



STATE OF MAINE CONTROLLER TRAINING

Day 1 | September 14, 2020

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PRESENTER



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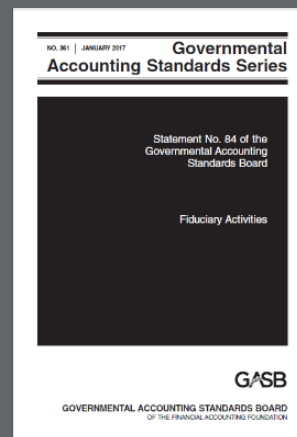
GASB-84 AND 97 – HOUSTON... WE HAVE A PROBLEM... ALSO KNOWN AS...

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THE SLEEPING GIANT – GASB- 84

**AMENDS GASB *CODIFICATION*
SECTION 1300**



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“Problems have solutions... conditions do not...”
William J. Kilmartin –
Massachusetts State
Comptroller 1989-1999



*GASB-84 and 97 –
definitely a problem that has
potentially multiple solutions...*

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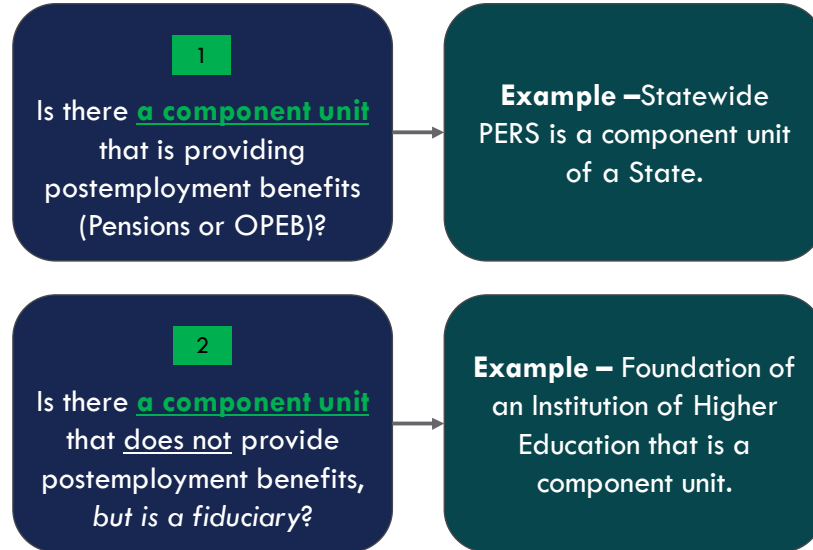
REMINDER - FIDUCIARY ACTIVITIES *MAY BE*



- Fiduciary **Component Units** (AKA Component Units that are Fiduciary in Nature):
 - Pensions;
 - OPEB;
 - Investment Pools;
 - Foundations.
- Pension and OPEB Arrangements that are **NOT component units**.
- Other Fiduciary Activities:
 - Private Purpose Trusts;
 - Agency Funds.

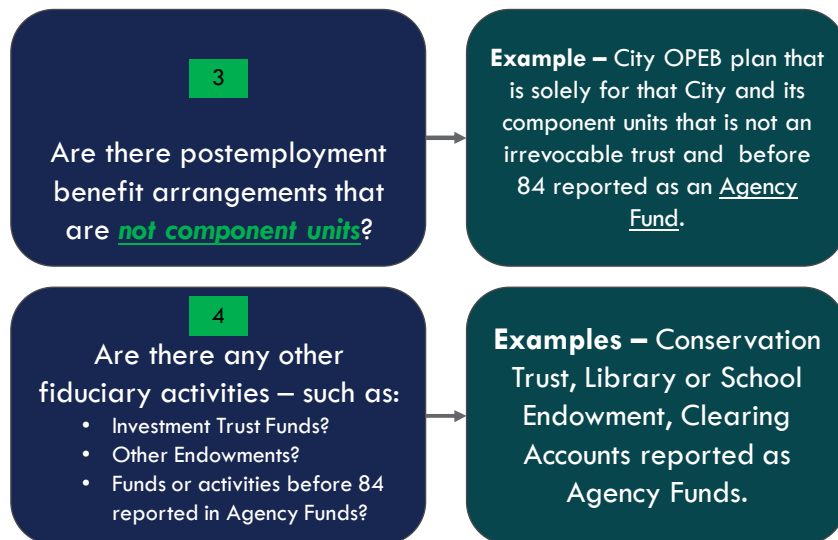
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FOUR KEYS TO DETERMINING WHEN ASSETS SHOULD BE REPORTED IN A FIDUCIARY FUND



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FOUR KEYS TO DETERMINING WHEN ASSETS SHOULD BE REPORTED IN A FIDUCIARY FUND



If yes to any of these, you might have a Fiduciary Activity...Maybe...

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WHAT ABOUT FIDUCIARY ACTIVITIES AND COMPONENT UNITS?

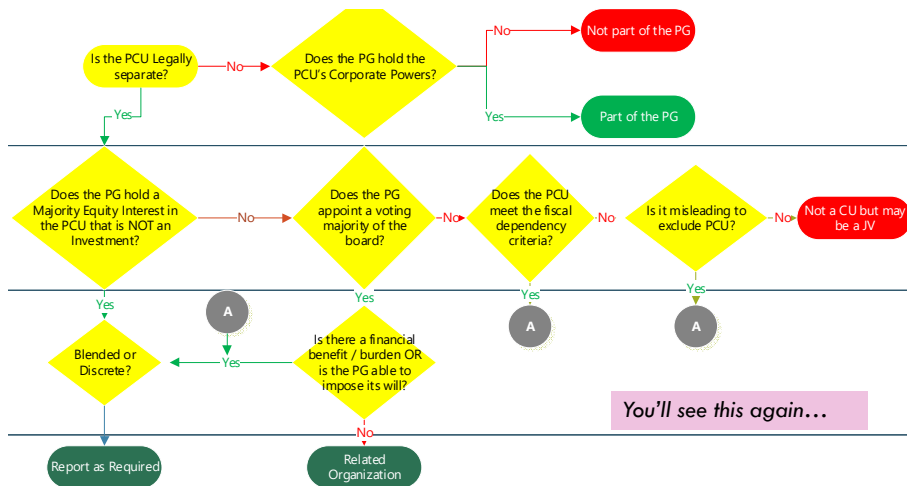
- GASB-84, par. 7 added a clarification – may be overlooked in the implementation process:
 - **Generally**, pension and OPEB plans administered in irrevocable trusts **are legally separate entities**.
 - A primary government is considered to have a financial burden if it is **legally obligated (or otherwise assumed the obligation)** to make contributions to the plan.

Hold that thought folks...



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WHEN DOES A COMPONENT UNIT RELATIONSHIP EXIST UP TO GASB-90 (INCLUDING GASB-84, PAR. 7)?



You'll see this again...

Flowchart to GASB-90
 PG = Primary Government
 PCU = Potential Component Unit



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WELL... THERE'S A PROBLEM WITH GASB-84, PAR. 7

- In many component units that are fiduciary in nature
 - **There is legal separation**
 - Majority equity interest tests do not apply
 - The next test – does the primary government appoint a voting majority of the board?
 - **But wait – there is no board!**
 - **We can't answer that question...**
 - **HELP!**



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**AND THEN
ALONG
COMES
GASB-
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

an amendment of GASB Statements No. 14
and No. 84, and a supersession of GASB
Statement No. 32



Governmental Accounting Standards Board
of the Financial Accounting Foundation

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GASB-97 ADDS...

To determine financial accountability for a **PCU** with **MAJOR EXCEPTIONS**

- If the primary government performs the duties that a governing board performs – absence of the board **is the same as appointing a voting majority**

But what are the exceptions? **Do not do this test** if the PCU is

- Defined contribution pension plans
- Defined contribution OPEB plans
- Or **an other employee benefit plan such as certain Internal Revenue Code Section 457 plans**
 - Keep in mind the word 'certain'

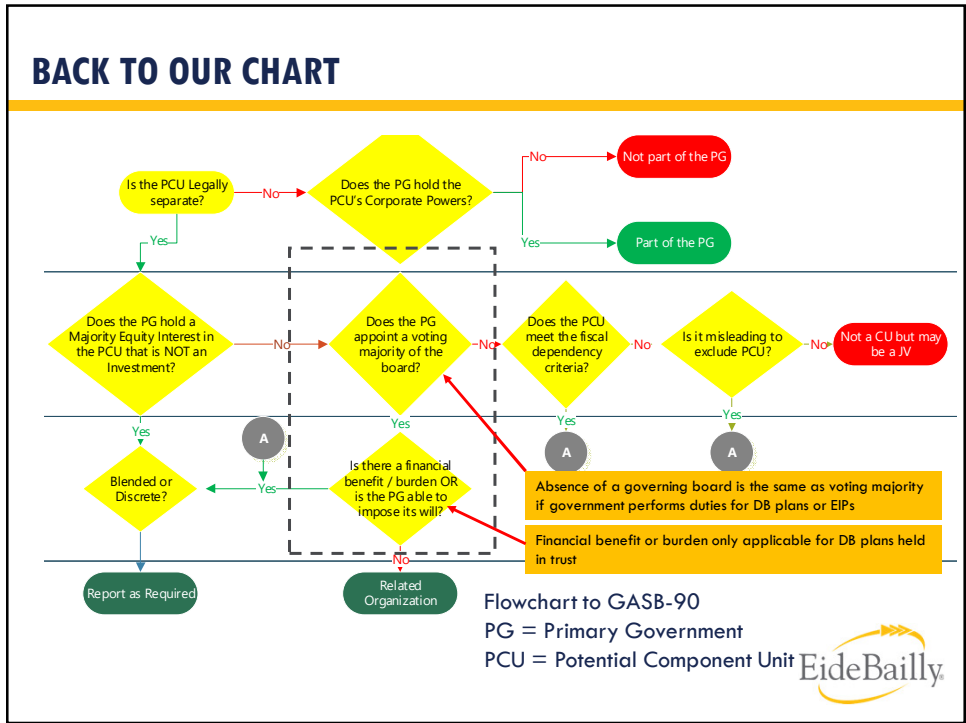
14

GASB-97 ADDS..

- What's left?
 - Defined benefit plans (pension and OPEB)
 - External investment pools
 - Other non-pension / OPEB PCUs
- Remember – must be a potential component unit first:
 - If not a potential component unit, then use GASB-84.
- But there's a further change! Even if a PCU, then the decision tree also changes **only for PCUs that would be a fiduciary activity.**
- The **financial burden decision is only applicable to defined benefit pension and OPEB plans administered through trusts.**



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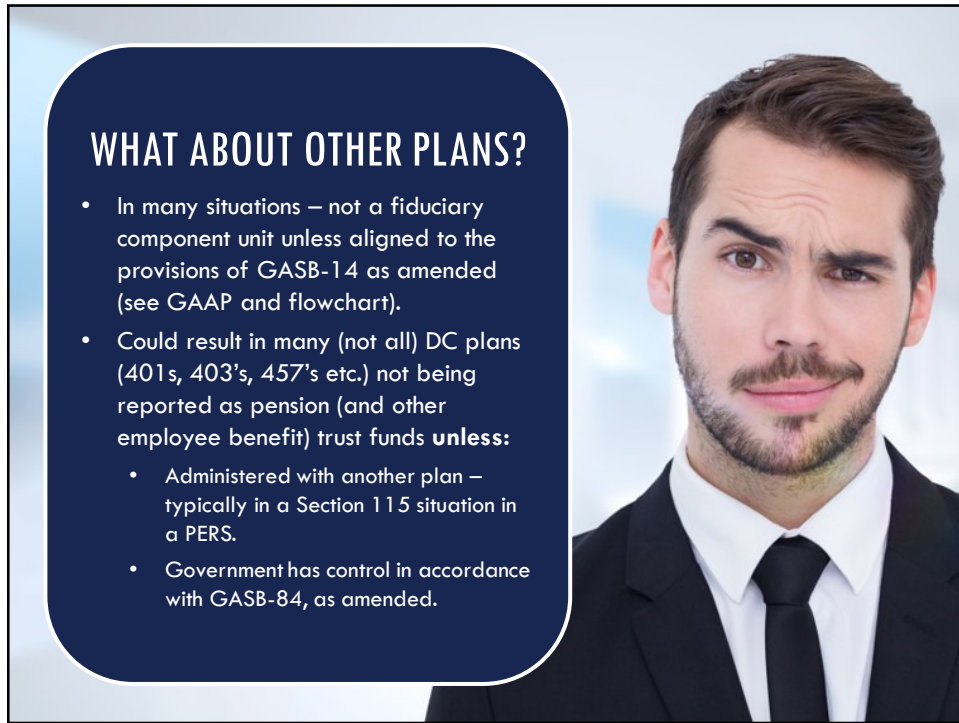


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REMINDER ON TRUSTS (GASB-67 PAR. 3 - PENSIONS AND GASB-74, PAR. 3 - OPEB)

- Contributions **MUST BE IRREVOCABLE**
- Assets **MUST BE DEDICATED TO PROVIDING BENEFITS**
- Assets **MUST BE LEGALLY PROTECTED FROM CREDITORS**
- **Without all 3 – no trust, but still may be a fiduciary activity**

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WHAT ABOUT OTHER PLANS?

- In many situations – not a fiduciary component unit unless aligned to the provisions of GASB-14 as amended (see GAAP and flowchart).
- Could result in many (not all) DC plans (401s, 403's, 457's etc.) not being reported as pension (and other employee benefit) trust funds **unless**:
 - Administered with another plan – typically in a Section 115 situation in a PERS.
 - Government has control in accordance with GASB-84, as amended.

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BACK TO GASB-84

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THE LAST OF OUR FOUR KEYS TO DETERMINING WHEN ASSETS SHOULD BE REPORTED IN A FIDUCIARY FUND

3

Are there postemployment benefit arrangements that are not component units?

Example – City OPEB plan that is solely for that City and its component units that is not an irrevocable trust and before 84 reported as an Agency Fund.

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Are there any other fiduciary activities – such as:

- Investment Trust Funds?
- Other Endowments?
- Funds or activities before 84 reported in Agency Funds?


Examples – Conservation Trust, Library or School Endowment, Clearing Accounts reported as Agency Funds.

If yes to any of these, you might have a Fiduciary Activity...Maybe...


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BEYOND COMPONENT UNITS

- Pension and OPEB arrangements that are not component units may still be fiduciary activities if
 - The government **controls** the assets and they are:
 - A pension plan administered through a trust (see the trust slide a few back) (could be a DB or DC), or
 - An OPEB plan administered through a trust (see the trust slide a few back) (could be a DB or DC)
 - A multiple-employer plan in which assets are held from entities outside the government's reporting entity for pensions or OPEB and without a trust – will now be reported in a custodial fund
- What are those multiple-employer plans?
 - **Example** – Group of governments form a DB retiree healthcare plan.
 - One government holds the assets
 - Plan is not in a trust
 - Not a component unit
 - Reporting:
 - Would be a fiduciary activity for other governments
 - Amounts that pertain to the government in control would be part of governmental or proprietary fund financial statements



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WHY IS CONTROL IMPORTANT — OTHER FIDUCIARY ACTIVITIES

- All other activities are fiduciary if **all three of the following are met**:
 1. The government **controls the assets**.
 2. Those particular assets are **not** derived either:
 - Solely from the government's own-source revenues, or
 - From government mandated nonexchange transactions (typically taxes) or voluntary nonexchange transactions (typically grants) except for pass-through grants *and* for which the government has no administrative or direct financial involvement.
 3. **Any of the items on the following slide are met.**

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WHY IS CONTROL IMPORTANT – OTHER FIDUCIARY ACTIVITIES

3. Any of these three are met:

Criteria	Examples
The assets are administered through a trust agreement (or equivalent) where <ul style="list-style-type: none"> • The government itself is not a beneficiary • The assets are dedicated to provide benefits to recipients in accordance with benefit terms • The assets are legally protected from creditors of the government OR 	Most defined benefit or defined contribution plans
The assets benefit individuals and the government does not have administrative or direct financial involvement with the assets, and they are not derived from providing goods / services to those individuals OR	Some (not all) student activity funds (CAUTION: In many situations, SAFs are subject to administrative or direct financial involvement)*
The assets are for the benefit of organizations or other governments that are not part of the financial reporting entity and are not derived from providing goods / services to those organizations / governments	Funds raised by students for nonprofit organizations for disaster relief

*Questions 4.16 – 4.26 in GASB Fiduciary IG 2019-2 clarify administrative involvement and direct financial involvement.

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REMINDER - ADMINISTRATIVE INVOLVEMENT VS. DIRECT FINANCIAL INVOLVEMENT

Administrative Involvement Could Be:

- Monitoring compliance - (Sub-recipient relationship).
- Determining eligible expenditures (Sub-recipient relationship).
- Having the ability to exercise discretion in how assets are allocated.

Direct Financial Involvement Could Be:

- Providing matching resources for the activities.
- When liable for disallowed costs (or the sub-recipient through the pass-through-entity).



Remember – all organizations different on this! Be careful!



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WHERE DOES CONTROL, DIRECT FINANCIAL INVOLVEMENT AND ADMINISTRATIVE INVOLVEMENT GET SQUISHY?

Scholarship funds

Pass-throughs to not-for-profits

Student activity funds

PTOs / PTAs / Alumni clubs

Student club funds

Payroll withholding (important issue)

Many other activities

Some may be fiduciary, others not

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CONTROL VS. NO CONTROL – IT DEPENDS...

County Investment Management	Defined Contribution Plan
County auditor / controller holds assets for the benefit of municipalities not in a trust. Each government has their own account. When asked by municipalities, funds are sent.	Municipal Government has a DC plan that is not a component unit, but administered through a trust in accordance with GASB-67 (or 74 for OPEB). Assets are held by a third party administrator. Municipality establishes a slate of investments, but participants make their own decisions.
County has control – also not own-source revenues and not derived from grant / tax transactions	Municipality – Might not have control
Funds are not administered through a trust	Funds administered through a trust
Municipalities are not in reporting entity	Funds held for participants in plan
Likely Fiduciary Activity (Custodial Fund)	Depends on the ability of participants to choose investments – if they have choice – not a fiduciary activity

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OWN-SOURCE REVENUES – YES OR NO?

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OWN-SOURCE REVENUES – YES OR NO?

Facts	Own-Source	Fiduciary or Not Fiduciary?
City custodian of cash collected charged by cemetery association which is not a component unit but held in trust – cemetery board establishes how funds can be spent	No – not of the City	Fiduciary – City is Custodian
Inmate accounts at the jail – earnings from jobs at the jail and deposits from families can be used at the commissary. Warden has no control over spending.	No – not of the jail.	Fiduciary – government is holding the inmate accounts
Seized property from suspects that may have been involved in a crime. Cash is deposited in government's name, but can't be spent until judgment is rendered. If found guilty, assets forfeited.	No – not of the government.	Fiduciary – cash is being held in custody until the verdict is rendered. If forfeited, then released to the government(s) (depending on court order).
Annual license fee to businesses that is shared with a state.	Yes – the levying government has own fee and the portion remitted to the state is own-source revenue.	No – likely governmental or business-type.
529 Prepaid Tuition plan where parents purchase tuition credits	Yes – State is providing a product / service for a fee.	No – likely a governmental or business-type

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SO WHAT ABOUT STUDENT ACTIVITY FUNDS (SAFS) AND OTHER ACTIVITIES?

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IMPLEMENTATION GUIDE
QUESTIONS ON SAFs

4.16:


- Chess Club in High School is established per school policy.
- Not legally separate from school
- Club organizes and fundraises to pay for tournament and other activities
- Proceeds are held in club bank account at school
- Club is not legally separate – apply GASB-84

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IMPLEMENTATION GUIDE
QUESTIONS ON SAFs

4.26:

- School district matches all club funds when a disbursement is approved
- Direct financial involvement of the school with the clubs



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IMPLEMENTATION GUIDE QUESTIONS ON SAFs

4.28:

- Students raise funds for disaster relief not for profit.
- NFP is legally separate
- Proceeds are held in a school bank account restricted for disbursement to NFP.
- **Assets are for the benefit of separate organization – fiduciary activity**



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IMPLEMENTATION GUIDE QUESTIONS ON SAFs

4.32:

- Touchdown club is legally separate 501(c)(3)
- Club has own board of parents of players and supporters
- Club is not a component unit
- Funds are not held by the school district
- **No control by the school district – not a fiduciary activity**



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MANY IG QUESTIONS IN ONE PLACE

FACTS	FIDUCIARY? (YES / NO)
Payroll deductions and similar	NO
Construction / fidelity deposits / Retainage	NO
Pass-through property taxation between governments	YES
Fees charged to individuals / other organizations to manage fiduciary activities	NO



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**AGENCY FUNDS DO
NOT EQUAL
CUSTODIAL FUNDS**

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WHAT ARE CUSTODIAL FUNDS?

SOME (but not all) Current Agency Funds, but **be careful**

Assets in Custodial Funds WILL NOT EQUAL liabilities.

Custodial Funds Will Include:

- Fiduciary Activities not held in trust.
- External portions of investment pools not held in trust (report in separate column from all other agency funds) (WILL BE RARE OCCURRENCE).
- For Business-Type Activities ONLY:
 - Will report fiduciary activities held for more than 3 months;
 - Held 3 months or less, report as assets, liabilities, inflows and outflows in the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows.

Custodial Fund Reporting will include:

- Statement of Fiduciary Net Position;
- Statement of Changes in Fiduciary Net Position (just like other Fiduciary Activities).

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COMMON ISSUES IN CUSTODIAL FUNDS

Transition to GASB-84 requires retroactive restatement for all prior periods presented

- If restatement not *practicable* – cumulative effect is reported as a restatement of beginning net position (or fund balance / fund net position) for the earliest period presented.

Problem 1: What are the beginning liability balances for the custodial funds?

- Potential adjustments from fiduciary activities to governmental activities of large payable amounts may trigger a major fund:
 - Could be a change in auditor's opinion units.

Problem 2: Are we including only the activities prescribed in GASB-84 as custodial in those funds?

Problem 3: Can our reporting systems present a statement of changes in fiduciary net position for those funds?

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KEY QUESTION ON CUSTODIAL FUNDS IN IMPLEMENTATION GUIDE

A government uses a clearing account to accumulate resources from withholding of employee payroll deductions and accrued employer payroll taxes that will be submitted to the appropriate taxing bodies when due. Should the government report the clearing account in its fiduciary fund financial statements?

- **ANSWER – NO!!!** Government has control, has custody, but unremitted amounts are LIABILITIES OF THE GOVERNMENT. Therefore, government is the beneficiary.
- **IMPACT – HUGE.** Most agency fund activity are through payroll withholding for many governments. Now will be payables of fund where withholding generated.
 - Will need to reconcile for beginning balance adjustment as may transfer from fiduciary to governmental / proprietary activity
 - Could make a nonmajor fund a major fund
 - **DEFINITELY A SLEEPING GIANT!**



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OTHER FUN STUFF — REPORTING — NOT MUCH CHANGING OTHER THAN AGENCY FUNDS

Present additions disaggregated by source and, if applicable, separately display investment income and investment costs.

Present deductions disaggregated by type and, if applicable, separately display administrative costs.

Applies to statement of changes in fiduciary net position for all fiduciary funds except custodial funds held for three months or less:

- For these custodial funds, governments would be allowed to report total additions and total deductions in the aggregate, as long as the descriptions of the totals are sufficient to indicate the nature of the resource flows.



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OTHER FUN STUFF...

Liabilities would be recognized in fiduciary funds when an event has occurred that compels the government to disburse fiduciary resources.

- No further action would be needed to pay a beneficiary that is entitled to receive the resources:
 - **Example** – state government collects taxes on behalf of other governments but must make transfers to other governments within 5 days – liability would be declared upon collection.
 - **Example** – Pension plan beneficiary that qualifies as a fiduciary fund (many may not be) when an eligible retiree is eligible for a monthly payment.
 - Current payment due would be a liability.

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Government ABC Statement of Fiduciary Net Position Fiduciary Funds June 30, 20X2 (in thousands)				
	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Custodial Funds
ASSETS				
Cash and cash equivalents	\$ 184,351	\$ 840,693	\$ 104,747	\$ 58,196
Receivables:				
Employee	2,123	—	—	—
Employer	83,004	—	—	—
Taxes for other governments	—	—	—	206,937
Interest and dividends	176,402	12,168	—	—
Sale of investments	30,879	—	—	—
Total receivables	291,408	12,168	—	206,937
Investments at fair value:				
Short-term investments	2,268,960	241,645	61,591	—
Bonds, notes, mortgages, and preferred stock	14,115,391	804,576	187,850	—
Common stock	20,342,440	—	520,196	—
Real estate	3,408,145	—	—	—
International investments	1,723,951	—	—	—
Mutual funds	72,315	178,046	—	—
Pooled investment funds	23,128	—	—	—
Total investments	41,954,330	1,224,267	769,437	—
Securities lending collateral	1,746,544	—	—	—
Other assets	13,519	181	61,157	361
Total assets	44,190,152	2,077,307	955,341	265,494
LIABILITIES				
Accounts payable and other liabilities	130,846	1,381	61,447	1,451
Due to local governments	—	—	—	164,201
Obligations under securities lending	1,346,544	—	—	—
Other long-term liabilities	1,617	—	7,870	—
Total liabilities	1,479,007	1,381	69,317	165,652
NET POSITION				
Restricted for:				
Pensions	29,897,802	—	—	—
Postemployment benefits other than pensions	12,813,343	—	—	—
Pool participants	—	2,075,946	—	—
Individuals, organizations, and other governments	—	—	869,024	99,842
Total net position	\$ 42,711,145	\$ 2,075,946	\$ 869,024	\$ 99,842



*Similar except for
Custodial Funds*




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Government ABC Statement of Changes in Fiduciary Net Position Fiduciary Funds for the Year Ended June 30, 20X2 (in thousands)				
	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Custodial Funds
ADDITIONS				
Contributions:				
Members	\$ 297,846	\$ —	\$ —	\$ —
Employers	1,299,384	—	—	—
Other plans	148,792	—	—	—
Gifts and bequests	—	—	187,258	—
Total contributions	1,706,022	—	187,258	—
Investment earnings:				
Net increase in fair value of investments	1,852,408	64,663	33,702	—
Interest, dividends, and other	1,416,448	58,465	30,378	—
Securities lending income	75,075	—	—	—
Total investment earnings	3,344,931	123,128	64,080	—
Less investment costs:				
Investment activity costs	32,281	50,236	63	—
Securities lending costs	73,642	—	—	—
Net investment earnings	3,239,008	72,892	64,017	—
Capital share and individual account transactions:				
Shares sold	—	2,817,210	—	—
Reinvested distributions	—	72,892	—	—
Shares redeemed	—	(2,778,943)	—	—
Net capital share and individual account transactions	—	113,259	—	—
Sales tax collections for other governments	—	—	—	1,811,120
Miscellaneous	1,130	—	—	1,468
Total additions	4,946,160	166,151	261,275	1,812,588
DEDUCTIONS				
Benefits paid to participants or beneficiaries	1,963,047	—	—	—
Medical, dental, and life insurance for retirees	535,027	—	—	—
Refunds and transfers to other systems	170,514	—	—	—
Administrative expense	19,920	—	43	293
Beneficiary payments to individuals	—	—	211,179	—
Payments of sales tax to other governments	—	—	—	1,811,120
Distributions to shareholders	—	72,892	—	—
Total deductions	2,688,508	72,892	211,222	1,811,413
Net increase (decrease) in fiduciary net position	2,256,652	113,259	50,053	1,175
Net position—beginning	40,454,493	1,962,687	635,971	88,667
Net position—ending	\$ 40,454,493	\$ 1,962,687	\$ 635,971	\$ 89,842




*Similar except for
Custodial Funds
and investment
earnings and costs*





REPORTING 457 PLANS AND GASB-97



REPORTING 457 PLANS AND GASB-97

- Problem with existing 457 plans – technically, they are **Deferred Compensation Plans**:
 - Many just consist of employee withholding.
 - Many believe they are pension plans.
 - Many believe they are not pension plans.
- Chaos has reigned since GASB-32 in the late 1990's.

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REPORTING 457 PLANS AND GASB-97

- GASB-97 clarification:
 - If the 457 plan meets the definition of a pension plan – report as a pension plan:
 - Definition per GASB-67 - **Arrangements through which pensions are determined, assets dedicated for pensions are accumulated and managed, and benefits are paid as they come due.**
 - Report based on GASB-68 including if in the financial statements of another government or standalone:
 - Financial statements of another government could be within a PERS.
 - Could be a DC plan (or DB plan – rare).
 - If not a pension plan – an other employee benefit plan – apply GASB-84:
 - May result in no reporting!



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AMENDMENTS TO GASB-84 REPORTING YOU MAY HAVE MISSED


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GASB-92 AMENDED 84

- Governments that report fiduciary activity for assets accumulated to provide pensions / OPEB in DB plans **not** administered through trusts?
 - Apply GASB-84, presenting of a liability provisions.
 - **Result** – could be a liability for benefit payments due but unpaid (but not total pension / OPEB liability):
 - Liability would be to the beneficiary (-ies) or employer(s).
- **If DC plans reported as a fiduciary activity (see 97!):**
 - Report using GASB-84's format and content as appropriate.



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NOW – IMPLEMENTING GASB-84 AND 97


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IMPLEMENTATION

- GASB-84 originally required to be implemented for reporting periods beginning after December 15, 2018 – **now 1 year later** (GASB-95):
 - December 31 governments – this year – January 1, 2020
 - June 30 governments – this year – July 1, 2020
- What about GASB-97? – Multiple Dates

Elements	Dates
Component Unit Determination	NOW - Immediately
457 Plans	Reporting Periods beginning after June 15, 2021 – (July 1, 2021 or January 1, 2022)
Questions 4.3 and 4.5 in GASBIG 2019-2 suspended earlier this year	Reinstated – implemented the same time as GASB-84, as adjusted
GASB-32 superseding	When 457 Plan provisions implemented, (could be early)
457 Plan is a DB Plan (rare)	Use transition provisions to GASB-67, 68, 71, 73 – could involve an actuarial valuation – why delayed implementation date!

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IMPLEMENTATION

- What if your government implemented already?
 - Check to see if restatement required, especially due to GASB-97.
- Implement GASB-97 early?
 - If it relaxes reporting requirements – YES:
 - Beneficial with DC pension / OPEB plans or other employee benefit plans!
 - Be careful, especially with a 457 plan – implement the whole statement not piecemeal.

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HOW TO IMPLEMENT??

Gather Information

- Review existing fiduciary activities (and potentially, other activities) for potential changes
- Pull related laws, regulations, trust agreements for reference

Compare each activity against

- GASB-84
- Governmental Fund Provisions in Other Standards
- Enterprise / Proprietary Fund Provisions in Other Standards
- Component Unit Standards

Consider

- Laws / regulations (especially student activity funds)
- Defined contribution as well as 403(b), 401(a), 457 plans and similar, especially with employer match / contributions – **caution – they could change, especially due to GASB-97**
- Trust agreements / similar
- Gather information on revenue sources / uses

DOCUMENT IT – consistent forms a good idea


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HOW TO DOCUMENT

- Consider a simple spreadsheet / database with documented decisions with the following fields:
 - Name of activity and account information (don't forget bank accounts)
 - Determination if a component unit **OR** if *not* a component unit, answer yes or no if the activity is controlled by the government **AND**
 - Determination if the assets are *not* derived solely from the government's own source revenue or government mandated nonexchange or voluntary nonexchange flows **AND**
- All 3 of the asset criteria from GASB-67 / 74 **OR**
- The assets are for the benefit of **individuals** and the government does *not* have administrative involvement or direct financial involvement **AND** the assets are not derived from providing goods / services to those individuals **OR**
- The assets are for the benefit of **organizations** or other governments that are *not* part of the financial reporting entity **AND** the assets are not derived from providing goods / services to those organizations?
- Conclusion made
- Review / signoffs



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A close-up photograph of a hand holding a pen, writing on a document with a grid pattern. The document appears to be a checklist or a form with several rows and columns, some containing small square checkboxes.

APPLYING YOUR DOCUMENTATION

A school district has a chess club that holds fundraising events to fund the chess club's activities. There are 5 student leaders that determine how funds are spent by vote and are responsible for the purchases. A teacher provides oversight and agrees that payments are in alignment with school district policies prior to payment to vendors. The overall school business board does NOT have approval. However, the school business official invests funds not needed for activities. The funds are not held in trust.

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EXAMPLE OF HOW TO DOCUMENT

Criteria	Determination
Name of activity and account information (don't forget bank accounts)	Any District Chess Club, Nationsbank Account #123456
Determination if a component unit	Not a component unit
Activity is controlled by the school district	YES
Determination if the assets are not derived solely from the government's own source revenue or government mandated nonexchange or voluntary nonexchange flows	YES – they are NOT derived from own source revenues or government-mandated nonexchange / voluntary nonexchange flows
Assets held in trust (pensions / OPEB)?	NO
The assets are for the benefit of individuals and the government does not have administrative involvement or direct financial involvement AND the assets are not derived from providing goods / services to those individuals ?	YES
The assets are for the benefit of organizations or other governments that are not part of the financial reporting entity AND the assets are not derived from providing goods / services to those organizations?	NO
Conclusion	Fiduciary
Prepared by	Jane Smith (1/15/20)
Reviewed by	Martha Jones (1/17/20)

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GUIDANCE AVAILABLE


GASB Statements to be concerned with

- GASB-84
- GASB-92 – remember - amends 2 paragraphs in GASB-84
- GASB-95 (delayed GASB-84 and 92)
- GASB-97

Implementation Guidance

- 2019-2 *Fiduciary Activities* – BUT BE CAREFUL
- 2020-1 *Implementation Guide Update* – contains 3 questions, but deferred 3 questions (4.3, 4.5 and 4.6 in 2019-2):
 - GASB-97 reinstates 4.3 and 4.5, **but NOT 4.6**

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QUESTIONS?

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IT'S HERE!!!!


Proposed Statement
of the Governmental Accounting Standards Board

Financial Reporting Model Improvements


1

WHAT'S IN THE EXPOSURE DRAFT?

- Changes coming to:
 - Management's Discussion and Analysis
 - These not-so-new things called *Unusual or Infrequent Items*
 - Application of Short-Term Financial Resources Measurement Focus and Accrual Basis of Accounting to Governmental Funds
 - Presentation of Governmental Funds due to Change in Basis of Accounting
 - Presentation of Proprietary Fund Financial Statements
 - Other changes
 - Major component unit information
 - Budgetary comparison information
 - Statistical information in CAFRs
- 4 pages of specific GASB statements, question changes
- Codification instructions – 157 pages!
 - Lots of Q&As updates
- Proposed changes would apply to all state and local governments



5 Magic Words – *It Could Have Been Worse...*



2



PROPOSED CHANGES – MANAGEMENT’S DISCUSSION AND ANALYSIS

3



**MANAGEMENT’S
DISCUSSION AND ANALYSIS**

- Focus on objective and *easily readable analysis* of financial activities based on currently known facts, decisions or conditions:
 - Contains a short-and long-term analysis of government’s activities.
 - Written in a manner that can be **understood by readers who may not have a detailed knowledge of governmental accounting and financial reporting.**
 - Continue to try to answer the basic question – **why!**

4




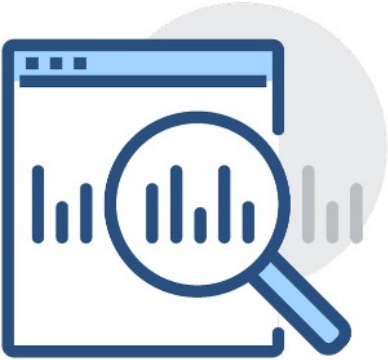
MANAGEMENT'S DISCUSSION AND ANALYSIS

- Major elements (with a major exception) still the same:
 - Try to avoid unnecessary duplication.
 - No speculation about future events.
 - Focus on the primary government and discretely presented component units based on professional judgment.
 - Avoid boilerplate – only present **the most relevant information** each year.

5

MANAGEMENT'S DISCUSSION AND ANALYSIS

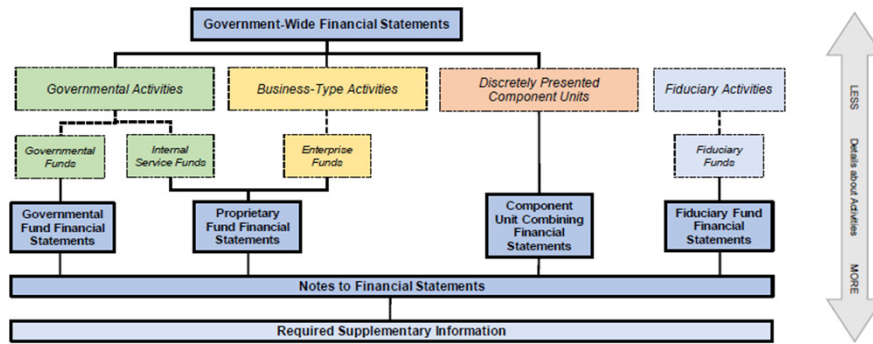
- Major elements (with a major exception) still the same:
 - Include:
 - *Brief* introduction.
 - *Brief* Financial Summary (**condensed** financial information – not a copy!).
 - *Detailed Analyses*.
 - *Significant* capital asset and long-term debt activity:
 - Would include intangibles from leases, internally generated software, P3s (GASB-94) and SBITAs (GASB-96).
 - Would include debt including the same – leases, P3s, SBITAs.



6

SAMPLE FIGURE IN THE INTRODUCTION SECTION OF THE MD&A

Figure A-1. Contents of the City's Financial Report



7

ADDITIONAL SAMPLE FIGURE IN THE MD&A



Could this result in boilerplate??? Hmm...

Figure A-2. Types of Information Reported in the City's Financial Statements

	Financial Statements				Governmental Fund
	Government-Wide	Proprietary Fund	Fiduciary Fund	Component Unit	
Types of assets and liabilities	All assets and liabilities, both financial and nonfinancial, short term and long term				Only short-term financial resources, such as cash, taxes receivable, and accounts payable
Types of inflows and outflows	All types of resources that flow into and out of the government during the year and that relate to that year, regardless of when cash is received or paid				Short-term financial resources that flow into and out of the governmental funds during the year and that relate to that year
Types of deferrals	All types of resources that flow into and out of the government during the year but that relate to a future year				Short-term financial resources that flow into and out of the governmental funds during the year but that relate to a future year




8

Table A-1
Sample City's Net Position
(in thousands of dollars, rounded)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 20X5-20X4
	20X5	20X4	20X5	20X4	20X5	20X4	
Current and other assets	\$ 849,249	\$ 760,540	\$ 96,025	\$ 100,640	\$ 945,274	\$ 861,180	9.8%
Capital assets	1,845,379	1,781,939	576,876	566,000	2,422,255	2,347,939	3.2%
Total assets	2,694,628	2,542,479	672,901	666,640	3,367,529	3,209,119	4.9%
Deferred outflows of resources	89,902	70,018	3,994	3,130	93,896	73,148	28.4%
Long-term liabilities	1,093,103	922,831	108,017	104,502	1,201,120	1,027,333	16.9%
Other liabilities	40,321	46,197	23,601	24,965	63,922	71,162	-10.2%
Total liabilities	1,133,424	969,028	131,618	129,467	1,265,042	1,098,495	15.2%
Deferred inflows of resources	35,295	27,322	1,204	1,226	36,499	28,548	27.9%
Net position							
Net investment in capital assets	1,216,106	1,209,700	489,610	474,914	1,705,716	1,684,614	1.3%
Restricted	734,441	711,690	17,514	14,985	751,955	726,675	3.5%
Unrestricted	(216,736)	(305,243)	41,272	49,178	(175,464)	(256,065)	31.5%
Total net position	\$ 1,733,811	\$ 1,616,147	\$ 548,396	\$ 539,077	\$ 2,282,207	\$ 2,155,224	5.9%

MANAGEMENT'S DISCUSSION AND ANALYSIS
No change from current GAAP!




9

Table A-2
Changes in Sample City's Net Position
(in thousands of dollars, rounded)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 20X5-20X4
	20X5	20X4	20X5	20X4	20X5	20X4	
Revenues							
Program revenues							
Charges for services	\$ 45,301	\$ 41,303	\$ 62,200	\$ 59,998	\$ 107,501	\$ 101,391	6.0%
Operating grants and contributions	38,163	31,057	—	—	38,163	31,057	22.9%
Capital grants and contributions	30,885	14,846	2,938	2,199	33,823	17,045	98.4%
General revenues	279,567	278,136	—	—	279,567	278,136	0.5%
Sales taxes	78,930	77,074	—	—	78,930	77,074	2.4%
Property taxes	74,940	61,861	—	—	74,940	61,861	21.1%
Other taxes	16,869	15,872	—	—	16,869	15,872	6.3%
Payment in lieu of taxes	20,667	7,629	1,674	951	22,341	8,580	160.4%
Investment earnings	12,519	11,765	420	56	12,939	11,821	9.5%
Other	597,841	539,633	67,232	63,204	665,073	602,837	10.3%
Total revenues	597,841	539,633	67,232	63,204	665,073	602,837	10.3%
Expenses							
General government	88,518	87,388	—	—	88,518	87,388	1.3%
Public safety	162,967	173,558	—	—	162,967	173,558	-6.1%
Public works	71,308	67,872	—	—	71,308	67,872	5.1%
Culture and recreation	25,631	21,347	—	—	25,631	21,347	20.1%
Social and economic development	79,701	26,014	—	—	79,701	26,014	206.4%
Interest on long-term debt	25,566	21,284	—	—	25,566	21,284	20.1%
Public utility	—	—	42,687	40,526	42,687	40,526	5.3%
Transit authority	—	—	25,826	25,755	25,826	25,755	0.3%
Golf courses	—	—	8,396	7,250	8,396	7,250	15.6%
Total expenses	453,681	397,463	76,909	73,531	530,590	470,994	12.7%
Excess (deficiency) before unusual/frequent items and transfers	144,160	142,170	(9,677)	(10,327)	134,483	131,843	2.0%
Transfers	(18,996)	(4,639)	18,996	4,639	—	—	—
Unusual/frequent item - flood damage cleanup	(7,500)	—	—	—	(7,500)	—	—
Increase (decrease) in net position	\$ 117,664	\$ 137,531	\$ 9,319	\$ (5,688)	\$ 126,983	\$ 131,843	-3.7%

MANAGEMENT'S DISCUSSION AND ANALYSIS
No change from current GAAP!



10

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Analysis areas in example in Exposure Draft include:
 - 1 paragraph summary.
 - 1 paragraph on governmental activities with bullet points below it with individual changes and analysis.
 - 3 paragraphs on tax revenues with further analysis of economic growth driving tax growth.
 - 3 paragraphs on grant revenue changes.
 - 5 paragraphs on expense changes.
 - 2 paragraphs on other changes in net position (flood, transfers etc.).
 - 5 paragraphs on governmental funds and 3 on enterprise funds.
 - 8 paragraphs on significant capital asset / long-term debt activity.



11

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Major elements (with a major exception) still the same – but one element always an issue:
 - *Currently Known Facts, Decisions, and Conditions that are expected to have significant differences from current period* – Examples:
 - Trends in relevant economic / demographic data.
 - Changes in total amounts available for appropriation - such as changes in revenue sources, activities, planned spending, fund balance transfers etc.
 - Subsequent events, such as changes in pension plans, OPEB, capital asset improvement plans, debt, leases.
 - New legislation / regulations.
 - Going concern conditions.
 - NOT ALL INCLUSIVE!



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MANAGEMENT'S DISCUSSION AND ANALYSIS

Examples of currently known facts in Exposure Draft include discussion on:

- Public safety employee unions' new contract
- Amendments to the City budget
- Recent economic reports
- Adoption of the State budget (which cut the budget of the City)
- Changes by the State's cost-sharing pension plan

All have 1-2 paragraphs of explanation

All are currently known and not speculative

13

WHAT'S NOT IN THE MANAGEMENT'S DISCUSSION AND ANALYSIS

- Major elements (with a major exception) still the same:


- **DOES NOT INCLUDE:**

- Budgetary analysis (see later).
- Other information contained in RSI:
 - Modified approach to infrastructure.

- Elements are still the minimums.



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PROPOSED CHANGES — UNUSUAL OR INFREQUENT ITEMS

17

UNUSUAL OR INFREQUENT ITEMS

- Still aligns to definitions in GASB-62:
 - *Unusual nature*—the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the government, taking into account the environment in which the government operates
 - *Infrequency of occurrence*—the underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the government operates [GASB Cod. Sec. 1800.148]
- Report separately in the Statement of Activities but aggregated:
 - Disclosure would be required in the notes of the program or function or activity where occurred
 - If in control of management

General revenues:				
Taxes:				
Sales taxes	279,567	-	279,567	6,340
Property taxes	78,930	-	78,930	3,153
Franchise taxes	23,122	-	23,122	-
Use taxes	41,068	-	41,068	-
Hotel/motel taxes	7,870	-	7,870	-
Special assessment tax	2,880	-	2,880	-
Payments in lieu of taxes	16,869	-	16,869	-
Intergovernmental revenue	9,324	-	9,324	-
Investment earnings	20,667	1,674	22,341	3,034
Miscellaneous:	3,114	420	3,534	-
Transfers	(18,996)	18,996	-	-
Unusual or infrequent item - flood damage cleanup	(7,500)	-	(7,500)	-
Total general revenues, unusual or infrequent items, and transfers	456,915	21,090	478,005	12,527
Change in net position	117,664	9,319	126,983	3,965
Net position—beginning of period	1,616,147	539,077	2,155,224	395,568
Net position—end of period	\$ 1,733,811	\$ 548,396	\$ 2,282,207	\$ 399,473



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EXAMPLE NOTE DISCLOSURE OF UNUSUAL OR INFREQUENT ITEMS

Note 3 - Information about Unusual and Infrequent Items:

Sample City experienced a flood during March of 20X5, which was both unusual and infrequent for the City. The flood was a catastrophic event outside the control of management. The City incurred costs of \$7.5 million attributable to the functions of Public Works and Public Safety of \$6.35 million and \$1.15 million, respectively.



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PROPOSED CHANGES — GOVERNMENTAL FUNDS

20

APPLICATION OF SHORT-TERM FINANCIAL RESOURCES MEASUREMENT FOCUS AND ACCRUAL BASIS OF ACCOUNTING TO GOVERNMENTAL FUNDS

- Short-term transactions and other events recognized as *they occur*.
- Long-term transactions and other events recognized *when payments are due*.
- Focus is still on *financial resources* (cash or other financial assets) flows.
- Concept of *normally* not included.
- Special Revenue Funds proposed to be **Special Resources Funds**:
 - **Special resources funds** – account for and report the proceeds of specific inflows of short-term financial resources from current activities *other than transfers* that are restricted or committed to use for specified purposes other than debt service or capital projects (in other words... special revenue funds).



21

APPLICATION OF SHORT-TERM FINANCIAL RESOURCES MEASUREMENT FOCUS AND ACCRUAL BASIS OF ACCOUNTING TO GOVERNMENTAL FUNDS

- Recognition is based on whether items arise from short-term or long-term transactions and other events:
 - **Short-term** - convert to or generate cash (or other financial assets) or require the use of cash or other assets **entirely within one year** from inception of transaction, according to terms of binding arrangement (or estimated terms if no binding arrangement).
 - **Long-Term** - transactions that will convert to or generate cash / require the use of cash or other assets **beyond one year**.
- Once classified – retains short-term or long-term.
- “Due” means the date payment is schedule (or expected) to be made.



22

APPLICATION OF SHORT-TERM FINANCIAL RESOURCES MEASUREMENT FOCUS AND ACCRUAL BASIS OF ACCOUNTING TO GOVERNMENTAL FUNDS

Potential Assets	Potential Liabilities	Potential Inflows of Resources for Current Activities	Potential Outflows of Resources for Current Activities
Cash and Cash Equivalents	Accounts payable	Taxation (all forms)	General government
Investments	Advances	Intergovernmental	Public safety
Receivables	Due to other funds	Charges for services	Public works
Due from other funds	Long-term debt issued for short-term purposes (TANs, RANs with initial maturities beyond 1 year)	Licenses, permits, fees	Culture and recreation
Other		Fines and forfeitures	Economic development
		Investment earnings	[Functions of government]
		Transfers in	Transfers out



23

APPLICATION OF SHORT-TERM FINANCIAL RESOURCES MEASUREMENT FOCUS AND ACCRUAL BASIS OF ACCOUNTING TO GOVERNMENTAL FUNDS

Potential Net Flows for Noncurrent Activities
Debt service (principal and interest)
Debt issuance
Premiums / discounts on issuances
Payments to refunding bond escrow agents
Capital outlay
Proceeds from the sale of capital assets
Transfers in that are noncurrent
Transfers out that are noncurrent

Interfund balances and interfund transfers proposed to be recognized when incurred regardless if short-term or long-term



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PRESENTATION OF GOVERNMENTAL FUND FINANCIAL STATEMENTS DUE TO CHANGE IN BASIS OF ACCOUNTING

Current Title	Proposed Title
Balance Sheet	Short-Term Financial Resources Balance Sheet
Assets	No Change
Liabilities and Fund Balances	No Change
Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Short-Term Financial Resource Flows – presentation in current / noncurrent format
Revenues	Inflows of Resources for Current Activities
Expenditures	Outflows of Resources for Current Activities
Other Financing Sources and Uses	Net Flows for Noncurrent Activities
Special Items / Extraordinary Items	Unusual or Infrequent Items
Net Change in Fund Balances	No Change



Reconciliations can be on the same page as statements or in separate page.



SHORT-TERM FINANCIAL RESOURCES BALANCE SHEET

Sample City
Short-Term Financial Resources Balance Sheet
Governmental Funds
6/30/2025
(amounts expressed in thousands)

	General Fund	Transportation Special Resources Fund	Debt Service Fund	Infrastructure Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 10,020	\$ 3,506	\$ 20,093	\$ 192,230	\$ 5,588	\$ 232,537
Investments	23,912	7,871	47,037	436,843	12,700	528,563
Receivables, net	23,829	7,843	550	19,852	3,485	55,669
Due from other funds	748	-	-	-	-	748
Other assets	995	-	-	-	-	995
Total assets	\$ 59,004	\$ 19,420	\$ 68,286	\$ 649,025	\$ 21,773	\$ 819,508
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 5,827	\$ 1,943	\$ -	\$ 28,715	\$ 2,274	\$ 38,759
Advances	178	-	-	-	418	596
Due to other funds	-	-	-	-	748	748
Total liabilities (Note 2)	6,002	1,943	-	28,715	3,440	40,100
Fund balances:						
Restricted for:						
Debt service	-	-	68,286	7,511	-	75,803
Capital projects	-	-	-	612,799	4,339	617,138
Other governmental purposes	-	17,477	-	-	8,049	25,526
Committed for:						
Medical services program	-	-	-	-	3,993	3,993
Contractual obligations	-	-	-	-	1,875	1,875
Economic development	10,798	-	-	-	-	10,798
Assigned to:						
Public safety	7,424	-	-	-	-	7,424
State grant program	-	-	-	-	970	970
Unassigned	35,779	-	-	-	(853)	34,926
Total fund balances	53,002	17,477	68,286	620,310	18,333	778,401
Total liabilities and fund balances	\$ 59,004	\$ 19,420	\$ 68,286	\$ 649,025	\$ 21,773	\$ 819,508

The reference to Note 2 is intended to alert the reader to the disclosure about which governmental funds have liquidated certain noncurrent liabilities in the past.

See Exhibit 17 for an optional combining statement of nonmajor funds.

Alternatively, detail can be presented in the notes to the financial statements.

- Not many changes
- Reconciliation on the bottom
- Note the *Special Resources Fund*



SHORT-TERM FINANCIAL RESOURCES BALANCE SHEET

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore the underlying resources are not recognized currently in the funds.	1,833,664
Other long-term assets are not reported in the funds and therefore are reported as deferred inflows of resources in the funds:	
Notes receivable	3,767
Other receivables	5,334
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of certain internal service funds are not included in governmental activities in the statement of net position.	13,203
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Compensated absences	(32,832)
Claims and judgements	(5,179)
Leases	(10,599)
Bonds, unamortized premiums and discounts and deferred inflows related to bonds are not due and payable in the current period and, therefore, are not reported in the funds.	(827,790)
Some liabilities, deferred inflows and deferred outflows related to pensions are not short-term financial resources and, therefore, are not reported in the funds.	(221,808)
Some liabilities, deferred inflows and deferred outflows related to other postemployment benefits are not short-term financial resources and, therefore, are not reported in the funds.	(2,440)
Net position of governmental activities	<u>\$ 1,733,811</u>

Example Reconciliation at Bottom of Balance Sheet



STATEMENT OF SHORT-TERM FINANCIAL RESOURCES FLOWS

INFLOWS OF RESOURCES FOR CURRENT ACTIVITIES

Taxes:
 Sales tax
 Property tax
 Franchise tax
 Use tax
 Hotel/motel tax
 Special assessment tax
 Payments in lieu of taxes
 Intergovernmental
 Charges for services
 Licenses, permits, and fees
 Fines and forfeitures
 Investment earnings
 Miscellaneous
 Transfers in
 Total inflows of resources for current activities

OUTFLOWS OF RESOURCES FOR CURRENT ACTIVITIES

General government
 Public safety
 Public works
 Culture and recreation
 Social and economic development
 Transfers out
 Total outflows of resources for current activities

NET FLOWS FOR CURRENT ACTIVITIES

NET FLOWS FOR NONCURRENT ACTIVITIES

Debt service:
 Principal
 Interest and other charges
 Long-term debt issued
 Premium on debt issued
 Payment to bond-refunding escrow agent
 Capital outlay
 Proceeds from the sale of capital assets
 Transfers in
 Transfers out
 Total net flows for noncurrent activities

UNUSUAL OR INFREQUENT ITEMS

Major catastrophic event—flood damage cleanup
 Net change in fund balances
 Fund balances—beginning of period
 Fund balances—end of period

- Notice Heading Changes, subtotals
- Total of Net Flows for Current Activities
- Net Flows for Noncurrent Activities Section
- Unusual or Infrequent Items Section

Reconciliations can be on the same page as statements or in separate page
 Each caption, subtotal, total presented as applicable



APPLYING SHORT-TERM FINANCIAL RESOURCES MEASUREMENT FOCUS TO JOURNAL ENTRIES

Transaction	Current Financial Resources – Modified Accrual	Short-term Financial Resources Measurement Focus
Change in fair value of investments during period	DR. Investments / CR. Revenues	Same
Property tax levy before the start of the year, new levy before the start of the future year	End of year – DR. Receivables / CR. Deferred inflows of resources	Revenue in new year equating to decrease in receivables recognized in prior year
Sales taxes levied on sales from prior month	End of Year – DR. Receivables / CR. Deferred inflows for amounts collected beyond accrual period. Collections – CR. revenue.	Revenue would be increases to receivables – no deferral if collected within 1 year
Bonds outstanding, partially paid during year	No liability – expenditures for debt service	Same – debt service is noncurrent activity

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APPLYING SHORT-TERM FINANCIAL RESOURCES MEASUREMENT FOCUS TO JOURNAL ENTRIES

Transaction	Current Financial Resources – Modified Accrual	Short-term Financial Resources Measurement Focus
Prepaid insurance / inventory	End of Year – DR. Prepaid – expenditures recognized by function	Same (outflow of resources as current activity)
Compensated Absences	End of year – DR. Expenditure / CR. Liability for amount to be expected paid from available resources	Liability only when employee separates from service but unpaid. Outflow for amounts due and paid for current year and within 1 year
Accrued Debt Interest	No liability unless due but unpaid. All expenditures	Liability for amounts accrued but unpaid at year end. Debt service outflows relate to debt incurred during year
Claims and Judgments	Recognize liability and outflow as claims due and payable	End of year liability if claims due within one year, outflow for amounts incurred during year (CAUTION – amounts could be different)

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APPLYING SHORT-TERM FINANCIAL RESOURCES MEASUREMENT FOCUS TO JOURNAL ENTRIES

Transaction	Current Financial Resources – Modified Accrual	Short-term Financial Resources Measurement Focus
Notes receivable as a result of binding arrangement – portion matured during year, but not all	End of Year DR. Note receivable balance / CR. Nonspendable fund balance	No receivable entry – long-term. Matured amount is inflow of resources (current)
TANs at beginning of year, retired in year. New TANs during year and outstanding at end of year	End of year – TANs Payable	TANs are short-term, no inflows or outflows recognized because short-term borrowing only impacts assets / liabilities – only payable recognized
Lease liability at beginning of year, partially paid during year	No liability recognized, any new lease activity impacts capital outlay. Outflows for principal paid during year	No liability, new activity is noncurrent, outflows of lease payments noncurrent activity

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PROPOSED CHANGES – PROPRIETARY FUNDS

33

PRESENTATION OF PROPRIETARY FUND FINANCIAL STATEMENTS

- Major change proposed to be just in the definition of **nonoperating** – proposed to be:
 - Subsidies received and provided
 - Revenues and expenses related to financing (unless principal operations)
 - Resources from the disposal of capital assets and inventory
 - Investment income and expenses (unless principal operations)
- All others operating.

Subsidies – resources received from another party or fund to keep rates lower than otherwise would be necessary to support the level of good or services to be provided or resources provided that results in higher rates that otherwise would be established for the level of goods or services to be provided.

- Big deal for public institutions of higher education, healthcare, transit, housing, etc.



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STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

- Not much change except for noncapital subsidies.
- Statement of Fund Net Position and Statement of Cash Flows – **no changes!**

OPERATING REVENUES
Charges for services
Miscellaneous
Total operating revenues
OPERATING EXPENSES
Personal services
Contractual services
Other supplies and expenses
Insurance claims and expenses
Depreciation
Total operating expenses
Operating income (loss)
NONCAPITAL SUBSIDIES
Intergovernmental revenue
Transfers in
Transfers out
Total noncapital subsidies
Operating income (loss) and noncapital subsidies
OTHER NONOPERATING REVENUES (EXPENSES)
Earnings on investments
Gain on other
Interest expense
Capital contributions
Transfers in
Total other nonoperating revenue (expenses)
Increase/decrease in net position
Total net position—beginning of period
Total net position—end of period



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PROPOSED CHANGES – OTHER ITEMS

37

OTHER PROPOSED CHANGES – MAJOR COMPONENT UNITS / BUDGETARY COMPARISON INFORMATION

Each major component unit in a separate column in the statement of net position and activities *if readable*

- If reduces the readability of the financial statements – present after the fund statements.

Budgetary comparison information moved to RSI only

- Present for general fund and each special resources fund with legally adopted budget.
- Separate columns for the variances between:
 - Original budget and final budget.
 - Final budget and actual.
- Note to RSI presents analysis (like what is currently in MD&A):
 - Include currently known reasons for variations that are expected to have a significant effect on future services or liquidity.

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COMPONENT UNIT PRESENTATION

Single column option in statement of net position /statement of activities:

balances could be reported on separate lines as assets and liabilities.

the readability of the statement.

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 253,130	\$ 78,702	\$ 331,832	\$ 60,133
Investments	528,563	-	528,563	52,203
Receivables, net	61,500	12,688	74,188	34,259
Internal balances	256	(256)	-	-
Intergovernmental	-	466	466	2,289

Which then leads to a combining schedule:

reduce the readability of Exhibit 2.

	Energy Authority	Airport	Nonmajor Component Units	Total (See Exhibit 2)
ASSETS				
Cash and cash equivalents	\$ 10,928	\$ 31,958	\$ 17,247	\$ 60,133
Investments	9,487	27,744	14,972	52,203
Receivables, net	2,946	6,486	24,827	34,259



BUDGET COMPARISON INFORMATION IN RSI

Current and noncurrent format is not required.

	Budgeted Amounts		Variance with Final Budget—Over (Under)	Actual Amounts (Budgetary Basis)	Variance with Final Budget—Over (Under)
	Original	Final			
BUDGETARY INFLOWS OF RESOURCES FROM CURRENT ACTIVITIES					
Taxes	\$ 155,715	\$ 155,715	\$ -	\$ 161,885	\$ 6,170
Payments in lieu of taxes	16,218	15,853	(365)	15,737	(116)
Intergovernmental	1,580	2,002	442	1,587	(465)
Charges for services	13,299	13,299	-	13,905	606
Licenses, permits, and fees	1,712	2,220	508	3,532	1,312
Fines and forfeitures	8,262	8,262	-	7,853	(409)
Investment earnings	3,100	3,100	-	6,792	3,692
Miscellaneous	3,313	3,313	-	2,075	(1,238)
Total budgetary inflows of resources from current activities	203,179	203,784	605	213,376	9,612
BUDGETARY OUTFLOWS OF RESOURCES FROM CURRENT ACTIVITIES					
General government	33,786	31,138	2,648	29,097	2,041
Public safety	140,479	143,953	4,526	142,770	1,183
Public works	3,297	3,263	34	1,882	1,381
Culture and recreation	22,086	22,075	11	21,354	721
Social and economic development	12,995	12,208	57	11,914	424
Capital outlay	1,105	1,105	-	1,103	2
Total budgetary outflows of resources from current activities	220,848	213,672	7,276	207,620	5,752
NET BUDGETARY FLOWS FROM CURRENT ACTIVITIES	(17,669)	(9,889)	7,861	5,556	15,364
NET BUDGETARY FLOWS FROM NONCURRENT ACTIVITIES					
Debt Service:					
Principal	(1,275)	(1,275)	-	(1,262)	13
Interest and other charges	(41)	(41)	-	(54)	(13)
Proceeds from sale of capital assets	-	-	-	275	275
Transfers in	2,630	2,630	-	2,630	-
Transfers out	(1,671)	(2,713)	(1,042)	(652)	2,061
Total net budgetary flows from noncurrent activities	(657)	(1,399)	(842)	627	2,326
UNUSUAL OR INFREQUENT ITEMS					
Catastrophic event - flood damage cleanup	-	(7,500)	(7,500)	(7,500)	-
Net change in fund balances	(18,236)	(18,707)	(481)	(1,017)	17,690
Budgetary fund balance, July 1	55,009	55,009	-	55,009	-
Budgetary fund balance, June 30	\$ 36,773	\$ 36,302	\$ (481)	\$ 53,992	\$ 17,690
Reconciliation to GAAP basis					
Total fund balance GAAP basis				\$ 53,992	

Box on left – current / noncurrent format is NOT a requirement – but some governments might want it



BUDGET COMPARISON INFORMATION IN RSI

Required Supplementary Information
Sample City
Budgetary Comparison Schedule
Transportation Special Revenue Fund
for the Year Ended June 30, 20X5
(amounts expressed in thousands)

	Budgeted Amounts		Variance Final Budget— Over (Under) Original Budget	Actual Amounts (Budgetary Basis)	Variance Final Budget— Over (Under) Actual Amounts
	Original	Final			
BUDGETARY INFLOWS OF RESOURCES FROM CURRENT ACTIVITIES					
Taxes	\$ 49,825	\$ 49,825	\$ —	\$ 51,442	\$ 1,617
Intergovernmental	29,750	29,750	—	30,337	687
Charges for services	6,720	6,720	—	6,848	128
Investment earnings	1,900	1,900	—	2,295	395
Total budgetary inflows of resources from current activities	<u>88,195</u>	<u>88,195</u>	<u>—</u>	<u>90,822</u>	<u>2,727</u>
BUDGETARY OUTFLOWS OF RESOURCES FROM CURRENT ACTIVITIES					
General government	59,865	61,555	(2,690)	60,535	1,020
Public works	15,205	15,845	(680)	15,934	11
Total budgetary outflows of resources from current activities	<u>75,070</u>	<u>77,400</u>	<u>(2,330)</u>	<u>77,469</u>	<u>1,811</u>
Net change in fund balances	13,205	9,695	(3,570)	13,453	3,758
Budgetary fund balance, July 1	4,024	4,024	—	4,024	—
Budgetary fund balance, June 30	<u>\$ 17,229</u>	<u>\$ 13,719</u>	<u>\$ (3,570)</u>	<u>17,477</u>	<u>\$ 3,758</u>
Reconciliation to GAAP basis					
Total fund balance GAAP basis					\$ 17,477

Details of single fund presentation as fund has legally adopted budget

BUDGET COMPARISON INFORMATION IN RSI

Note to RSI
example on
budget
comparison

Required Supplementary Information
Notes to Budgetary Comparison Schedules
(amounts expressed in thousands)

Note A—Actual Budget Results

	Over (Under) General Fund	Over (Under) Transportation Fund
BUDGETARY INFLOWS OF RESOURCES FROM CURRENT ACTIVITIES		
<i>Differences—final budget to actual:</i>		
The City experienced an increase in inflows of resources for taxes from budgeted amounts primarily due to the opening of the new shopping center 3 months earlier than expected.	\$ 6,170	\$ 1,617
Actual amounts of interest inflows of resources exceeded budgeted amounts as the City saw higher interest rates than expected.	3,692	395
BUDGETARY OUTFLOWS OF RESOURCES FROM CURRENT ACTIVITIES		
<i>Differences—original budget to final budget:</i>		
The original budget was amended for public safety as the new police station #453 was completed 7 months behind schedule. The original budget included salaries and benefits for new officers and administrative staff, in addition to noncapital building outflows of resources. Station #453 will be opening in the next fiscal year and these outflows of resources have been budgeted in the next year's budget.	\$ 4,526	\$ -
UNUSUAL OR INFREQUENT ITEMS		
<i>Differences—original budget to final budget:</i>		
The City experienced a major flood damage cleanup during the current fiscal year, which is unusual and infrequent in this area. During the year, the City increased the original budget to account for the spending required to address the damage of the flood damage cleanup.	\$ (7,500)	\$ -

Note: This explanation of significant differences is shown in a tabular format. Governments can show this information in other styles such as paragraph form if they choose.



OTHER PROPOSED CHANGES

- Statistical section:
 - Governments engaged only in BTA or Fiduciary Activities – present revenues by major source distinguishing between:
 - Operating.
 - Noncapital subsidy.
 - And other nonoperating revenues and expenses.

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PROPOSED TRANSITION AND IMPLEMENTATION

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PROPOSED IMPLEMENTATION PERIODS

Primary government and component units implement at the same time

- If total annual revenues \$75 million or more in the first fiscal year **beginning after** June 15, 2022 – fiscal years **beginning after** June 15, 2024.
- Less than \$75 million – one year later.

Revenue calculation – all governmental and business-type revenues, except for extraordinary and special items

- Fiduciary activities use total annual additions.

Standard changes statement to be included

- Apply retroactively by restating financial statements (if practicable) for all prior periods presented.
- If not practicable – cumulative effect reported as restatement of beginning fund balance for the earliest period presented – reason for not restating in note disclosure.
- Restatement of governmental fund balance due to change in basis of accounting?

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IF REVENUE WAS BASED SOLELY ON TAX ASSESSMENT...

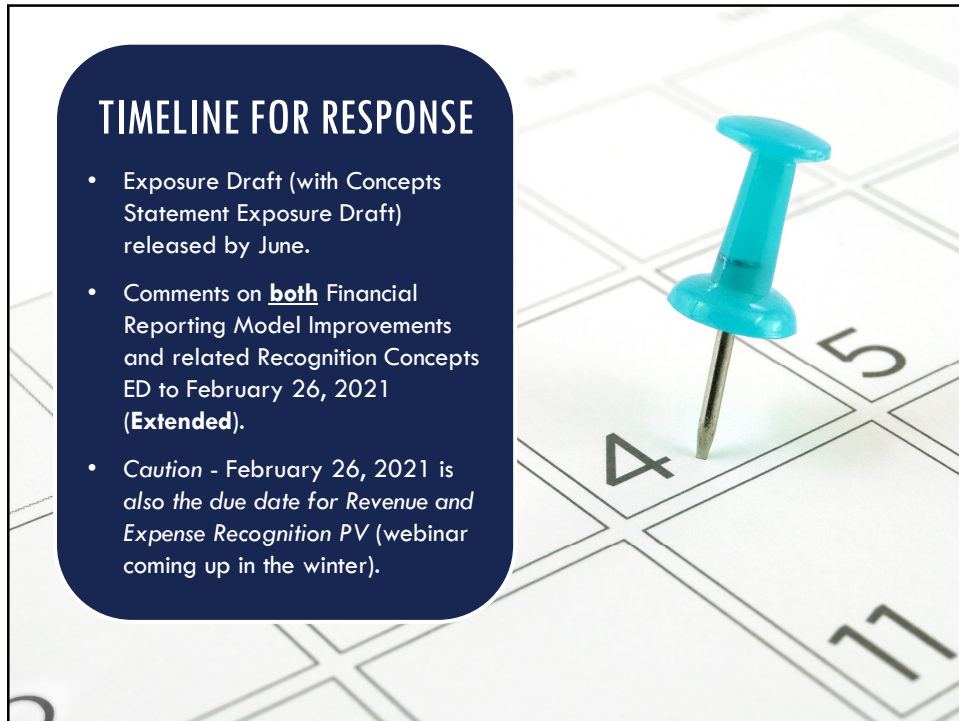
- Per 2018 Tax Assessment (Per State Treasurer Website*), other than State and State's component units:
 - **Portland** would implement July 1, 2024
 - South Portland, Scarborough close to threshold
 - All others year later
- Training on conversion likely needed, but not likely the same effort to convert to GASB-34

* See

https://www.maine.gov/treasurer/revenue_sharing/projections.html



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TIMELINE FOR RESPONSE

- Exposure Draft (with Concepts Statement Exposure Draft) released by June.
- Comments on **both** Financial Reporting Model Improvements and related Recognition Concepts ED to February 26, 2021 (**Extended**).
- *Caution* - February 26, 2021 is also the due date for Revenue and Expense Recognition PV (webinar coming up in the winter).

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MULTIPLE OPPORTUNITIES TO VOICE YOUR OPINIONS




- March 23, **Boise**
- March 30 – 31, **Atlanta**
- April 8 – 9, **New York**
- April 13-15, **Chicago**
- April 20-21, **San Francisco**

USER Forums in New York and Chicago

Video / Teleconferences availability depends on location

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QUESTIONS?

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THE POWER OF BEING UNDERSTOOD

AUDIT | TAX | CONSULTING

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2020 SINGLE AUDIT UPDATE

Dan Bonnette, Partner, RSM US LLP

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Objectives

By the end of this presentation, participants will be able to:

- Discuss current developments in grants management including COVID Relief
- Describe key changes to Uniform Guidance revisions
- Describe key changes in the 2020 Compliance Supplement
- Understand the impact of the 2018 Revision of *Government Auditing Standards* (i.e. "The Yellow Book") on financial statement preparation by the auditor



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Agenda

Today's topics

- Current developments impacting grants management
- Introduction to COVID-19 funding
- 2020 OMB Compliance Supplement
- Revisions to 2 CFR 200 (Uniform Guidance)
- 2018 Revision of *Government Auditing Standards*
- Common findings under compliance audits
- Open forum/Q&A

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Cheat Sheet

- 2 CFR 200 – Uniform Guidance ([Link](#))
- 2 CFR 200 – revised ([Link](#))
- OMB Compliance Supplement
 - 2019 ([Link](#)) (AICPA searchable version)
 - 2020 ([Link](#)) – Hot off the presses!
 - 2020 Addendum for COVID programs – Not yet available
- 2018 Revision to *Government Auditing Standards* ([Link](#))
- Federal Green Book ([Link](#))
- COSO – 2013 Model ([Link](#))

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An Introduction to COVID-19 Funding

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COVID-19 Funding – New and Existing Programs

- New Programs – at least 20 new programs
- CARES Act provided many EXISTING programs with additional funding
- Some existing federal programs have been granted significant flexibilities and/or waivers of compliance requirements by federal agencies.

COVID-19 Laws:

- Coronavirus Preparedness and Response Supplemental Appropriations Act
- Families First Coronavirus Response Act
- Coronavirus Aid, Relief and Economic Security Act (CARES Act)
- Future relief funding?

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COVID-19 Funding – The Largest 4 New Programs

<div style="background-color: #fce4ec; padding: 10px; margin-bottom: 10px;"> <p><u>Payment Protection Program</u> (>\$600B) Federal Agency: SBA For-profits/NFP's Is NOT subject to Single Audit CFDA: 59.073</p> </div> <div style="background-color: #fce4ec; padding: 10px;"> <p><u>Coronavirus Relief Fund</u> (\$150B) Federal Agency: Treasury Governmental Entities and Tribes IS subject to Single Audit CFDA 21.019</p> </div>	<div style="background-color: #fce4ec; padding: 10px; margin-bottom: 10px;"> <p><u>Provider Relief Fund</u> (\$175B) Federal Agency: HHS For-profits/NFP's/ Governmental Entities IS subject to Single Audit CFDA: 93.498</p> </div> <div style="background-color: #fce4ec; padding: 10px;"> <p><u>Education Stabilization Fund</u> (\$30.75B) Federal Agency: Education States, Schools, IHE IS subject to Single Audit CFDA: 84.425 (see next slide)</p> </div>
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Education Stabilization Fund Sections (considered 1 program)

<p>Education Stabilization Fund Discretionary Grants</p> <ul style="list-style-type: none"> • 84.425B – Rethink K12 Education Models Grant • 84.425G – Reimaging Workforce Preparation Grants • 84.425C – Governors Emergency Education Relief Fund • 84.425D – Elementary and Secondary School Emergency Relief Fund • 84.425N – FIPSIE • Formula Grants to the Outlying Areas <ul style="list-style-type: none"> - SEA's (84.425A) - Governors (84.425H) 	<p>Higher Education Emergency Relief Fund</p> <ul style="list-style-type: none"> • Student Portion (84.425E) • Institutional Portion (84.425F) • Historically Black Colleges and Universities (84.425J) • American Indian Tribally Controlled Colleges and Universities (84.425K) • Minority Serving Institutions Strengthening Institutions Program (84.425L) • Strengthening Institutions Program (84.425)
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COVID-19 Existing Programs

In addition to the 20 new federal programs, many existing federal program received new CARES funding

- CARES Act provided additional funds to many existing CFDA numbers.
- All federal agencies, except NASA, EPA and SSA received additional funds under CARES Act that have been applied to many existing CFDA numbers.
- For example, HHS has indicated that it has 99 programs that received additional funding under CARES Act.

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COVID-19 Existing Programs

Some existing programs ALSO had compliance requirements change due to COVID-19.

- Examples include:
 - Student Financial Aid Cluster
 - USDA Food Programs
 - Certain HUD housing programs
- There is much uncertainty about whether/how federal agencies will update Part IV of the Compliance Supplement for these new compliance requirements.

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COVID-19 Memos

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COVID-19 Relief Funding/OMB Directives

- Billions of dollars have been pumped into the economy under a variety of federal laws/programs – implications to federal awards and related audit rules have lead to confusion
- OMB has authorized a series of memos to the federal agencies for “Administrative Relief” for those impacted by COVID-19 due to “loss of operations”
- Initial OMB Memo M-20-17 issued on March 19, 2020 was directed at federal agencies to provide short term administrative relief
 - Included provisions relative to procurement, no cost contract/grant extensions, guidance about the application of overhead rates, etc.
 - Most important – included a blanket 6 month extension for entities with FYE’s up to June 30, 2020 if data collection forms had not yet been filed.
 - **ALL of these provisions were rescinded on June 18, 2020 by OMB Memo M-20-26**

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COVID-19 Relief Funding/OMB Directives

- OMB Memo M-20-26 issued on June 18, 2020
 - Expires on September 30, 2020
 - RESCINDS the previous 6 month extension for June 30, 2020 years ends (see next slide)
 - A 6 month extension is provided for Single Audits not yet submitted at March 19, 2020 with normal due dates from March 30, 2020 through June 30, 2020.
 - Audits with normal due dates of July 30, 2020 and September 30, 2020, also get a 3 month submission extension.
 - Carried forward from M-20-17 – allowability of salaries and other project activities, which is that payment of such expenses is allowable as long as consistent with the entities policies for making payments in extreme circumstances.
 - Clarifies the highlights the concept of double dipping – grant funding can not be used to pay for expenses that would otherwise be covered by other programs (e.g PPP program) and recipients must make efforts to reduce overall operating costs – DOCUMENTATION!
 - Separate presentation in the SEFA of “COVID Emergency Acts Funding” – similar to what was done for ARRA funding several years ago.

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COVID-19 Relief Funding/OMB Directives

- UG Audit Due dates
 - Six-month extension (15 months from year-end)
 - June 30, 2019 = September 30, 2020
 - July 31, 2019 = October 31, 2020
 - August 31, 2019 = November 30, 2020
 - September 30, 2019 = December 31, 2020
 - Three-month extension (12 months from year-end)
 - October 31, 2019 = October 31, 2020
 - November 30, 2019 = November 30, 2020
 - December 31, 2019 = December 31, 2020
 - FY20 year-end = back to regular 9 month deadline

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COVID-19 Relief Funding/OMB Directives

- There are other OMB memos that have much lesser impact
 - OMB Memo M-20-11
 - OMB Memo M-20-20
 - OMB Memo M-20-21
- Point of focus - PPP Loans
 - Can't double-dip!!!!
 - Pretty straightforward – same basic concept as already exists in UG 200.403 which indicates that you can't charge same costs to multiple grants
 - Amounts charged to federal awards cannot be eligible for loan forgiveness per Memo M-20-26
 - PPP loans or forgiveness will not be considered federal awards for purposes of the Single Audit process

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COVID-19 Relief Funding/OMB Directives

Point of Focus - Using “Other Available Funding”

- Per OMB Memo M-20-26: “Due to the limited funding resources under each federal award to achieve its specific public program goals, awarding agencies must inform recipients to exhaust other available funding sources to sustain its workforce and implement necessary steps to save overall operational costs (such as rent renegotiations) during this pandemic period in order to preserve Federal funds for the ramp-up effort. Recipients should retain documentation of their efforts to exhaust other funding sources and reduce overall operational costs.”

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COVID-19 Relief Funding/OMB Directives

- Summary - Single Audit applicability
 - PPP loans (59.073) – No
 - PRF (93.498) – Yes (and for-profits have audit obligations as well under 45 CFR 75.501)
 - CRF (21.019) – Yes
 - Education Stabilization (84.425) – Yes
 - EIDL Emergency Advance (59.072) – No
 - EIDL Loans (59.008) – Yes
 - Several other programs are being added or supplemented with expanded funding – most have Single Audit implications for states, local governments and nonprofit organizations
- OMB will be issuing an addendum to the 2020 Compliance Supplement to provide further guidance to recipients of Coronavirus relief and their auditors – expected in September 2020
- No new clusters expected

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2020 Compliance Supplement

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2020 Compliance Supplement

- August 2020 OMB Compliance Supplement was released on August 17, 2020
- Part of the UG at Appendix XI
- Effective for UG audits for fiscal years beginning after June 30, 2019 (i.e. FYE 6/30/20 – 5/31/21)
- Major changes
 - “Pick 6” approach to applicable compliance retained from 2019 Supplement (**if program is listed in Part 2**) (R&D Cluster permitted to identify 7)
 - Novel Coronavirus (COVID-19) alert (Addendum to come)
 - COVID-19 funding to be separately identified on the schedule of expenditures of federal awards (SEFA) and data collection form (SF-SAC) – “COVID-19” as a prefix to the program name on the SEFA and “COVID-19” on a separate row of the SF-SAC in Part II, Item 1c (Additional Award Information)
 - Programs included in Part 2 (Matrix) impacted by COVID-19 funding would require the auditor to verify if the Matrix is still accurate (additional requirements may be needed due to the nature of the new funding)
 - Pass-through entities must communicate these nuances to their subrecipients of COVID-19 funding

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2020 Compliance Supplement

Highlights of the first part of the Compliance Supplement:

- Includes regular updates unrelated to COVID-19 which have been in process since the prior year
- Retains the 6 requirement mandate but note that some agencies may have modified which requirements are subject to audit
- Removed Part 3-1 that was in the 2019 Compliance Supplement
- The list of clusters included in Part 5 of the Compliance Supplement did not change
- Appendix V is the roadmap of changes from the 2019 Compliance Supplement
- Appendix VII is very, very important. This provides the summary of COVID 19 impacts, including the list of new programs and information on the future addendum.

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2020 Compliance Supplement

Highlights of the first part of the Compliance Supplement:

- New Programs
 - 14.275 Housing Trust Fund
 - 16.575 Crime Victim Assistance Grant Program
 - 21.016 Equitable Sharing Program
 - 93.866 Ending the HIV Epidemic: A Plan for America
- Existing with Significant Changes
 - **Medicaid, CHIP**, CSBG Head Start
 - 11.300/11.307 Economic Development Cluster
 - 11.661 Hollings Manufacturing Extension Partnership
 - 20.223 Transportation Infrastructure Finance and Innovation Act Program
 - 97.036 Federal Emergency Management Agency Disaster Grants
 - Student Financial Aid Cluster

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2020 Compliance Supplement – “Pick 6”

- UG has up to 12 compliance requirements that may apply to a major program
 - Activities allowed or unallowed (Code = A)
 - Allowable costs/cost principles (Code = B)
 - Cash management (Code = C)
 - Eligibility (Code = E)
 - Equipment/Real property management (Code = F)
 - Matching, level of effort, earmarking (Code = G)
 - Period of performance (Code = H)
 - Procurement/Suspension and debarment (Code = I)
 - Program income (Code = J)
 - Reporting (Code = L)
 - Subrecipient monitoring (Code = M)
 - Special test and provisions (Code = N)

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2020 Compliance Supplement

- Reminders

- Awards from NSF and NIH are presumed to fall under the Research & Development cluster
- Late submissions of the audit and SF-SAC will preclude the recipient from qualifying for “Low-risk Auditee” status for the next two years
- Auditors must follow the sampling guidance in the AICPA’s Audit Guide applicable to Single Audits when testing internal controls and compliance over major programs (don’t shoot the auditors for the large sample selections 😊)
- Don’t forget that Part 6 of the Compliance Supplement was re-worked in 2019 and carries over to 2020. **In my opinion, the most important part of the Compliance Supplement for grantees.**
- Part 7 of the Compliance Supplement is the roadmap for grants not otherwise appearing in Parts 2 or 4 of the Compliance Supplement. In the COVID world, this guidance will be **CRITICAL** for June 30, 2020 UG audits.

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Planning and Performance Considerations for 2020 Single Audits

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What is the one certainty for 2020? CHALLENGES

- Since COVID-19 funds were released so quickly, the grantor agencies are all still reacting – similar to Post-911 and the ARRA era
- There have been and will continue to be significant ongoing changes over the next several months so we will be auditing a moving target
- DOCUMENTATION WILL BE CRITICAL – what decisions were made when and based on what guidance? When new guidance was issued, what did you do and why? What changed?
- Likely that there will be MORE testing because it is likely that there will be MORE major programs and many first time auditees

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Planning the Single Audit, what do you need to be thinking about?

- Preliminary SEFA/major programs may not be the final answers
- Where is the federal money? Is it commingled with state funding?
- Internal controls over compliance
 - New programs – new controls?/effective?/risk?
 - Existing programs – any impact?/any added risk?
 - First time Single Audits – likely going to be a **LOT** of headaches
- Impact on Type A/B threshold?
- Type B program considerations (note: NO requirement to consider them “higher risk” as was the case with ARRA)

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Planning the Single Audit, what do you need to be thinking about?

- Pre-COVID and Post-COVID are likely 2 different worlds
- Internal controls almost certainly changed so need to consider that you have more than one population
- Understand whether or not any compliance requirements changed or new ones added – same potential issue – you may have more than one population that needs to be considered
- MUST understand what the CLIENT did to monitor and manage changes – if all they did is what they have always done = NOT GOOD - likely need to consider that as some level of deficiency

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Planning the Single Audit, what do you need to be thinking about?

- Completeness of the SEFA – may be difficult to know what is federal and what is not federal if passthrough funding
- Remote environment – impact on the audit itself, nevermind all other considerations
- Impact on sample sizes – CAN YOU rely on the controls as you have in the past?
- Partner and manager involvement EARLY AND OFTEN is critical
- There will be heavy oversight of these dollars by the grantor agencies – expect federal oversight of Single Audits

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Planning the Single Audit, what do you need to be thinking about?

- Even prior to COVID-19, federal agencies have been emphasizing that auditor's findings could be improved
- Make sure findings include ALL required elements
- Findings are being reviewed at the Federal Clearinghouse and filings could be rejected if all elements are not included
- Can I issue my UG reports before the Compliance Supplement Addendum is issued? Do you like to gamble???
- Can I issue my opinion on the financial statements before I issue the UG reports?

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Updates to Uniform Guidance (2 CFR 200)

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UG Revisions

- Issued: August 13, 2020
- Effective: November 12, 2020 (except for amendments to §§ 200.216 and 200.340, which are effective August 13, 2020)
- Some questions/clarifications are needed from OMB – they are expected to explain more at a schedule web event on August 27
- Objectives for the revisions
 - Modernize reporting by recipients (GREAT Act)
 - Strengthen the government-wide approach to performance and risk
 - Improve goals and objectives, share lessons learned, and spread the adoption of promising performance practices

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UG Revisions

- Revisions also include updates due to changes in statutory requirements
- Clarify areas of misinterpretation
- 2 CFR 183 added in order to implement “Never Contract with the Enemy”
 - Flow down on award terms (standard agreement language included)
 - Only applies to grants and cooperative agreements that are expected to exceed \$50,000 and that are performed outside the U.S. and that are in support of a contingency operation in which members of armed forces are actively engaged in hostilities.
 - Actions available

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UG Revisions

- Emphasizing stewardship and results-oriented accountability for grant program results
 - A series of changes mainly impacting federal agencies in how they award and evaluate their grants, etc.
- Expanded use of the de minimis rate (10% indirect rate option)
 - Previously only available to those entities that NEVER had a formal rate with the government.
 - Non-federal entities (except states, local governments and Indian Tribes) can take advantage of this option
 - Not required to provide proof of indirect rate pools (the rate is the rate)

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UG Revisions

- Eliminate references to non-authoritative guidance
 - Support E.O. 13892 (promoting the rule of law through transparency and fairness ...)
 - To prohibit federal awarding agencies from including references to non-authoritative guidance in terms and conditions of federal awards
- Promoting Free Speech
 - In support of several executive orders around free speech, freedom of religion, etc. The revisions are meant to underscore the importance of compliance with the First Amendment

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UG Revisions

- Standardization of terminology and implementation of standard data elements
 - Align terminology with DATA Act definitions
 - Example – “Catalog for Federal Domestic Assistance (CFDA) number” and “CFDA program title” have been replaced with the terms “Assistance Listings number” and “Assistance Listings program title”
- Support for domestic preferences for procurement
 - New section 200.322
 - Encouraging federal award recipients, to the extent permitted by law, to maximize use of goods, products, and materials produced in the United States when procuring goods and services under Federal awards

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UG Revisions

- Changes to procurement standards (200.320)
 - Micro-purchase threshold officially raised to \$10,000 (from \$3,500)
 - Simplified Acquisition Threshold (SAT) officially raised to \$250,000 from \$150,000.
 - Allows for non-federal entities to request a micro-purchase level higher than \$10,000 under certain conditions

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UG Revisions

Non-Federal entity increase to the micro-purchase threshold up to \$50,000. Non-Federal entities may establish a threshold higher than the micro-purchase threshold identified in the FAR in accordance with the requirements of this section. The non-Federal entity may self-certify a threshold up to \$50,000 on an annual basis and must maintain documentation to be made available to the Federal awarding agency and auditors in accordance with § 200.334. The self-certification must include a justification, clear identification of the threshold, and supporting documentation of any of the following:

- (A) A qualification as a low-risk auditee, in accordance with the criteria in § 200.520 for the most recent audit;
- (B) An annual internal institutional risk assessment to identify, mitigate, and manage financial risks; or,
- (C) For public institutions, a higher threshold consistent with State law.

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UG Revisions

Non-Federal entity increase to the micro-purchase threshold over \$50,000. Micro-purchase thresholds higher than \$50,000 must be approved by the cognizant agency for indirect costs. The non-federal entity must submit a request with the requirements included in paragraph (a)(1)(iv) of this section. The increased threshold is valid until there is a change in status in which the justification was approved.

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UG Revisions

- Emphasis on machine-readable information format
- Changes to closeout provisions to reduce recipient burden and support GONE Act implementation
 - Increase closeout from 90 days to 120 days
- Changes to performing the Government-wide Audit Quality Project
 - Date moved from 2018 to 2021
- Prohibition on certain telecommunication and video surveillance services or equipment
- Never contract with the enemy

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UG Revisions

- Requirement for the FAPIIS (Federal Awardee Performance and Integrity Information System) to include information on non-federal entity's parent, subsidiary, or successor entities
- Increase transparency through FFATA, as amended by the DATA Act
 - Beyond grants and cooperative agreements to also include loans, insurance, contributions and direct appropriations
- Aligning 2 CFR with authoritative sources
- Responsibilities of the pass-through entity to address only a subrecipient's audit findings related to their subaward

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UG Revisions

- Reducing burden on universities by clarifying timing of the Disclosure Statement (200.419)
 - DS-2 – language added to the timing of submissions, which is only required of institutions of higher education that meet certain thresholds (defined in 48 CFR 9903.202-1(f))

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***Government Auditing Standards
(2018 Revision) (AKA “The Yellow
Book”***

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Yellow Book (2018) revision process

- ED for public comment – April 5, 2017
 - Over 1700 individual comments received
- Advisory Council met in public session on April 10, 2018 to discuss final changes to the draft
- Published by GAO (Government Accountability Office) on July 17, 2018

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Yellow Book (2018) effective dates

- Financial audits, attestation engagements, and reviews of financial statements
 - Periods ending on or after June 30, 2020
- Performance audits
 - Audits beginning on or after July 1, 2019

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Yellow Book (2018)

- Supersedes
 - 2011 Revision of GAS
 - 2005 *Government Auditing Standards: Guidance on GAGAS Requirements for Continuing Professional Education*
 - 2014 *Government Auditing Standards: Guidance for Understanding the New Peer Review Ratings*

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Summary of key changes

- New format and organization
- **Threats specific to preparing financial statements**
- CPE requirements
- Peer review requirements
- Internal control considerations for audits and examinations
- Consideration of waste and abuse
- Reviews of financial statements
- Performance audit standards updated with specific considerations for when internal control is significant to the audit objectives

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Threats Specific to Preparing Financial Statements

- “Impairment” exists when preparing the underlying accounting records (retained from 2011 Revision)
- Services related to accounting and f/s preparation (other than those specifically defined as impairments) “in their entirety from a client-provided trial balance or underlying accounting records” create **significant** threat’s to our independence
- Threats are created when we perform any services related to preparing accounting record and financial statements

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Threats to independence – FS

- When preparation of f/s from a trial balance or underlying accounting records by the auditor creates a significant threat to independence
 - Requires documentation by the auditor of
 - Management’s SKE (skill, knowledge and experience) to take responsibility for F/S
 - Formal (written) communication with auditee (engagement letter)
 - Identification of applicable threats
 - Identification of safeguards
 - Implementation of safeguards
 - Conclusion as to whether threats have been mitigated
 - Management’s SKE only is not a safeguard (it is a pre-condition)

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Threats to independence – FS

- The following scenarios would prohibit the auditor from performing a “non-audit service” and still maintain independence
 - Prohibited non-audit services (e.g. management participation)
 - Potentially allowed non-audit service, but management lacks the SKE to oversee the service(s)
 - Auditor not able to apply safeguards to reduce the threat of non-independence to an acceptable level
- All entities, especially smaller organizations, may be significantly impacted by these new rules. If your auditor currently prepares your financial statements, have a discussion now and map out the plan for the June 30, 2020 (or later) audit

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Common Findings under Compliance Audits

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The list

- Lack of appropriately designed internal controls over compliance
- Federal award identification/SEFA
- Subrecipient monitoring
- Indirect cost rates
- Allowability of costs (direct and indirect)
- Compensation for personal services
- Vendor/subrecipient checks (SAM.gov)
- Special tests/award specific compliance requirements
- Procurement

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Ask the presenter

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THANK YOU FOR
YOUR TIME AND
ATTENTION

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THE GASB'S REVENUE AND EXPENSE RECOGNITION PRELIMINARY VIEWS

1

WHAT IS A GASB PRELIMINARY VIEWS DOCUMENT?

- Purpose is to identify *significant* issues to the public that are known to exist in a particular project:
 - Goal is to seek feedback on the GASB's initial positions at an early stage.
 - GASB knows that stakeholders will be divided on issues.
 - GASB members *may* be divided on issues.
- Board members will use the information received in feedback and deliberate issues raised.



2

WHICH EXISTING STANDARDS MAY BE IMPACTED IF THERE IS A CHANGE IN THE FUTURE? – CHANGES COULD OCCUR IN:

Statement No.	Title	Date
NCGA-1	<i>Governmental Accounting and Financial Reporting Principles (contains old stuff codified from 1940's – 1970's)</i>	1979
6	<i>Accounting and Financial Reporting for Special Assessments</i>	1987
21	<i>Accounting for Escheat Property</i>	1993
24	<i>Accounting and Financial Reporting for Certain Grants and Other Financial Assistance</i>	1994
33	<i>Accounting and Financial Reporting for Nonexchange Transactions</i>	1998
36	<i>Recipient Reporting for Certain Shared Nonexchange Revenues</i>	2000
62	<i>Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements</i>	2010



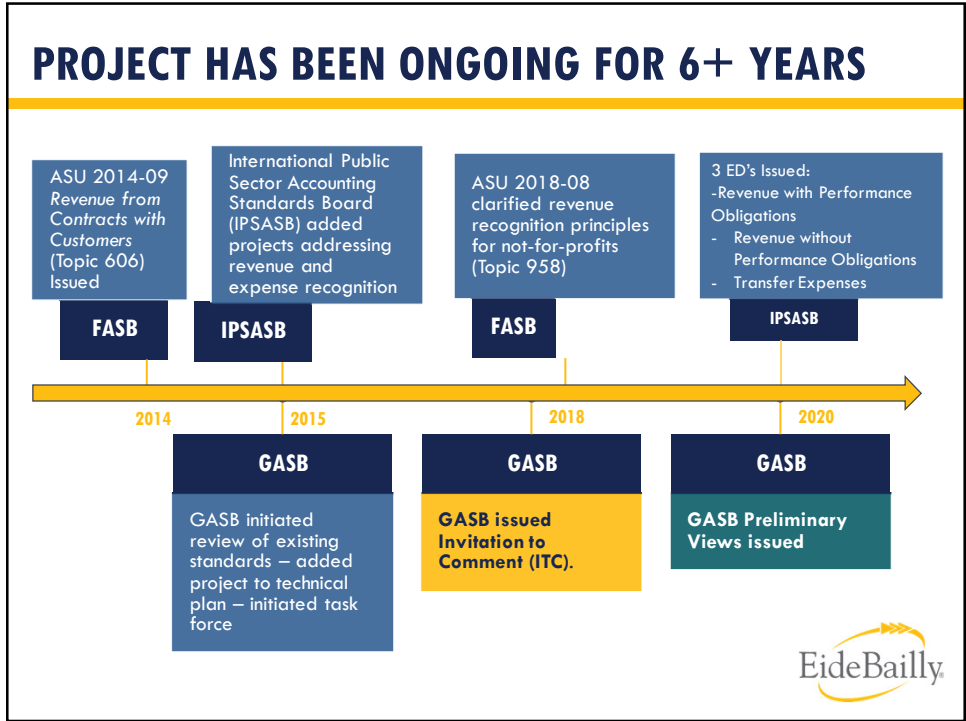
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OUT OF SCOPE... FOR NOW...

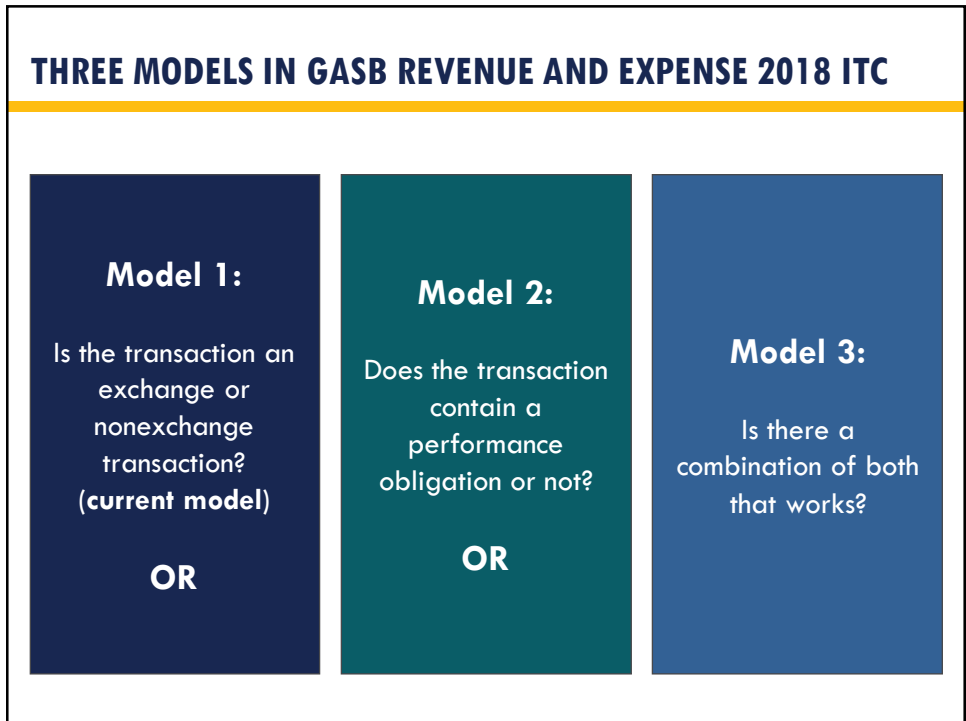
- Anything issued after GASB Statement No. 65 (*Items Previously Reported as Assets and Liabilities*) (2012)
- Only 1 paragraph in GASB-34 is in scope, but the rest is out of scope due to *Financial Reporting Model Improvements* exposure draft
- GASB Statement No. 48 (*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*) (2006), but interfund / intra-entity transactions still in scope
- To be determined in the future:
 - Revenue from rights (naming rights, mineral rights, patents and *nonfinancial intangible assets*) - meaning
 - GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (2007)
 - And guess what! GASB Statement Nos. 87, 94 and 96!!! (but doubtful)...



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PROBLEMS WITH GASB REVENUE AND EXPENSE ITC

- Problems:
 - Many stakeholders favored model 1 – (in other words.. DO NO HARM).
 - Other stakeholders favored model 3.
 - Definitions inconsistent for *exchange*, *exchange-like* and *nonexchange*:
 - All rely on value.
 - Not symmetrical – some transactions meet more than 1 definition!
 - Governments apply transactions differently!
 - Performance obligation confusing when compared with public-purpose obligations (aka serving the public good).



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**OK – SO WHAT'S IN
THE PRELIMINARY
VIEWS?**

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ORGANIZATION OF THE PV

- 7 Chapters – most important:
 - Chapter 2 Foundational Principles
 - Chapter 3 Categorization
 - Chapter 4 Revenue Recognition
 - Chapter 5 Expense Recognition
 - Chapter 6 Measurement
- Chapter 7 conforms revenue and expense recognition to short-term financial resources measurement focus and basis of accounting in *Financial Reporting Model Improvements* exposure draft (discussed earlier).



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ORGANIZATION OF THE PV

- 60 pages including 18 separate cases (and two alternatives) to illustrate the model each case organized as follows:
 - Facts and assumptions.
 - Categorization and conclusion.
 - Recognition and measurement.
 - Debits and credits (for both parties if governmental).
 - Short-term financial resources measurement focus and basis of accounting adjustments.
 - Alternative scenarios (as applicable).



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FOUNDATIONAL PRINCIPLES

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5 BASIC ASSUMPTIONS

1. Revenues and expenses have equal importance in the flows statements.
2. Revenues and expenses should be categorized *independently* and not in relation to each other.
3. For accounting and financial reporting purposes, the government is an economic entity and *not* an agent of the citizenry.
4. Symmetry should be considered, to the extent possible, in the application of the 3 components of the model.
5. A consistent viewpoint from the resource provider perspective should be applied in the analysis of revenues and expenses.



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BASIC ASSUMPTIONS

- Board believes revenue and expense have equal importance in flows statements:
 - GASB standards *do not* have matching principle.
 - Conceptual framework only includes *interperiod equity* (current year revenues are sufficient to pay for current year's services).
- Board believes revenue and expense guidance should be set independently:
 - Revenue transactions are separate from the programs they fund.
 - Expense transactions should be unaffected by public policy:
 - If impacted by public policy, comparability suffers.
- Government is an economic entity:
 - Revenues should NOT net against expenses.
 - If government is acting as an agent of the citizens, could be a fiduciary activity (GASB-84).



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BASIC ASSUMPTIONS

Symmetry

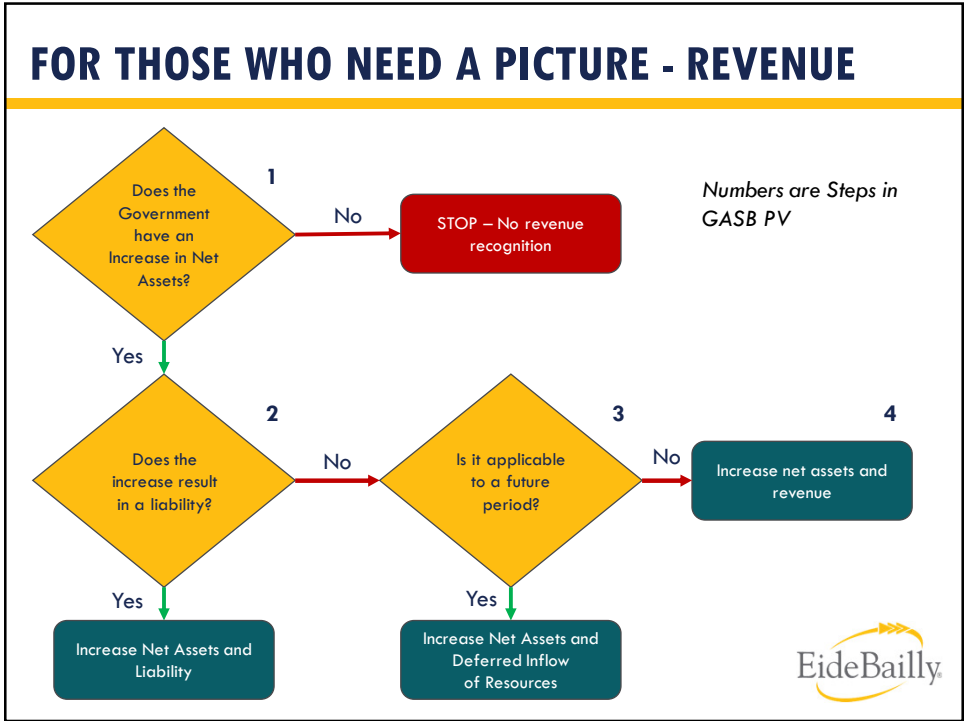
- Goal is to have consistent *principles* (not results) for revenues and expenses among categories of transactions.

Consistent viewpoint

- GASB wants to have a singular view of whether distinct goods / services been provided / received or if a transfer of control of resources occurred.
- Leads to performance obligation in exchange transactions.



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INCREASE IN NET ASSETS

Evidenced by:

Transaction	Example
Legally enforceable claim that is a receivable	Tax Lien or levy
Receipt of resources from another party that is in an advance	Block grant
Extinguishment of a liability on behalf of the government	Nonexchange financial guarantee
Any (or all) of the previous related to a revenue transaction	Providing of goods / services

Yes – GASB Staff Know that Net Assets is a typo...

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INCREASE IN NET ASSETS RESULT IN A LIABILITY?

- We do this TODAY!
 - Grants received in advance of allowable costs.
 - Prepaid property taxes.
 - Escrows / fidelity bonds.
 - Deposits.

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INCREASE IN NET ASSETS RESULT IN AN INFLOW BUT TO A FUTURE PERIOD?

- We do this TODAY!
 - Taxes levied but cannot be spent until a future period (law in some states).
 - Investment return in excess of assumed return in defined benefit pensions / OPEB.
 - Positive change in fair value of hedging derivative instrument.
- If all else does work – then recognize revenue immediately – pretty much what we do today!



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SINCE WE'RE GOING FOR SYMMETRY...

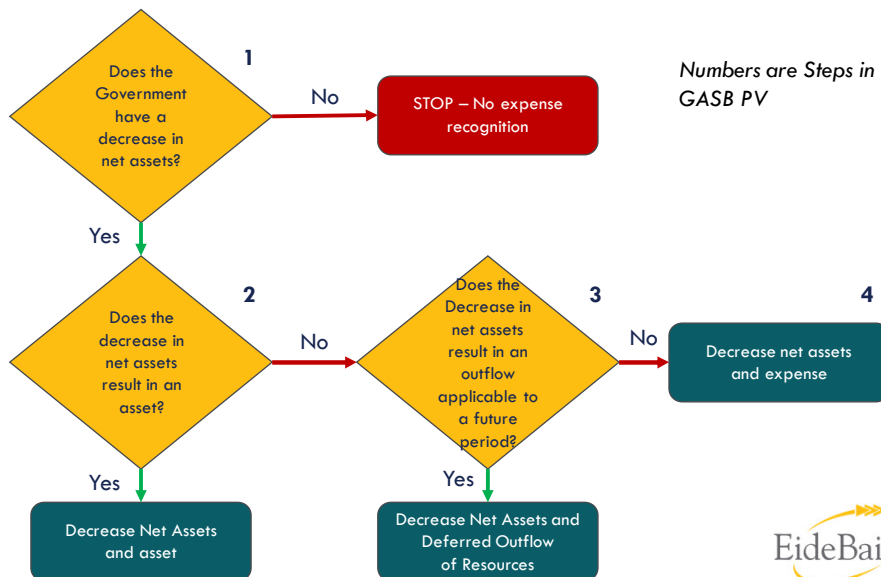
4 steps to recognizing expense:

1. Does the government have an decrease in net assets / position?
2. Does the decrease in net assets / position result in a related asset?
3. Does the decrease in net assets / position result in an outflow of resources applicable to a future period?
4. Recognize expense.



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FOR THOSE WHO NEED A PICTURE - EXPENSE



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EXPENSE FRAMEWORK

- Decrease in net assets can result from:
 - Present obligation that is a liability.
 - Providing resources to another party before a liability arises.
 - Either that results from an expense.
 - Related asset results in a prepaid expense (paying in advance).
- Deferred outflow of resources the same as today.
- If all else doesn't work – expense.



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CATEGORIZATION

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Preliminary view on categorization of transactions (revenue and expense)

The Board's preliminary view is that for Category A revenue and expense transactions, in applying the hierarchy of recognition, the attribute that establishes applicability to a reporting period is the *satisfaction of a performance obligation in that period*. The Board's preliminary view is that for Category B revenue and expense transactions, in applying the hierarchy of recognition, the attribute that establishes applicability to a reporting period is *compliance with time requirements in that period*.

WHAT IS A PERFORMANCE OBLIGATION?

- *Unit of Account* was originally from GASB-72 (level at which an asset or liability is aggregated or disaggregated for measurement, recognition or disclosure purposes (e.g. single or group of assets / liabilities)).
- Performance obligation occurs when there is a transfer of control of resources.



WHAT DOES THIS ALL MEAN - CATEGORY A AND CATEGORY B?

Category A – Satisfaction of a Performance Obligation	Category B – Compliance with Time Requirements
No deferred inflows or deferred outflows of resources	Both deferred inflows of resources and deferred outflows of resources <i>could be</i> present
Performance obligation is based on unit of account – delivery of an individual service	Compliance is based on agreement, law etc.
Could be measured through the respective asset or liability as an allocated amount (example: common area maintenance related to leased property)	May be singularly tied to a process – grant can only be spent in a particular period
Transfer of control of resources between parties occurs	Transfer of control of resources between parties occurs, but could revert due to disallowed elements



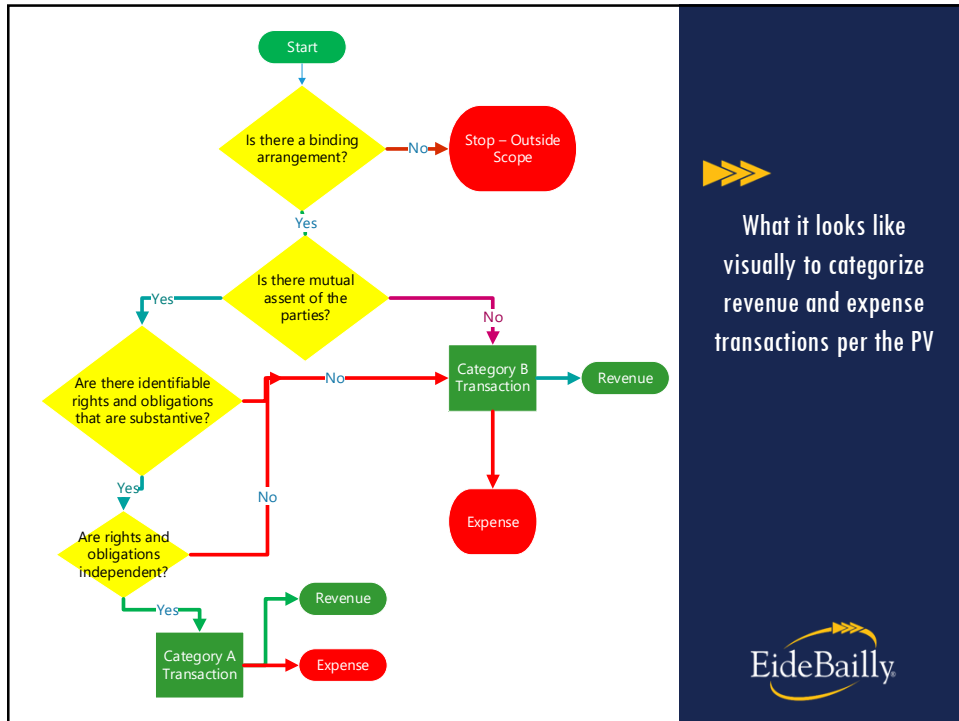
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TO GET TO CATEGORY A TRANSACTION...



- For revenues or expenses, there needs to be assessment of whether:
 1. There is a **binding arrangement**.
 2. **Mutual assent** of parties (that have capacity to agree).
 3. The parties have **substantive rights and obligations**.
 4. The rights and obligations are interdependent.
- If any are **not** present – Category B.
- GASB has not addressed situations where the binding arrangement cannot be identified.

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What it looks like visually to categorize revenue and expense transactions per the PV



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WHAT IS A BINDING ARRANGEMENT?

Within the scope of the PV, a binding arrangement is

- Understanding between two (or more) parties.
- Creates either rights, obligations (or both) among the parties to a transaction.
- Includes *rebuttable presumption of enforceability*.
- Has *economic substance*.

Includes

- Grant agreements.
- Memorandums of understanding.
- Contracts.
- Legislation:
 - Legislation is not contractual – but is a binding arrangement.
- Customer accounts for utility services.

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MORE ON BINDING ARRANGEMENTS

- What is a *rebuttable presumption of enforceability*?
 - Parties to the transaction must comply with the terms, but in government, can be overturned:
 - States have sovereign powers due to the 10th amendment to the Constitution – therefore binding arrangement not absolute.
 - Could include moral or constructive obligations.
- What is *mutual assent*?
 - Parties agree to terms and conditions.
 - Includes referendums to raise taxes.



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MORE ON BINDING ARRANGEMENTS

- What is *economic substance*?
 - Transaction results in economic consequences to the parties.
 - Results in expected change in risk, amount and timing of cash flows / services.
 - Should be substantial:
 - Bus fares are insubstantial individually, but in the aggregate are substantial.
- What are *substantive rights and obligations*?
 - Easy – providing goods and services in exchange for consideration.
- Binding arrangements could have multiple transactions within them:
 - Property taxes are a single binding arrangement, but many taxpayers pay taxes using the same terms and conditions.



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AS A RESULT...

- Categorization based on binding arrangements **could end GASB's guidance for the installment and cost recovery methods of revenue recognition:**
 - Mainly in payment plans, installment purchases and some construction contracts.

Category A	Category B
Fees for specific services – utilities, lottery, tuition	Taxes (property, sales, income)
Expenditure-driven grants	Purpose-restricted grants (and donations)
Research grants and revolving loans	Donations, pledges, perpetual trusts
Medicaid fee for services	Punitive fees (Fines, penalties, forfeitures)
Most expenses	Special assessments
	Regulatory fees (Licenses and fees, professional services, permits)
	Developer impact fees, PFCs (airports)

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TYPICAL TRANSACTION – EXPENDITURE DRIVEN GRANT RESULTING IN A CATEGORY A TRANSACTION

- Transit authority receives resources to provide elderly transit

Step	Activities
1. Grant agreement signed	<ul style="list-style-type: none"> • Identifies terms and conditions • Rebuttable presumption of enforceability (grantor and authority) • Economic substance (reimbursements)
2. Terms approved by grantor and grantee	<ul style="list-style-type: none"> • Signatories result in binding arrangement
3. Rights and obligations	<ul style="list-style-type: none"> • Grantee obliged to provide transit services to the elderly • Grantee has right to receive resources in reimbursement based on allowable costs • Grantor has obligation to make grant payments based on allowable costs • Grantor can direct activities in accordance with agreement / award
4. Parties are independent	<ul style="list-style-type: none"> • Grantee fails to perform, grantor doesn't pay • If resources provided in advance – grantor entitled to receive resources returned

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REVENUE RECOGNITION

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PROPOSED PRINCIPLES OF REVENUE RECOGNITION

- Receivable recognized when a legally enforceable claim arises in a revenue transaction:
 - Could occur at different points based on terms and conditions (e.g. milestones).
 - Advances received before legally enforceable claims are liabilities.
- Performance obligation approach used in Category A transactions:
 - **Discontinues earnings approach from GASB-62.**

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PROPOSED PRINCIPLES OF REVENUE RECOGNITION – STEPS IN CATEGORY A

1. Revenue recognized when / as a government satisfies its performance obligation (when a legally enforceable claim arises).
2. Unless an advance, performance obligations are not liabilities.
3. Once performance obligation is satisfied, inflow occurs (revenue).
4. Category A transactions can be satisfied immediately or over time:
 - Occurs when government transfers control between parties or a third party (trustee).



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PERFORMANCE OBLIGATIONS ARE DISTINCT GOODS OR SERVICES

- Each distinct good or service in a Category A binding arrangement is a performance obligation:
 - Providing a bus ride.
 - Completing medical care.
 - Delivery of water, sewer, electric utilities.
- Again, could occur at a point in time **or** over time:
 - Constructing a building in return for periodic payments.
- Future compliance for expenditure-driven grants not taken into consideration for recognition purposes.



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PROPOSED PRINCIPLES OF REVENUE RECOGNITION – STEPS IN CATEGORY B

1. Legally enforceable claim arises.
2. Resources received prior to legally enforceable claim – liabilities.
3. Compliance with time requirements establishes an inflow applicable to a period as they specify which period the resources are required to be used (e.g. period of availability in grants).
4. If no time requirements, revenue recognized when legally enforceable claim arises.



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WHAT DOES THIS ALL MEAN?

- Derived taxes (sales) – **not much change.**
- Imposed taxes (property, regulatory fees / licenses):
 - **Receivables recognized at imposition / lien date – establishes specific rate(s) for period(s).**
- Other imposed fees recognized based on due process of law:
 - **Speeding / parking tickets.**
 - **Zoning permits.**
- **Contractual binding arrangements - Category B:**
 - Donations, pledges, perpetual trusts:
 - Recognized when verifiable, probable, irrespective of time, contingencies addressed.
 - If elements outstanding – deferred inflows of resources.
 - PILOTs.
 - Purpose-restricted grants.



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OTHER TRANSACTIONS

- **Intergovernmental aid:**
 - Recipient recognizes receivable when payments are due *if both are met*:
 - Provider has appropriated funds and the period has begun.
 - Provider has determined that it *intends* to provide the resources.
 - Credit is revenue.
 - If aid appropriation cancelled:
 - Recipient(s) continue to report receivables if the payer will provide in the future.
 - If not provided in the future – reverse receivable.
- **Shared revenue – usually sales tax:**
 - Same as intergovernmental aid if required to be appropriated.
 - If not required to be appropriated – receivable arises with underlying sale transaction if:
 - Appropriation period begun.
 - Provider intends to send resources.



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WHAT DOES THIS ALL MEAN TO EXISTING GAAP?

- Guidance for voluntary and government-mandated nonexchange transactions modified to include:
 - Contractual binding arrangements
 - General aid
 - Shared revenue
- Clarifies property tax receivables.
- Modifies pledges and endowments.
- Clarifies recognition.
- Special assessments would be Category B.



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EXPENSE RECOGNITION

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PROPOSED PRINCIPLES OF EXPENSE RECOGNITION

- Payable recognized when a present obligation to sacrifice resources arises in an expense transaction (same as today):
 - Could be at different points based on terms and conditions in the binding arrangement.
 - Advances could occur:
 - Expense transactions when resources provided before a payable arises (prepaid asset).
 - Doesn't matter if advances are refundable.



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PROPOSED PRINCIPLES OF EXPENSE RECOGNITION – STEPS IN CATEGORY A

1. Expense recognized when / as a counterparty to a government satisfies its performance obligation (when a legally enforceable claim arises).
2. Execution of an expense contract would not be a payable until resources transfer.
3. Once performance obligation is satisfied, outflow occurs (expense).
4. Category A transactions can be satisfied immediately or over time:
 - Occurs when government transfers control between parties or a third party (trustee).



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REMINDER: PERFORMANCE OBLIGATIONS ARE DISTINCT GOODS OR SERVICES

- Each distinct good or service in a Category A binding arrangement is a performance obligation:
 - Auditing services evidenced by engagement letter
- Again, could occur at a point in time or over time:
 - Audit has various deliverables, each with separate budgets.
- Future compliance for expenditure-driven grants not taken into consideration for recognition purposes:

Does this look familiar??

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PROPOSED PRINCIPLES OF EXPENSE RECOGNITION – STEPS IN CATEGORY B

1. Payable recognized when present obligations to sacrifice resources occurs.
2. Resources provided prior to legally enforceable claim – prepaid asset.
3. Compliance with time requirements establishes an outflow applicable to a period as they specify which period the resources are required to be used (e.g. period of availability in grants):
 - Otherwise deferred outflow of resources.
4. If no time requirements, expense recognized when payable arises.



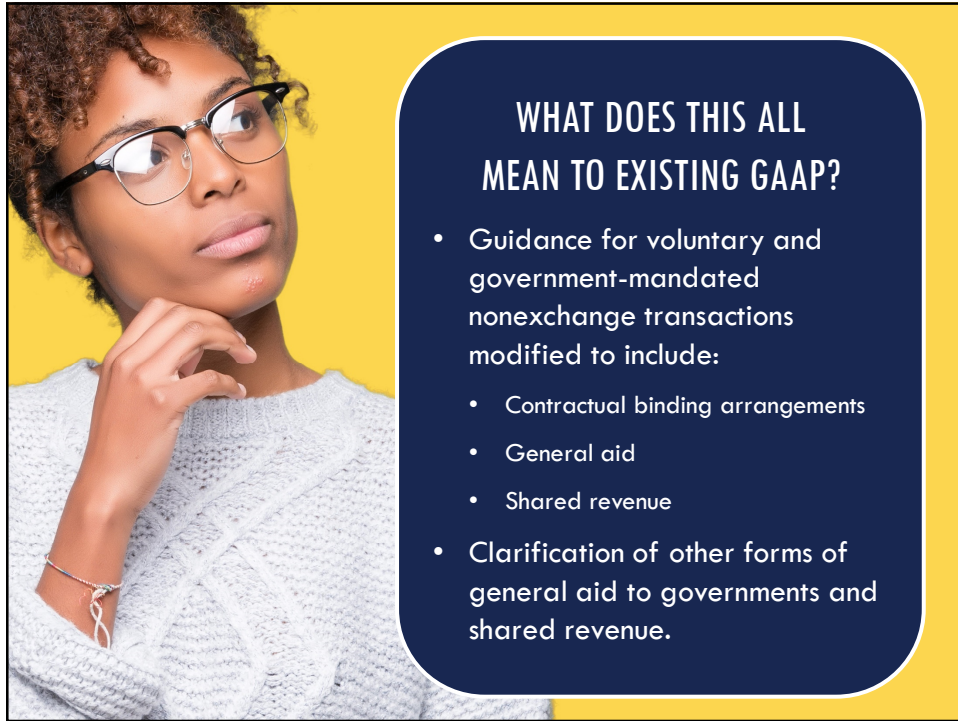
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OTHER TRANSACTIONS IN CATEGORY B

- General aid to governments transactions – providing resources from one government to another for a program – payables recognized when:
 - Provider has appropriated funds *and* the period applicable to the appropriation has begun; *AND*
 - The resource provider intends to provide the resources to the recipient.
- Cancellation provisions opposite of revenue.
- Shared revenue provisions – slight difference:
 - Resource provider has two transactions:
 - Imposition of tax
 - Sharing of revenue
 - If supported through periodic appropriations – same as general aid.
 - If supported through continuing appropriations – payable when shared revenue transaction occurs:
 - Appropriation and intention provisions are the same.



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WHAT DOES THIS ALL MEAN TO EXISTING GAAP?

- Guidance for voluntary and government-mandated nonexchange transactions modified to include:
 - Contractual binding arrangements
 - General aid
 - Shared revenue
- Clarification of other forms of general aid to governments and shared revenue.

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MEASUREMENT

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PRELIMINARY VIEW ON MEASUREMENT

Revenue should not include amounts that are

- Probable of becoming **uncollectible**
- Probable of **being refunded**

If there are no revenues to address collectability (loan receivables)

- Uncollectible amounts are outflows (expense)
- Probable refunded amounts – liabilities

Category A transaction amounts are likely allocated

- Based on satisfaction of performance obligations
- For grants – based on incurrence of allowable costs at the grant reimbursement rate – not the entire grant award

No major changes from existing GAAP

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PRELIMINARY VIEW ON MEASUREMENT

- Revenues and expenses should be measured based on the most liquid item in a transaction:
 - Revenue – amount of consideration *received* or receivable – the asset
 - Expense – amount of consideration *paid* or payable – the liability
 - Aligns to GASB Concepts 6, par. 8 and Concepts 1, par. 64 – allows for understandability, reliability, consistency and comparability
- Assets and Liabilities – measured consistently with the amount of consideration specified in a binding arrangement.
- Components may be:
 - Fixed
 - Variable
 - Result of a change in pricing / value
 - Nonmonetary
 - Part of a financing (interest)
 - Part of an incentive (discount)



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SHORT-TERM FINANCIAL RESOURCES APPLICATION


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APPLYING PV PROVISIONS TO FINANCIAL REPORTING MODEL

- Proposed financial reporting model for governmental funds (see Reporting Model Presentation) **IS IN PV** for revenue and expense recognition:
 - Focus is on inflows and outflows of financial resources.
 - Measurement is from inception of transaction to payment due date:
 - If less than 12 months – short term.
 - Longer than 12 months – long term.
 - ‘60 day accrual’ would no longer be GAAP (but could be budgetary / statutory).



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EXAMPLES OF CASES

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REVENUE CASES


Category A	Category B
<ul style="list-style-type: none">• Expenditure Driven Grant• Health Care Procedure• Revolving Loan / Grant• State Lottery• Summer Camp• Transit Pass• College Tuition	<ul style="list-style-type: none">• General State Aid to School Districts• Passenger Facility Charges• Pledges• Professional Licenses• Property Tax• Purpose-Restricted Donation• Special Assessment• State Sales Taxes Shared with Counties• Traffic Ticket



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EXPENSE CASES

Category A	Category B
<ul style="list-style-type: none">• Supplies• Teacher Salaries	<ul style="list-style-type: none">• Expenditure-Driven Grant• Revolving Loan / Grant



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TIMELINE FOR RESPONSES

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COMMENT PROCESS



- Comments are due **February 26, 2021**
- Public hearings scheduled – same dates, locations as financial reporting model
- User forum(s) likely being scheduled – again – same as FRM
- No specific questions like in the ITC

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QUESTIONS?

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