

# THE POWER OF BEING UNDERSTOOD

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# PREPARING FULL GAAP FINANCIAL STATEMENTS

Presented by RSM US LLP



October 24, 2018

# About the Speaker



- Joseph Evans, Partner at RSM US LLP
- Over 35 years of experience in the public sector
- Audit practice focus is in government organizations and *Government Auditing Standards*
- Responsible for providing financial and single audit services to governmental entities
- Audit partner on Indiana Public Employees Retirement System (INPRS)

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# RSM Organization

## Firm

- Assurance, tax and consulting services provider
- Over 90 years of quality service; established 1926
- Fifth largest accounting firm in U.S. (*Accounting Today*)
- Nearly 10,000 employees, over 1,000 in the Great Lakes Region
- 90 offices nationally; including Indianapolis, South Bend, Elkhart



## Government and PERS Practice

- Over 500 public sector clients
- State PERS clients in Indiana, Illinois and Ohio
- Regional practice and depth – including offices in Indiana (3), Illinois (7), Ohio (4) and Wisconsin (3)

# Learning Objectives

- Describe the new law changes House Enrolled Act (HEA) 1009
- Review current accounting practices
- Explain GAAP for governments
- Identify requirements for full accrual reporting
- Preparing a full accrual financial report

# House Enrolled Act 1009

- Requires full accrual financial statements
- May no longer issue bonds without GAAP basis report
  - After August 15, 2020 for schools
  - After June 30, 2020 for counties and municipalities
- For schools, the June 30, 2020 financial report must be in full compliance
- Other governments, the December 31, 2019 report must be in full compliance
- State directive 2016-1

# Benefits of the Full GAAP Approach

- Movements in cash alone do not measure performance
- Holding bills can result in big variances
- Measures short-term or long-term compliance or economic resources
- Accounts for restrictions
- Disclosures adequate to provide complete picture of governmental units for investors
- Component Units addressed
- More transparency
- More comparable to other governments

# Conversion Issues

- Capturing new data
  - Potentially may need to change how data is captured
  - May require system changes
- Potential Procedural Changes
  - Chart of Accounts/Fund structure
  - Potential new personnel
  - Accounting system changes/new system
  - Accumulating new data such as fixed assets
  - More complex reporting = more complex audit



# REVIEW OF GOVERNMENTAL GAAP

# Full Accrual GAAP Financial Statements

- Full Accrual Financial Statements
- Requires MD&A
- Modified accrual fund statements
- Full accrual entity-wide statements
- Reconciliation of the two perspectives
- Statement of cash flows for proprietary funds
- Full footnotes
- Required Supplementary Information
- Individual fund detail is optional
- Receivables, Payables, Fixed Assets (including infrastructure), Debt

# Reporting entity

- Primary Government-Governmental Activities, Business-Type Activities, Component Units
- Component units can be blended or discrete
- Inter-entity transactions with blended component units will need to be eliminated

# Number of Funds Principle

- Required by law and sound financial administration
- Minimum number consistent with legal & operating requirements
- Distinguish between accounting and financial reporting
- May want to combine funds for financial reporting
  - Combine smaller debt service into one
  - Combine smaller capital projects into one

# Fund Types

- Governmental
  - General
  - Special Revenue
  - Capital Projects
  - Debt Service
  - Permanent
- Proprietary
  - Enterprise
  - Internal Service
- Fiduciary
  - Pension
  - Investment trust
  - Private-purpose trust
  - Agency

# Basic Financial Statements

- Two distinct vantage points
  - Fund financial statements
  - Government-wide financial statements
- GASB concept of accountability
  - Fiscal accountability – focus on the current cycle
  - Operational accountability – long-term view
- From funds to activities
- From one measurement focus to another
- Change in basis of accounting
- Aggregation and consolidation

# The Reporting Entity

- Primary Government
  - General & special purpose govt qualifies as long as
    - Separate legal status
    - Separately elected governing body
    - Fiscal independence – can levy its own taxes
    - In Indiana - State, Counties, Cities and Schools
- Component Unit
  - Legally separate organization not a primary govt is a PCU
  - If the PCU is financially accountable it becomes a CU
    - Fiscal dependence + Financial benefit/burden
    - Board Appointment + Financial benefit/burden
    - Board Appointment + Ability to impose will

# Revenue Recognition in Governmental Funds

- Availability period – 60 days for all revenues
- Refunds and uncollectibles
- Unearned revenue
- Deferred inflows of resources
- Miscellaneous revenues – fees and miscellaneous charges
- Sales and Income taxes
- Property taxes –
  - Lien date
  - Period intended to finance
- Fines and forfeitures



# Expenditure Recognition in Governmental Funds

- Modified accrual basis of accounting
  - Recognize liability if expected to be liquidated with current financial resources (due and payable)
  - Salaries, professional services, supplies, utilities, etc.
- Liabilities to watch out for
  - Debt
  - OPEB & Pensions
  - Leases with scheduled rent increases
  - Certain specified liabilities
    - Compensated absences
    - Claims and judgments (including self-insurance)
    - Termination benefits
    - Landfill costs

# Other Financing Sources and Uses

- Sources
  - Issuance of long-term debt – at face value
  - Original issue premium on debt
  - Inception of a capital lease
  - Sales of capital assets
  - Transfers
- Uses
  - Original issue discount on debt
  - Payments to advance refund debt
  - Transfers

# Assets and Liabilities in Governmental Funds

- Assets
  - Demand deposits and similar financial assets
  - Property and other tax receivables
  - Interfund receivables
  - Inventories of supplies
  - Assets acquired for sale
  - Contributions to risk pools – depends on type of pool
- Liabilities
  - Accounts payable and accrued liabilities
  - Tax anticipation notes
  - Other liabilities to be liquidated with current resources
  - Interfund payables
  - Certain post-employment benefits due and payable

# Governmental Fund Financial Statements

- Focus on major funds
  - General fund is always major
  - Formula to determine if other funds are major
  - 10% test and the 5% test
  - Government officials judgment and public interest
- Sample calculation of major funds
- Nonmajor funds aggregated
- Major statements
  - Balance sheet
  - Statement of Revenues, Expenditures and Changes in Fund Balances
  - Optional Budgetary Comparison

# Tests to Determine if a Governmental Fund is Major

Financial statement element	Percentage of total reported for that element	
	Governmental funds (“10 percent test”)	Governmental funds + enterprise funds (“5 percent test”)
Assets + deferred outflows of resources	≥ 10%	≥ 5%
Liabilities + deferred inflows of resources	≥ 10%	≥ 5%
Revenues	≥ 10%	≥ 5%
Expenditures/expenses	≥ 10%	≥ 5%

# Potential Concerns with Fund Reporting

- Major funds will change year to year – want to maintain consistency
- Potential to aggregate similar funds into one major for financial reporting, i.e. debt, capital projects
- Review fund structure suggested by State Board

# Expenditures Reported by Character & Function

- Character
  - Current
  - Capital outlay
  - Debt service
- Functions
  - General government
  - Public safety
  - Highways & Streets
  - Health & welfare
  - Culture & Recreation
- Programs or organizational units within functions (Pub Safety)
  - Police
  - Fire
  - Corrections

# Enterprise Funds

- Operate like private-sector businesses
- Specific exceptions to the private sector
  - Debt Refundings
  - Compensated absences
  - Postemployment benefits
  - Cash flows
  - Net Position categories
  - Unique transactions
    - Connection fees
    - Developer fees



# Internal Service funds

- Cost reimbursement
- Identity of customers
- Must be eliminated for entity-wide reporting
- Governmental activities vs. business type

# Proprietary Fund Financial Statements

- Statement of net position
- Classified presentation required
- Major funds reported individually – 5% and 10% test
- Recommendation to treat all utilities as major
- Reconciliation to business-type if differences exist
- Net Position
  - Net investment in capital assets
  - Restricted
  - Unrestricted

# Proprietary Fund Financial Statements, continued

- Statement of revenues, expenses, and changes in net position
- Operating vs. nonoperating
- Major fund reporting
- Statement of Cash Flows
  - Operating
  - Noncapital financing activities
  - Capital and related financing activities
  - Investing Activities
- Reconciliation of operating income to operating activities
- Disclosure of any noncash transactions, i.e. capital contributions
- Must be easily traceable

# Fiduciary Fund Accounting

- Used to report funds in a trustee/agency capacity for others
- Fiduciary funds
  - Pension trust
  - Investment trust
  - Private-purpose trust
  - Agency
- Government as a trustee vs agent
- Liabilities and net assets for benefits

# Fiduciary Fund Financial Statements

- Single column for each fund type, no major/nonmajor
  - Pension
  - Investment trust
  - Private-purpose trust
  - Agency
- Statement of Fiduciary Net Position
  - Not classified
  - Net position on descriptor – For example, Net assets restricted for benefits
- Statement of Changes in Fiduciary Net Position
  - Not required for agency funds
  - Use increases and decreases, not revenues or expenses
  - Changes coming with GASB 84 in 2019

# Required Supplementary Information

- Budget to actual data (General Fund and Major Special Revenue Funds)
- Pension and OPEB funding progress
- Pension and OPEB NPL and contribution data
- Notes to the RSI

# ACCOUNT LEVEL DETAIL

# Cash and cash equivalents

- Includes Cash equivalents
- Includes all bank accounts and cash on hand
- Accounting for comingled cash
- Total cash and cash equivalents in the cash flows statement must reconcile to the Statement of Financial Position
- Description of the types of collateral
- Any departments with their own checkbook, activity must be captured
- Any agency activities? School accounts?



# Investments

- Investments are carried at fair value or amortized cost
- Accounting for comingled investments
- Most debt securities need disclosure of investment ratings
- Investments reported by level
- Investments carried at NAV

# Property Taxes

- Modified accrual
  - Revenue is measurable and available
  - Lien date – date when there is an enforceable lien – normally recognize
  - Due date – when are the taxes due
  - Availability period – when is cash received
  - Unavailable property tax revenue creates a deferred inflow
  - Period intended to finance
- Full accrual
  - Collections are irrelevant
  - Record full receivable on lien date, subject to period and any allowance for uncollectibles
  - Deferred inflow is reversed

# Other Tax Receivables

- Revenue recognized for other taxes based upon the underlying transaction date
- Sales taxes are recognized on the date of sale which usually occurs several months before the receipt of cash
- Income and excise Taxes similar time lag
- Remember the availability criteria for modified accrual. Any unavailable revenue becomes a deferred inflow

# Other Receivables

- Grants – Formula and other grants not subject to matching becomes revenue when the grant takes place and an appropriation has been made, subject to the availability criteria
- Matching grants are not recognized until the matching criteria has been met
- Customer accounts
  - Billed and unbilled water/sewer
  - Subsidiary ledger used for tracking
  - Allowance for uncollectibles
- Miscellaneous receivables are generally recognized based upon the transaction date (eg interest, licenses, permits, various fines & fees)

# Inventories of Supplies & Prepaids

- Inventories of Supplies
  - Options for modified accrual reporting
  - Consumption method – recognize expense when consumed
  - Purchases method – recognize expense when purchased
  - Any Inventory balances at year end need to have a fund balance reserve for nonspendable amounts
- Prepaid expenses – match expense with period

# Capital Assets

- Capital assets are recorded at historical cost
- Need to establish a fixed asset capitalization threshold
- GFOA recommends \$5,000, but you really need to look at your individual circumstances
- Establish fixed asset lives
- Fixed assets should be categorized by function and governmental assets clearly segregated from business type
- Inventory of fixed assets
- Infrastructure assets (streets, roads, utilities)
- Construction in-progress
- Fixed asset rollforward
- Depreciation by function

# Accounts Payable and Accrued Expenses

- Payables are normally liquidated with expendable available resources
- Transactions occurring in the normal business operations will need to be captured at year end for both modified accrual and full accrual
- Expenditure recorded based upon the date the service rendered or goods received regardless of when paid
- May want to employ this procedure monthly
- Need extra diligence at year end to ensure all payables are captured (retainage payable)
- Exceptions for governmental funds
  - Compensated absences
  - Long-term debt
  - Claims and judgments (self-insurance)
  - Pension and OPEB
  - <sup>38</sup>Pollution remediation

# Encumbrances

- Represents amounts that a government has committed to pay for goods and services.
- GASB 54 defines how to report encumbrances
- Encumbrances do not equal payables
- Accounts payable at year end can be greater or less than amounts encumbered
- Encumbrances represent a reserve of the entities budget whereas payables represent actual goods and services incurred, but not yet paid



# Compensated Absences

- Calculated using the balance of earned, but unused vacation time as of year end at current rates plus employer taxes and certain benefit costs
- Leave time usually does not require current financial resources so it is normally not reported for modified accrual
- Would be reported in governmental funds only to the extent pending payouts exist for employees separated from active service

# Loans, Bonds and Notes Payable

- Tax anticipation warrants (TAWs) are always reported as a fund liability
- Loans, bonds and notes payable are typically not reflected as fund liabilities
- Individual debt service funds vs. combined for financial reporting

# Pension and OPEB Liabilities

- Defined benefit pension liabilities are required to be reported under full accrual
- Same for Other Post-Employment Benefits (OPEB)
- Annual expense requires an actuarial calculation
- Employee census data and actuarial assumptions are critical to these calculations and is often the subject of auditor scrutiny
- Plan to have an actuary perform a valuation in accordance with GASB 75

# PREPARING GAAP FINANCIAL STATEMENTS

# Format of the Report

- Introductory
  - Cover
  - Table of contents
- Independent Auditor's Report
- MD&A
- Government-Wide Financial Statements
- Fund Financial Statements
  - Governmental
  - Proprietary
  - Fiduciary
- Footnotes
- Required Supplementary Information
- Combining and individual fund information is optional

# Introductory Section and Format

- Cover
  - Name of government
  - Annual Financial Report
  - Fiscal year
- Table of contents
  - Organized by major section
  - Clearly distinguish
    - Basic financial statements
    - RSI
    - Other data
  - Identify each statement and schedule by its full title
- Format
  - Use whole dollars, never report pennies
  - All pages should be numbered
  - Facing pages permitted

# OVERVIEW OF GOVERNMENT-WIDE STATEMENTS (GWFS)

# Measurement Focus, Basis of Accounting

- Measurement focus – economic resources (all assets and liabilities)
- Basis of accounting (when to record) – accrual basis
  - *All* assets and deferred outflows of resources
  - *All* liabilities and deferred inflows of resources
  - *Net position (equity)*



# Basic Financial Statements

- MD&A
- Statement of net position (balance sheet)
- Statement of activities (operating statement)
- Fund financial statements
  - Governmental
  - Proprietary
  - Fiduciary
- Statement of cash flows (proprietary funds only)
- Footnotes
- RSI

# MANAGEMENT'S DISCUSSION AND ANALYSIS

# Managements Discussion & Analysis (MD&A)

- MD&A is presented before the basic financial statements
- Describe the basic GWFS and Fund financial statements
- Report condensed financial data for current and preceding year
- Analysis of the significant changes in operations
- Describe significant variances with budget
- Describe significant capital asset and debt activity
- Other currently known facts, economic condition and outlook that could impact results
- Prescribed format required by GASB
- Stick to the required format

# GOVERNMENT-WIDE STATEMENT OF NET POSITION

# Formatting

- Net position format

Assets	\$	200	
Deferred outflows of resources		<u>10</u>	
Subtotal			\$ 210
Liabilities		(100)	
Deferred inflows of resources		<u>(20)</u>	
Subtotal			(120)
Net position			<u><u>\$ 90</u></u>

# Presentation of Assets and Liabilities

- Relative order of liquidity
- Classified presentation
  - Current
  - Noncurrent

# Capital Assets

- May not present depreciating and non-depreciating assets in a single line

Capital assets:	
Land and construction in progress	\$ 4,500
Depreciable buildings, machinery, and improvement	1,200
Total Capital Assets	\$ 5,700

# Liabilities

- Relative order of liquidity approach
- Report together but disclose components

Liabilities:			
Type A			\$ 200
Type B			300
Type C			
Due within one year	\$	100	
Due in more than one year		<u>2,200</u>	
			<u>2,300</u>
Total liabilities			<u><u>\$ 2,800</u></u>



# Inter-Entity Receivables/Payables

- Receivables and payables between governmental activities and business-type activities must be eliminated

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Primary Government Total</u>
Internal balances	\$ 1,500	\$ (1,500)	\$ -

# Discretely Presented Component Units

- Options
  - Single column for all units
  - Separate column for each unit
  - Separate column for each major unit
- Detail on each major unit within basic financial statements
  - Separate column
  - Combining statement
  - Condensed statements in notes
  - Blended are already considered funds

# Net Position

- $\text{Assets} + \text{deferred outflows} - \text{liabilities} - \text{deferred inflows} = \text{net position}$

Three categories presented:

- Net investment in capital assets
- Restricted net position
  - Note the nature of the restrictions must be on the face of the financial statements
- Unrestricted net position

# Net Investment in Capital Assets

- Capital Assets (both tangible and intangible)
- Less: Accumulated depreciation/amortization
- Less: Outstanding principal of capital-related borrowings
- Less: Debt used to refund capital-related borrowings
- Less: Any other capital-related liabilities including accounts payable or retainage payable
- Plus: Unspent bond proceeds related to capital borrowings
- Plus: Original issue discounts on outstanding capital debt
- Less: Original issue premiums on outstanding capital debt
- Plus: Capital-related deferred outflows of resources such as a loss on refunding of outstanding capital debt

# Restricted Net Position

- Formula:

Restricted resources

Less: Related liabilities and deferred inflows

Restricted net position

- Related liabilities

- Liabilities that will be repaid from restricted resources

- Exclusive of capital-related debt

- Liabilities that provided restricted resources

- Restricted = externally enforceable limitations on use

- Includes constitutional provisions, bond covenants, grants and enabling legislation

# Definition of Restrictions

- Restrictions must be substantive
  - Governmental activities
    - Purpose narrower than governmental activities
  - Business-type activities
    - Purpose narrower than individual enterprise fund
- Always a positive balance
- Flow assumptions may be necessary – are you using restricted first or unrestricted first
- Nature of restrictions must be on the face of the financial statements

# Unrestricted Net Position

- Residual category – whatever is left after
  - Net investment in capital assets (could be negative)
  - Restricted (cannot be negative)

# GOVERNMENT-WIDE STATEMENT OF ACTIVITIES



# Format

- Present expenses before revenues
  - Reflects public sector focus on service rather than profit

# Level of Detail for Expenses

- Governmental activities
  - Function or program (police, fire, general government)
- Business-type activities
  - Different identifiable activities
    - ❑ *Different* = types of goods, services or programs
    - ❑ *Identifiable* = specific revenue stream and related expenses, gains, and losses that are accounted for separately (water and electric would be reported on separate lines)
- Greater detail encouraged

# Capital Assets

- Need to develop a capitalization policy. Example policy includes dollar threshold and estimated useful life.
- Disclose depreciation method
- Donated capital assets

# Depreciation

- Direct cost of the function that uses the asset
  - Example: depreciation on police vehicles
- Assets used in multiple functions
  - Allocate ratably among functions
- Assets used by essentially all functions
  - Include in *general government*
    - Infrastructure? Include in appropriate function*
  - Report separately as unallocated depreciation

# Interest Expense

- Reported as a separate line item, interest is not allocated

Functions / Programs	Expenses
<b>Primary government</b>	
Governmental activities:	
General government	\$ 8,398,334
Public safety	16,783,245
Public works	12,398,029
Welfare and social services	499,899
Parks and recreation	2,345,675
Interest on long-term debt	1,211,098
	<hr/>
Total governmental activities	<u><u>\$ 41,636,280</u></u>

# Program Revenues

- Charges for services
- Program-specific grants and contributions
- Excluded
  - Taxes
  - Grants and contributions that are not program specific
- Include
  - Special assessments
  - Expenditure-driven grants
  - Single-program grants
- Three basic categories
  - Charges for services (functions that generate their own revenue)
  - Operating grants and contributions (program specific not capital)
  - Capital grants and contributions (can only be used to purchase capital assets)

# Capital Grants and Contributions

- Capital = not available for operations
  - A grant that could be used for either capital or operating purposes is an *operating* grant
- Capital = capital asset of the government
  - Pass-through capital grants are not *capital* from the perspective of the pass-through government

# Assigning Costs to Functions

- Charges for services
  - Report in the function that *generated* the revenue
- Could require modification of the general ledger to ensure revenues are properly tracked by function or activity



# Governmental vs Business-Type

- Separation helps to highlight different expectations
  - Governmental activities
    - Program revenue not expected to recover a significant portion of cost
  - Business-type activities
    - Program revenue expected to recover a significant portion of cost or break even
    - Rates set to cover the cost of goods or services

# Primary Government Total

- Consolidated
  - Transfers between governmental activities and business-type activities eliminated

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Change in net position			
Net revenues (expenses)	<u>\$ (24,234,309)</u>	<u>\$ 38,746,231</u>	<u>\$ 14,511,922</u>
General revenues:			
Property taxes	15,122,093	98,937	15,221,030
State shared revenues	2,312,475	-	2,312,475
Grants and contributions not restricted to specific programs	1,221,359	-	1,221,359
Unrestricted investment earnings	223,796	-	223,796
<b>Transfers</b>	<u>4,850,000</u>	<u>(4,850,000)</u>	<u>-</u>
Total general revenues and transfers	<u>23,729,723</u>	<u>(4,751,063)</u>	<u>18,978,660</u>

# General Revenues

- All revenues that do *not* qualify as program revenues
  - Taxes (property, sales, income, excise, franchise, etc.)
  - Grants and contributions that are not assignable to specific functions/programs (base operating grants)
  - Investment earnings

# Component Units

- One or more separate columns
- Data extracted from total column of component unit report
  - Entity-wide column (if it had been presented) to ensure component units of component unit also are included
- Component unit financial reporting – FASB vs. GASB

# GOVERNMENTAL FUNDS STATEMENTS

# Governmental Funds Balance Sheet

- Focus on major funds
- Excludes non-financial assets and long-term liabilities
  - Capital assets
  - Long-term debt
  - Compensated absences
  - Claims and judgments
  - Pension and OPEB
  - Pollution remediation
- $\text{Assets \& deferred outflows} - \text{liabilities \& deferred inflows} = \text{fund balance}$
- Fund balance categories
  - Nonspendable
  - Restricted
  - Committed
  - Assigned
  - Unassigned

# Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds

- Focus on major funds
- Format
  - Revenues
  - Expenditures
  - Excess (deficiency) of revenues over expenditures
  - Other financing sources and uses
  - Special and extraordinary items
  - Net change in fund balance
- Revenue classified by source
- Expenditures classified by character and function
  - Current
  - Capital outlay
  - Debt service
- Other financing sources and uses
  - Debt related
  - Transfers
  - Proceeds from sale of capital assets

# Proprietary Fund Financial Statements

- Enterprise and Internal service funds
- Internal service funds are never major – allocated to governmental activities and business type activities
- Focus on major enterprise funds



# Statement of Net Position – Proprietary Funds

- Assets & liabilities classified as current and noncurrent
- Assets and deferred outflows – liabilities and deferred inflows = net position
- Elements of net position
  - Net investment in capital assets
  - Restricted
  - Unrestricted

# Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds

- Operating and nonoperating
- Taxes and grants are nonoperating
- Operating income/loss reported as a separate line
- Amounts should tie to amounts reported for business-type activities in the GWFS or a reconciliation is necessary

# Statement of Cash Flows– Proprietary Funds

- 4 categories of cash flows
  - Operating activities
  - Noncapital financing activities
  - Capital and related financing activities
  - Investing activities
- Cash receipts and disbursements should be reported gross
- Total cash and cash equivalents must reconcile to the Statement of Net Position
- Reconciliation of operating income and cash provided from operating activities
- Information also required for any non-cash financing activities such as capital assets acquired by a capital lease

# Statement of Fiduciary Net Position

- Fiduciary fund types include
  - Pension trust
  - Private-purpose trust
  - Investment trust
  - Agency
- For trust funds, assets & deferred outflows – liabilities and deferred inflows = net position
- For agency funds assets = liabilities

# Statement of Changes in Fiduciary Net Position

- Excludes agency funds
- 2 major sections additions and deductions
- Specific rules relating to pension and OPEB funds

# Notes to the Financial Statements

- Summary of Significant Accounting Policies
- Cash and Investments
- Property taxes
- Capital assets
- Debt
- Derivatives
- Tax abatements
- Pension/OPEB
- Related party transactions
- Interfund activities
- Fund balance restrictions
- Risk financing
- Segment Information for enterprise funds
- Commitments and contingencies
- Subsequent events
- Major component unit information
- Restatements

# Summary of Significant Accounting Policies

- Discuss the reporting entity & component units
- Disclose measurement focus and basis of accounting used in the GWFS
- Disclose availability period for revenue recognition
- Accounting policies for
  - Capital assets
  - Accounts receivable and related allowances for doubtful accounts
  - Compensated absences
  - Investments
- Define cash equivalents
- Disclose the activities reported in major funds
- Disclose flow assumptions for use of restricted resources
- Pending pronouncements

# Cash and Investments

- Bank deposits exposed to custodial credit risk
  - Uninsured and uncollateralized balances
  - Collateralized with securities held by counterparty
  - Collateralized with securities held in trust but not in the government's name
- Definition of cash equivalents
- Credit ratings of debt securities
- Fair value hierarchy (level 1, 2, 3) and description of valuation method
- Investments at NAV
- Alternative investments
- Investment pools



# Property Taxes

- Property tax calendar
  - Lien date
  - Levy date
  - Due dates
  - Collection dates
- It is a best practice to indicate the FY the levy is intended to finance as it is part of revenue recognition
- Availability period, i.e. 60 days

# Capital Assets

- Report separately all major classes
- Governmental activities separate from business type activities
- Separate nondepreciable from depreciable
- Accumulated depreciation reported as a separate item
- Changes in capital assets and depreciation during the year
- Depreciation expense charged to governmental function and business-type activity in the government-wide statement of activities

# Debt

- Detail of each outstanding debt issue, purpose, original amount, major covenants, interest rate, range of maturities
- Current and noncurrent balances
- Debt service to maturity for all outstanding debt
  - Debt service payments for each of the next 5 years
  - Principal and interest presented separately
  - Debt service payments for subsequent years in 5 year increments
  - Variable interest rate terms and other specialized disclosures

# Other Debt Related Disclosures

- Leases
  - Describe lease arrangements for capital leases
  - Long-term operating leases – GASB 87 eliminating
- Significant commitments
- Schedule of changes in short-term debt even if none outstanding at year end
- Debt refundings
- In-substance defeasance of debt using only existing resources – GASB 86
- Special assessment debt that the government is not responsible for
- Conduit debt

# Derivatives

- Organized by
  - Governmental activities
  - Business-type activities
  - Fiduciary funds
- Types
  - Hedging
  - Investment derivatives
- Significant disclosures

# Tax Abatements

- Primary government direct agreements
  - Description, name, purpose
  - Gross dollar amount of revenue reduced
  - Amounts received or receivable from other governments
  - Any other commitments in addition to reducing taxes
  - Dollar threshold for individual agreements
- Other government's agreements reducing the entities revenue
  - Description, name, purpose
  - Gross dollar amount of revenue reduced
  - Amounts received or receivable from other governments
  - Dollar threshold for individual agreements

# Pension and OPEB

- Disclosures are extensive
- Descriptions of the plans
- Key terms – classes of employees covered, types of benefits, key elements of pension formulas, COLAs, etc
- Contribution requirements
- Information about the pension/OPEB liability
  - Inflation
  - Salary changes
  - Mortality assumptions
- Discount rate

# CONVERTING FROM MODIFIED ACCRUAL TO FULL ACCRUAL



# Adjustments Overview-Statement of Net Position

- Add items not reported in governmental funds
  - Long-term receivables
  - Revenue due to availability period
  - Capital assets
  - Unmatured principal of long-term debt
  - Unmatured interest payable on long-term debt
  - Any portion of certain accrued liabilities that “normally” are not expected to be liquidated currently with expendable, available financial resources
  - Deferred outflows and inflows of resources
  - Internal service fund allocation
  - Pension/OPEB

# Adjustments Overview-Statement of Activities

- Remove certain items reported in governmental funds
  - The issuance of long-term debt including discounts and premiums
  - Debt service principal payments
  - Capital outlays
  - The receipt of the proceeds of the sale of capital assets

# Adjustments Worksheet

- Format = traditional worksheet used to prepare financial statements
  - Governmental funds = preclosing trial balance
  - General government accounts = opening balances (*previous year ending balances*)
- Sequence of adjustments
  - Adjust statement of resource flows
    - Automatically adjusts statement of position
    - Adjustments could impact restricted net position
- At the end of the process
  - Other financing sources/used eliminated
  - Expenditures => expense
  - Fund balance
  - + NET POSITION – GENERAL GOVERNMENT
  - Net position – governmental activities
- Recommend creating a GASB 34 fund to track these adjustments and roll forward equity adjustments

# SUMMARY AND CONCLUSION

Where do I begin

# Actions Items and Next Steps

- Make sure the general ledger is capturing the correct data
  - Revenues & expenditures by function
  - Adjustments should be made before the start of the fiscal year
  - Review fund structure to make sure minimum required funds
- Plan to create an opening modified accrual balance sheet
  - Identify adjustments to receivables, payables, prepaids, taxes, etc
  - Needs to be done as of the beginning of the fiscal year
  - Differences identified between the cash basis will be highlighted in the financial report in the year of conversion
- Make system changes if recording modified accrual throughout the year
- Identify major funds
- Ensure data is available for modified and full accrual adjustments

# Actions Items and Next Steps - continued

- Identify footnote disclosures
- Identify RSI
- Fixed assets
  - Perform physical inventory of all assets and infrastructure
  - Establish capitalization policy
  - Review asset lives
  - Conduct historical cost appraisal
  - Ensure assets are segregated by activity so that depreciation can be assigned to activities
  - Segregate depreciable assets from nondepreciable
- Create a proforma modified accrual set of financial statements

# QUESTIONS AND ANSWERS?

FOR FOLLOW UP  
QUESTIONS

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