debt service payments.**
  - **The possibility of the government having to make future payments is remote**
  - **All escrow resources are monetary and essentially risk free**
  - **Cash flows approximately coincide as to timing and amount with scheduled debt service payments.**

Bond Defeasance

Accounting for a bond defeasance

- **Using the same assumptions as in the previous example, a government replaces $3,000,000 of existing debt, but uses its own cash of $3,365,000 to do so.**

To record the refunding of debt using existing resources	
Refunded debt	3,000,000
Loss on refunding	300,000
Legal fees	65,000
Cash (existing resources)	(3,365,000)

- **In addition to not recording any new debt, the government that uses its own resources to refund debt would recognize the gain or loss on the refunding in the year of the transaction, no deferral and amortization of the gain or loss is allowed.**

Bond Defeasance

Accounting for a bond defeasance

- Because governmental funds focus on current financial resources, they do not report long term debt. Thus, neither refunded debt nor refunding debt are reported in governmental funds.

To record the issuance of refunding debt	
Cash with fiscal agent	3,300,000
Cost of issuance	65,000
Other financing source – refunding debt	(3,365,000)

To record placement of refunding debt proceeds into escrow	
Other financing use – payment to refunded bond escrow agent	3,300,000
Cash with fiscal agent	(3,300,000)

Bond Defeasance

Required disclosures

- **GASBS No. 7, paragraph 11 as amended, requires that the financial statements provide a general description of all current and advance refundings that occurred during the year—regardless of the fund type used to report the transaction in the fund financial statements.**

- **The disclosures should also include the following for each refunding:**
  - **The difference between the cash flows required to service the old debt and the new debt, including cash obtained from resources other than the proceeds of the new debt.**
  - **The economic gain or loss resulting from the refunding transaction, calculated on a present value basis.**
    - **GASBS No. 7, paragraph 11b, defines the economic gain or loss as "the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid."**

Bond Defeasance

Required disclosures

- GASBS No. 7, paragraph 12, defines the effective interest rate used to determine the economic gain or loss on an advance refunding as the rate that, when used to discount the debt service requirements on the new debt, produces a present value equal to the total of following items:
  - Proceeds of the new debt (including accrued interest), net of any premiums or discounts.
  - Any underwriting spread.
  - Issuance costs that are not recoverable through escrow account earnings, including all costs to issue the bonds, such as insurance costs (net of rebates from the old debt, if any); financing costs such as rating agency fees; and other related costs such as printing, legal, accounting, administrative, and trustee expenses.
- Because the debt defeased in an advance refunding remains outstanding, GASBS No. 7, paragraph 14, requires note disclosure of the remaining outstanding balance of that debt.

Bond Defeasance

Required disclosures

- GASBS No. 7, paragraph 12, defines the effective interest rate used to determine the economic gain or loss on an advance refunding as the rate that, when used to discount the debt service requirements on the new debt, produces a present value equal to the total of following items:
    - Proceeds of the new debt (including accrued interest), net of any premiums or discounts.
    - Any underwriting spread.
    - Issuance costs that are not recoverable through escrow account earnings, including all costs to issue the bonds, such as insurance costs (net of rebates from the old debt, if any); financing costs such as rating agency fees; and other related costs such as printing, legal, accounting, administrative, and trustee expenses.
- Because the debt defeased in an advance refunding remains outstanding, GASBS No. 7, paragraph 14, requires note disclosure of the remaining outstanding balance of that debt.

Bond Defeasance

Required disclosures

- **Here is an example of a bond advance refunding disclosure (not linked to our examples above):**

On April 1, 2023, the City issued $36.3 million in gas tax special revenue refunding bonds with interest rates ranging between 2.75% and 5.25%. The City issued the bonds to advance refund $31.6 million of the outstanding series 2016 special revenue bonds with a 7.2% interest rate. The City used the net proceeds along with other resources to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 2016 series bonds. As a result, that portion of the 2016 series bonds is considered defeased, and the City has removed the liability from its accounts. The outstanding principal of the defeased bonds is $31,565,000 at September 30, 2023.

The advance refunding reduced total debt service payments over the next 23 years by nearly $4.5 million. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $2.5 million.

Federal Revenue

- **Distinguishing between unearned revenue and deferred inflows of resources**
- **Revenue recognition for federal revenue**

Federal Revenue

Distinguishing between unearned revenue and deferred inflows of resources

- Governments should recognize revenues and intergovernmental receivables from intergovernmental transactions that are either government-mandated or voluntary nonexchange transactions when all eligibility requirements, including time requirements, have been met.
- Resources (typically cash) received before all eligibility requirements have been met should be reported as assets and offset by unearned revenue (a liability) unless only a time requirement has not been met. In that case, deferred inflows of resources are reported rather than a liability.

Federal Revenue

Distinguishing between unearned revenue and deferred inflows of resources

- **GASBS No. 33, paragraph 20 describes four kinds of eligibility requirements**
  - ***Required Characteristics of Recipients*. The recipient (and secondary recipients, if applicable) has the characteristics specified by the provider. (For example, under a certain federal program, recipients are required to be states and secondary recipients are required to be school districts.)**
  - ***Time Requirements*. Time requirements specified by enabling legislation or the provider have been met. (The period when the resources are required to be used or when use is first permitted has begun, or the resources are being maintained intact, as specified by the provider.)**

Federal Revenue

Distinguishing between unearned revenue and deferred inflows of resources

- GASBS No. 33, paragraph 20 describes four kinds of eligibility requirements
  - *Reimbursements*. The provider offers resources on a reimbursement ("expenditure-driven") basis and the recipient has incurred allowable costs under the applicable program.
  - *Contingencies* (applies only to voluntary nonexchange transactions). The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred. (For example, the recipient is required to raise a specific amount of resources from third parties or to dedicate its own resources for a specified purpose and has complied with those requirements.)

Federal Revenue

Revenue recognition for federal revenue

- Governments that report intergovernmental revenues from government-mandated and voluntary nonexchange transactions in their governmental funds should report those revenues in the period in which all eligibility requirements have been met and the revenues are available.
- Intergovernmental accounts receivable should be recognized when all eligibility requirements have been met and offset by a deferred inflow of resources to the extent that revenues are not available.
    - GASB Cod. sec. 1600.106 defines available as collectible within the current period or soon enough afterward to be used to pay liabilities of the current period.

Federal Revenue

Revenue recognition for federal revenue

- Assume that in November 2022, a city with a September 30, 2023 fiscal year-end receives a one-year federal grant restricted for use in a substance abuse program during that fiscal year. The federal portion is $1,500,000; the city must match 25%, or $375,000. Thus, the total program expenditures are budgeted at $1,875,000. The federal agency will provide a $250,000 advance and then reimburse the city for qualifying amounts spent. In December 2022, the special revenue fund receives the $250,000 advance from the federal grantor.

To record cash advance received from the federal grantor agency in advance of any program expenditures being incurred.	
Cash	250,000
Unearned revenue (liability)	(250,000)

Federal Revenue

Revenue recognition for federal revenue

- During January through March 2023, the special revenue fund spends $300,000 on the program, of which $240,000 is the federal share and $60,000 is the city's 25% matching share (25% of $240,000 equals $60,000). The special revenue fund uses the cash advance to pay for some of the expenditures and the general fund loans the special revenue fund $50,000 to pay some of the expenditures.

To record working funds received from the general fund	
Cash	50,000
Due to General Fund	(50,000)

To record expenditures of the substance abuse program.	
Expenditures – substance abuse program	300,000
Cash	(300,000)

To recognize intergovernmental revenue equal to qualifying expenditures incurred	
Unearned revenue (liability)	240,000
Revenue – intergovernmental – federal substance abuse grant	(240,000)

Federal Revenue

Revenue recognition for federal revenue

- At September 30, the special revenue fund has not received reimbursement of the $400,000 from the federal grantor agency. The special revenue fund does not expect to receive the amount until January 2024. Therefore, the resources are not considered to be available.

To accrue intergovernmental accounts receivable and deferred inflows of resources equal to reimbursable expenditures incurred.	
Due from other governments	400,000
Deferred inflows of resources	(400,000)

Federal Revenue

Revenue recognition for federal revenue

- **Best practice: reconcile your schedule of expenditures of federal awards (SEFA) to intergovernmental revenue**
- **This should assist in recording grant accounts receivable and unearned revenue.**
- **Will also help detect if any grants were erroneously omitted from the SEFA.**

Self Insurance

- **Booking the claims liability at year-end**
- **Recording reinsurance receivables**

Self Insurance

Booking the claims liability at year-end

- Use your loss triangle to book your estimate
- Understand your claim lag
  - Healthcare – less than 3 months typically sufficient
  - Workers Comp – typically years
- Use loss triangle subsequent to year-end to best estimate losses

Self Insurance

Booking the claims liability at year-end

- **Assume you have an estimate of losses at June 30, 2023 on a heath insurance plan. Let's assume the following losses as of October 31, 2023. Also assume all losses prior to April 1, 2023 have been paid**

		Month Paid						
		4-23	5-23	6-23	7-23	8-23	9-23	10-23
Month Incurred	4-23	30,000	25,000	10,000	1,000	150	-	-
	5-23		50,000	15,000	2,500	500	100	-
	6-23			35,000	5,000	12,000	10,000	5,000
	7-23				18,000	11,000	6,000	500
	8-23					13,000	9,000	5,000
	9-23						29,000	7,000
	10-23							65,000

Self Insurance

Booking the claims liability at year-end

- **Looking at what was paid on claims incurred before June 30, 2023 subsequent to year end, the amounts highlighted below would be a minimum level of reserve as these were unpaid at year end. The total known reserve at June 30, 2023 would be $36,250.**

		Month Paid						
		4-23	5-23	6-23	7-23	8-23	9-23	10-23
Month Incurred	4-23	30,000	25,000	10,000	1,000	150	-	-
	5-23		50,000	15,000	2,500	500	100	-
	6-23			35,000	5,000	12,000	10,000	5,000
	7-23				18,000	11,000	6,000	500
	8-23					13,000	9,000	5,000
	9-23						29,000	7,000
	10-23							65,000

Self Insurance

Booking the claims liability at year-end

- Additionally, you would book any incurred but not reported estimates (IBNR) that should be calculated by a specialist.
- Let's assume you had an additional $100,000 in IBNR in an estimate in addition to the $36,250 of known claims reserves at year end.

To record recovery on claim loss	
Claims loss expense	136,250
Claims loss liability	(136,250)

Self Insurance

Recording reinsurance receivables

- **Reinsurance is the practice where one insurer cedes (transfers) all or part of its risk to another insurer (a reinsurer) for a premium. The legal rights of the insured, however, are not affected by the reinsurance transaction. The entity issuing the original insurance contract remains liable to the insured for the payment of all policy benefits.**

- **If governments are self-insured, they should have reinsurance otherwise, there may be a going concern issue if a catastrophic claim occurs.**

Self Insurance

Recording reinsurance receivables

- Assume that a City has a stop-loss policy with a reinsurer that kicks in once the paid losses exceed $100,000 and will reimburse on claims paid up to $1,000,000 with a year end of June 30, 2023. Next let's assume in December 2022, a claim occurred that had a projected claims loss of $175,000, of which, $75,000 has been paid leaving $100,000 in claims liability.

- Remember, a stop loss kicks in at $100,000, so $75,000 is going to be reimbursed on the claim, but is unpaid at year end.

Self Insurance

Recording reinsurance receivables

- **Netting Items**
  - **GASBS No. 62, paragraph 501, provides that assets and liabilities should not be offset in the statement of net position except where a right of offset exists. Nevertheless, GASBS No. 10, paragraph 37, provides that for reporting purposes the following items should be netted:**
    - **Unearned premiums from ceded contracts, with related premiums paid to, but not yet earned by, the reinsurer.**
    - **Receivables and payables from the same reinsurer, including amounts withheld.**
  - **GASBS No. 10, paragraph 37, also provides that pools may net the following items in the operating statement:**
    - **Reinsurance premiums paid and the related earned premiums.**
    - **Reinsurance recoveries on claims and incurred claims costs.**

Self Insurance

Recording reinsurance receivables

- First, let's record the loss.

To record loss on claim	
Claims loss expense	175,000
Claims loss liability	(100,000)
Cash	(75,000)

- Next, let's record the reinsurance claim
  - Recoverable paid claims should be reported as a receivable and as a reduction of expenses in the current period.
  - Recoverable unpaid claims should be deducted from claims loss liability, rather than reported as a receivable.

To record recovery on claim loss	
Claims loss liability	75,000
Claims loss expense	(75,000)

Component Unit Determination

- **What is a component unit?**
- **Determining whether an entity qualifies as a component unit**

Component Unit Determination

What is a component unit?

- A component unit is a legally separate organization for which the primary government is financially accountable.
- A component unit may be a governmental entity, a nonprofit corporation, or a for-profit corporation.
- Only its relation to the primary government is important in determining whether it is part of a governmental reporting entity.
- GASBS No. 39, Determining Whether Certain Organizations Are Component Units, amended GASBS No. 14. It provides guidance on when certain legally separate tax-exempt organizations for which the primary government is not financially accountable (often referred to as “affiliated organizations”) should, nonetheless, be included in a government's financial reporting entity.

Component Unit Determination

What is a component unit?

- GASBS No. 61 modifies the requirements for inclusion of component units in the financial reporting entity when there is fiscal dependence.
- An organization previously included based on meeting the fiscal dependency criterion would also need to have a financial benefit or burden relationship with the primary government for it to be included in the reporting entity as a component unit.
- Also requires that a government include as a component unit any other organization in which it has a majority equity interest for the purpose of directly facilitating government services

Component Unit Determination

Determining whether an entity qualifies as a component unit

- **There is a step by step process to determine whether you have an entity that qualifies as a component unit.**

- **For the purposes of this analysis, "PCU" stands for potential component unit and "PG" stands for primary government.**

Component Unit Determination

Determining whether an entity qualifies as a component unit

1. Does the PCU have separate corporate powers that would distinguish it as being legally separate from the PG?(GASBS No. 14, para. 15) –

   If yes, go to step 3, if no, go to step 2

- If all of the following questions are "Yes" then is legally separate.
  - Does the PCU have the capacity to have its own name?
  - Does the PCU have the right to sue and be sued in its own name without recourse to a state or local governmental unit?
  - Does the PCU have the right to buy, sell, lease, and mortgage property in its own name?
- If not legally separate, should be considered part of the PG that holds the corporate powers.

Component Unit Determination

Determining whether an entity qualifies as a component unit

2. Does the PG hold the corporate powers of the PCU? (GASBS No. 14, para. 14)
   - If yes, then part of PG but not a component unit
   - If no, then PCU is not a component unit

3. Does the PCU qualify as a PG? (GASBS No. 14, para. 20, footnote 4)
   - If yes, then then PCU is not a component unit
   - If no, then go to step 4

4. Does the PG hold a majority equity interest in the PCU? (GASBS No. 14, para. 55, as amended by GASBS No.61, para. 10, and GASBS No. 90, para. 7)
   - If yes, go to step 5
   - If no, go to step 6

Component Unit Determination

Determining whether an entity qualifies as a component unit

5. Does the majority equity interest in the PCU meet the definition of an investment as defined in GASBS No. 72, para. 64? (GASBS No. 90, para. 5)

- **If yes, then part of PG but not a component unit**
- **If no, then go to step 13**

- **GASBS No. 72, para. 64, defines an investment as a security or other asset that (1) a governmental unit holds primarily to generate income or profit and (2) has a present service capacity based solely on the asset's ability to generate cash or generate cash when sold.**
- **GASBS No. 90, para. 7, indicates that holding a majority equity interest in a legally separate organization that does not meet the definition of an investment results in the governmental unit being financially accountable for the organization.**

Component Unit Determination

Determining whether an entity qualifies as a component unit

6. Does the PG appoint a voting majority of the PCU's governing body? (GASBS No. 14, paras. 21–24, as amended by GASBS No. 61, para. 6a)

- **If yes, then go to step 7**
- **If no, then go to step 8**

- In the absence of continuing appointment authority, the ability of a PG to unilaterally abolish a PCU that it created also provides the basis for ongoing accountability. In this case, check "Yes" for this step.
- PG officials serving on the governing body of the PCU as required by law (and, thus, technically not appointed by the PG) are, for purposes of this test, treated as though they were appointed by the PG.
- Appointments by the PG include appointments made by
  - (1) any PG official(s)—whether elected or appointed,
  - (2) anyone to whom a PG official(s) has delegated appointment authority,
  - (3) an official(s) of a component unit of the PG, or
  - (4) votes taken by a group of which PG and/or PG component unit officials are a majority.
- If financial decisions require the approval of a simple majority, and the PG appoints a simple majority, the PG appoints a voting majority. On the other hand, if financial decisions require the approval of a two-thirds majority, the PG must appoint at least two-thirds of the voting members in order to appoint a voting majority.
- A PG's appointment authority should be substantive and not be limited by a nomination process.
- A PG is considered to be accountable for a PCU as long as continuing appointments are made by the PG, even if those appointments are made by a subsequent administration.

Component Unit Determination

Determining whether an entity qualifies as a component unit

7. Can the PG impose its will on the PCU by significantly influencing the program, projects, activities, or level of service performed by the PCU? (GASBS No. 14, paras. 25–26)

- **If yes, then go to Step 13**
- **If no, then go to step 9**

- **The existence of any one of the situations covered by the first five bullets clearly indicates that the PG has the ability to impose its will on the PCU. Other conditions, covered by the last bullet, may also indicate a similar ability.**
  - **Can the PG remove appointed members of the PCU's governing board at will?**
  - **Does the PG have the ability to modify or approve the budget of the PCU?**
  - **Does the PG have the ability to modify or approve rate or fee changes affecting revenues, such as water usage rate increases?**
  - **Does the PG have the ability to veto, overrule, or modify the decisions (other than those in the two preceding bullets) of the PCU's governing body?**
  - **Does the PG have the ability to appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations of the PCU?**
  - **Are there other conditions that indicate that the PG has the ability to impose its will on the PCU?**

Component Unit Determination

Determining whether an entity qualifies as a component unit

8. Is the PCU fiscally dependent on the PG? (GASBS No. 14, para. .21b, as amended by GASBS No. 61, para.6b–f)

- **If yes, then go to step 9**
- **If no, then go to step 10**

- **The PCU is fiscally dependent on the PG when the PG has substantive approval authority over any one or more of the following:**
  - **The PCU's budget. The PG has the authority to approve or modify that budget.**
  - **The PCU's tax levy or other rates or charges.**
  - **The PCU's issuance of bonded debt (if the PCU has the legal authority to issue bonded debt at all).**

Component Unit Determination

Determining whether an entity qualifies as a component unit

9. Does a financial benefit or burden exist? (GASBS No. 14, paras. 21, 27, and 34–38, as amended by GASBS No. 61, para. 6; GASBS No. 84, para. 7; and GASBS No. 97, para. 5).

- **If yes, then go to step 13**
- **If no, then go to step 10**

- **A PCU has a financial benefit or burden relationship with the PG if any one of the following is "Yes."**
  - **Is the PG legally entitled to or can it otherwise access the PCU's resources?**
  - **Is the PG legally obligated or has it otherwise assumed the obligation to finance the deficits of, or provide financial support to, the PCU?**
  - **Is the PG obligated in some manner for the debt of the PCU?**
  - **Is the PG legally obligated or has it otherwise assumed the obligation to make contributions to a PCU that is a defined benefit pension or OPEB plan administered through a trust and is within the scope of GASBS Nos. 67 or 74? (GASBS No. 84, paragraph 7, as amended by GASBS No. 97, paragraph 5)**

Component Unit Determination

Determining whether an entity qualifies as a component unit

10. Is the PG legally obligated or has it otherwise assumed the obligation to make contributions to the defined benefit pension or another postemployment benefit plan that is administered through a trust and is within the scope of GASBS Nos. 67 or 74? (GASBS No. 84, para. 7, as amended by GASBS No. 97).

- **If yes, then the PCU should be included in the financial reporting entity as a fiduciary CU**
- **If no, then go to step 11**

Component Unit Determination

Determining whether an entity qualifies as a component unit

11. Should the PCU be included in the reporting entity because of the nature and significance of its relationship with the PG? (GASBS No. 14, para. 40a, as amended by GASBS No. 39) (See the GASBS No. 39, para. 5, criteria in the practical considerations.)

- **If Yes, then this PCU should be included in the financial reporting entity and should be presented discretely.**
- **If No, then go to step 12**

- **The PCU should be included in the reporting entity if all of the following criteria established by GASBS No. 39, paragraph 5, are met:**
    - **Is the PCU a tax-exempt organization?**
    - **Are the economic resources received or held by the PCU held entirely, or almost entirely, for the direct benefit of the PG, its CUs, or its constituents?**
    - **Is the PG, or its CUs, entitled to, or does it have the ability to otherwise access, a majority of the economic resources received by the PCU?**
    - **Are the economic resources received or held by the PCU that the PG or its CUs is entitled to, or has the ability to otherwise access, significant to the PG?**

Component Unit Determination

Determining whether an entity qualifies as a component unit

12. In management's professional judgment, should this PCU be included in the reporting entity because, due to its close relation to, or financial integration with, the PG, its exclusion would render the financial statements misleading? (GASBS No. 14, para. 12, as amended by GASBS No. 61, paras. 4 and 5)
    - If Yes, then go to step 13.
    - If No, then the PCU is not a component unit.

13. Could the PCU be part of another financial reporting entity?
    - If Yes, then go to step 14
    - If No, then go to step 15

14. Has the accountant concluded that the PCU should be included in the financial statements of this reporting entity?
    - If Yes, then go to step 15
    - If No, then the PCU is not a component unit.

Component Unit Determination

Determining whether an entity qualifies as a component unit

15. Is the CU engaged in a fiduciary activity? (GASBS No. 14, para. 19, as amended by GASBS No. 84, para. 5

- **If Yes, then the PCU should be included in the financial reporting entity as a fiduciary CU.**
- **If No, then go to step 16.**

16. Is the CU's governing body substantively the same as the governing body of the PG? (GASBS No. 14,para.53a, as amended by GASBS No. 61, para. 8; and GASBS No. 85, para.4)

- **If Yes, then go to step 17**
- **If No, then go to step 19**

17. Does a financial benefit or burden relationship exist between the PG and the PCU? (GASBS No. 14, para. 53a,as amended by GASBS No. 61, para. 8; and GASBS No. 85, para. 4)

- **If Yes, then this PCU should be included in the financial reporting entity and should be presented as a blended entity.**
- **If No, then go to step 18**

Component Unit Determination

Determining whether an entity qualifies as a component unit

18. Does the operational responsibility for the CU rest with the management of the PG? (GASBS No. 14, para. 53a,as amended by GASBS No. 61, para. 8; and GASBS No. 85, para. 4)

- **If Yes, then this PCU should be included in the financial reporting entity and should be presented as a blended entity.**
- **If No, then go to step 19.**

19. Does the CU provide services entirely, or almost entirely, to the PG or otherwise exclusively, or almost exclusively, benefit the PG even though it does not provide services directly to it? (GASBS No. 14, para. 53b, as amended by GASBS No. 61, para. 8; and GASBS No. 85, para. 4)

- **If Yes, then this PCU should be included in the financial reporting entity and should be presented as a blended entity.**
- **If No, then go to step 20**

Component Unit Determination

Determining whether an entity qualifies as a component unit

20. Is the CU's debt, including leases, expected to be repaid entirely or almost entirely with the PG's resources?(GASBS No. 14, para. 53c, as amended by GASBS No. 61, para. 8; and GASBS No. 85, para. 4)

- **If Yes, then this PCU should be included in the financial reporting entity and should be presented as a blended entity.**
- **If No, then go to step 21.**

21. Is the CU organized as a not-for-profit corporation with the PG as the sole corporate member, as identified in the CU's articles of incorporation or bylaws? (GASBS No. 80, para. 5)

- **If Yes, then this PCU should be included in the financial reporting entity and should be presented as a blended entity.**
- **If No, then this PCU should be included in the financial reporting entity and should be presented discretely.**

Questions

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AUDIT RISK ASSESSMENTS, REVISITED

May 5th, 2023

Leader: Frank W. Crawford, CPA

Audit Risk Assessments, revisited (this time in plain English)

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Auditor Risk Assessments

- While risk assessment may seem boring, an inappropriate risk assessment will most likely lead to a substandard audit
- A substandard audit will most likely lead to trouble
- We hate trouble
- The risk assessment standards have been given a renewed focus through the AICPA's Enhanced Audit Quality Initiative, as well as through Peer Review

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Basic concept of auditor risk assessments

- You can't properly apply the risk assessment standards if you don't understand the audit risk model
- While many think they understand the model, the results of Peer Review, IG desk reviews, and other audit quality sampling projects say otherwise
- Now is the time to reinforce your understanding of each element of the model, and how the model is used in determining the nature, timing and extent of both the risk assessment auditing procedures and the further auditing procedures

Problems with risk assessment

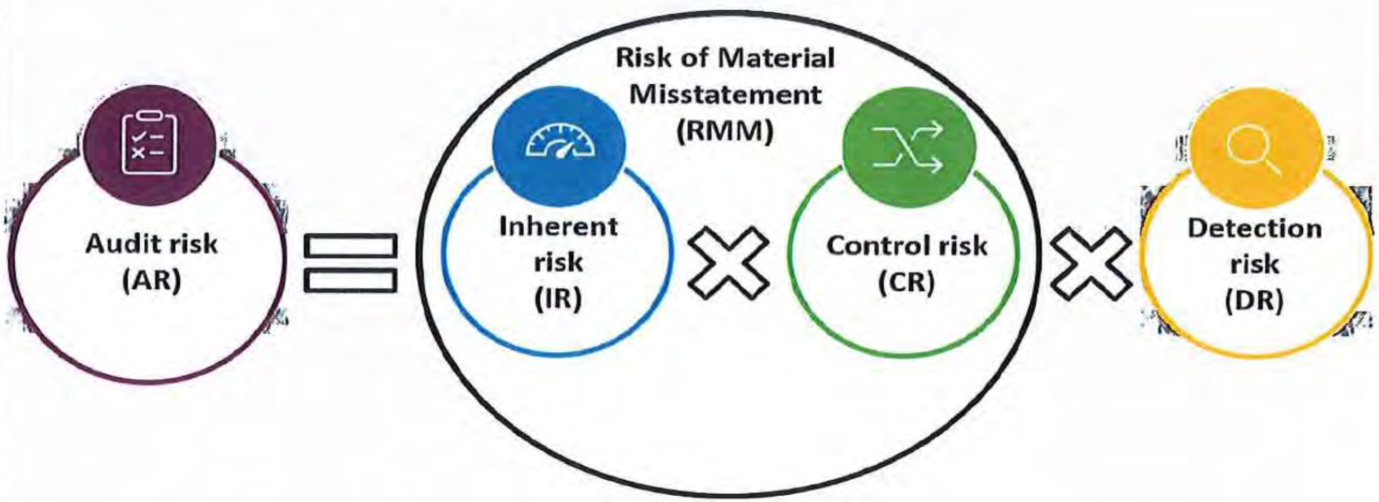
- Many firms still simply select auditing procedures from standardized audit programs with little or no thought of whether the procedures selected are responsive to the risks of material misstatement
- Other firms will have a basic or core set of procedures that they perform for each area, and additional procedures to choose from for additional assurance if needed, and then finally more procedures to choose from if there are additional risks

Problems with risk assessment

- While the previous slide's second bullet methodology isn't necessarily a bad thing, those illustrative audit procedures are no substitute for truly understanding the risks of material misstatement and using professional judgment to select and tailor procedures that are responsive to the risks AND which reduce audit risk to an acceptably low level

Audit Risk Model

The audit risk model is expressed as follows:



Audit risk is the risk that the firm will issue an unmodified report when, in fact, there is a material misstatement in the financial statements.

Inherent risk is the risk of material misstatement in an assertion, an account balance, or disclosure before consideration of any related controls.

Control risk is the risk that the entity's controls will not prevent or detect and correct a material misstatement.

Detection risk is the risk that the procedures performed by the auditor will not detect a misstatement that exists and that could be material.

As a reminder, auditors only affect detection risk since control and inherent risks are entity risks that exist independent of the audit and the auditor.

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Why do we care about the model?

- We care because of the “reasonable assurance” concept
- Reasonable assurance is considered a high level of assurance that the financial statements are free of material misstatement
- Reasonable assurance = sufficient appropriate audit evidence obtained has reduced the audit risk to an acceptably low level
- If you have no idea if audit risk has been reduced to an acceptably low level, then you can’t know that reasonable assurance has been obtained

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Applying the theory

- I know in practice, we don't use numbers or percentages for completing the model, but humor me for a bit
  - Let's assume that the auditor is willing to live with a 3% AR, which means that we're okay with a 3% risk that the financial statements are materially misstated
  - Let's further assume we will not rely on controls and that we assess control risk at 100% (some really small governments don't have very good controls, right?) and let's assume inherent risk is 50%
  - So, what's the result if you perform all the *basic audit procedures* from the basket of illustrative audit procedures in your methodology and those procedures would detect 85% of all material misstatements (leaving a15% DR)?

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AR = (IR x CR) x DR

$? = (50\% \times 100\%) \times 15\%$

$7.5\% = (50\% \times 100\%) \times 15\%$

or, in other words

Audit Risk is 7.5%

What was the target? (we wanted 3%)

Are we close?

No, we are not close, and we are in big trouble because we have severely under-audited, and we haven't reached reasonable assurance yet

So now what do we do?

- We immediately go and perform several additional procedures from your illustrative list of *additional* procedures and we get DR (which was at 15%) down to 10%? You're good now, right?

$AR = (IR \times CR) \times DR$

$$? = (50\% \times 100\%) \times 10\%$$

$$5\% = (50\% \times 100\%) \times 10\%$$

or, in other words

Audit Risk is now 5%

What was the target? (we wanted 3%)

Are we close enough yet?

No, and we are still in trouble because we have under-audited, and we haven't reached reasonable assurance yet

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So now what do we do?

- We immediately go and perform several additional procedures from your illustrative list of *additional* procedures and we get DR (which was at 15%) down to 10%? You're good now, right?
- Not until you've reduced DR to around 6% in this scenario will you have reduced audit risk to the acceptably low level that we set of 3% in order to have obtained reasonable assurance

So now what do we do?

- We go back to our bag of tricks and pull out a few more procedures in response to our risk of material misstatement and attempt to get the DR down to 6% (which in our risk scenario is the only way to get AR down to 3%)

AR = (IR x CR) x DR

? = (50% x100%) x 6%

3% = (50% x 100%) x 6%

or, in other words

Audit Risk is now 3%

- What was the target? (we wanted 3%)
- Are we close enough yet? YES
- We have finally reached our target? YES, but in order to get here I had to really work not only my basic procedures, but several other additional procedures in response to the risk.

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So what does this simple example teach us?

- You better have some sense of audit risk (AR) you're willing to accept or the target that you're shooting for
- The auditor's assessment of CR and IR is pretty darn important in planning the nature, timing, and extent of further audit procedures, which is a direct derivative of the auditor understanding the entity and the environment that the entity operates in, and gaining an understanding of the entity's internal controls
- Thinking about the mix of auditing procedures that are contained in audit methodology and understanding how each group or level of procedures reduces detection risk is essential
- Near the end of any audit engagement we should step back and ask the important question – do the procedures performed and the evidence obtained reduce audit risk to an acceptably low level or is more work needed?

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Another way to look at it

AR = (IR x CR) x DR

Can the following equation work?

L = (L x H) x H

Yes, but how does it work?

It works because the font sizes are different!

L = (L x H) x H

L = L x H

A few thoughts…

- Understanding how the audit risk model works and how to use that theory when designing and selecting auditing procedures that are responsive to the risks of material misstatement trumps merely filling out a checklist
- As we plan upcoming audits, we need to ensure that every member of the engagement team understands the importance of RMM (or what can go wrong) and that professional judgment and professional skepticism is used to challenge whether sufficient appropriate audit evidence is being obtained to reduce audit risk to an acceptably low level

New SAS 145 on Risk Assessment

- Technically titled "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement"

New SAS 145 on Risk Assessment

- This SAS's goal was to enhance the auditing standards relating to the auditor's risk assessment and intends to enable auditors to appropriately address the following:
  - a. Understanding the entity's system of internal control, in particular, relating to the auditor's work effort to obtain the necessary understanding
  - b. Modernizing the standard in relation to IT considerations, including addressing risks arising from entity's use of IT
  - c. Determining risks of material misstatements, including *significant risks* (new definition)
- SAS will be effective for audits of financial statements for periods ending on or after December 15, 2023.

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Big changes or little changes?

- The ASB did not seek to fundamentally change the key concepts underpinning audit risk as the ASB continues to have the view that the audit risk model is fundamentally sound.
- Rather, the ASB focused on how certain aspects of the identification and assessment of the risks of material misstatement can be clarified and improved in order to drive better risk assessments and, therefore, enhance audit quality.

Public Interest Issues Addressed in the Proposed SAS

- Scalability
- Modernizing and Updating AU-C Section 315 for an Evolving Business Environment
- Automated Tools and Techniques
- Information Technology
- Fostering Independence of Mind and Professional Skepticism
- The Auditor's Considerations Relating to Fraud

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Understanding the Entity and Its Environment

- Focusing on the Applicable Financial Reporting Framework in Identifying Risks of Material Misstatement

Understanding the Entity's System of Internal Control

- Terms Used to Describe Aspects of the Entity's System of Internal Control
- Understanding Internal Control Through Understanding the Five Components of Internal Control
- Work Effort for Understanding Each of the Components of Internal Control
- Controls That Address the Risks of Material Misstatement
- Enhanced Guidance Related to IT
- Other Matters Relevant to Understanding the Entity's System of Internal Control

Identifying and Assessing the Risks of Material Misstatement

- Identifying and Assessing the Risks of Material Misstatement
  - Spectrum of Inherent Risk (fancy name for our font size example); the word “spectrum” is used 38 times in this SAS, so they must think it’s a big deal
- Relationship of Concepts With AU-C Section 540
- Significant Risks
- Identified and Assessed Risks of Material Misstatement at the Financial Statement Level
- Stand-Back and Paragraph .18 of AU-C section 330

Stand Back requirement

- A new "stand-back" requirement intended to drive an evaluation of the completeness of the auditor's identification of significant classes of transactions, account balances, and disclosures (see paragraph 5.41)

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What's a significant class of transactions, account balance or disclosure?

- A class of transactions, account balance, or disclosure for which there is one or more *relevant* assertions.
  - What does relevant mean?
    - An assertion about a class of transactions, account balance, or disclosure is relevant when it has an identified risk of *material* misstatement.
    - A risk of material misstatement exists when (a) there is a reasonable possibility of a misstatement occurring (that is, its likelihood), and (b) if it were to occur, there is a reasonable possibility of the misstatement being material (that is, its magnitude).

Conforming amendment

- A conforming amendment to perform substantive procedures for each relevant assertion of each significant class of transactions, account balance, and disclosure, regardless of the assessed level of control risk (rather than for all relevant assertions related to each material class of transactions, account balance, and disclosure, irrespective of the assessed risks of material misstatement, as previously required)

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Significant risks

An identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur, or that is to be treated as a significant risk in accordance with the requirements of other AU-C sections

Audit Documentation

- Documentation of key matters
- Rationale for the significant judgments made in identifying and assessing the risks of material misstatement
- *Requires* that the auditor assess inherent risk and control risk separately

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Questions?

PANEL Q & A

May 5th, 2023

Materials for this course are currently unavailable.
Please check back later for updates.