

# THE POWER OF BEING UNDERSTOOD

AUDIT | TAX | CONSULTING



# PREPARING FULL GAAP FINANCIAL STATEMENTS

Presented by RSM US LLP in Connection with  
The Indiana State Board of Accounts

October 19, 2018

# INTRODUCTION

Key Speakers Today



# Indiana State Board of Accounts

- Paul Joyce, State of Indiana Auditor General
  - Tammy R. White, CPA, Deputy State Examiner
  - Debra Gibson
- 
- Indiana State Board of Accounts  
302 W. Washington Street, Suite E418  
Indianapolis, IN 46204  
Ph: (317) 232-2514  
Fax: (317) 232-4711  
email: [twhite@sboa.in.gov](mailto:twhite@sboa.in.gov)

# RSM Team Members



**Joseph Evans**

Partner

[Joseph.evans@rsmus.com](mailto:Joseph.evans@rsmus.com)

312.634.4540



**Ernie Almonte**

Partner

[Ernie.almonte@rsmus.com](mailto:Ernie.almonte@rsmus.com)

617.241.1390



**Chuck Christner**

Partner

[Chuck.christner@rsmus.com](mailto:Chuck.christner@rsmus.com)

574.296.3842



**John George**

Partner

[John.George@rsmus.com](mailto:John.George@rsmus.com)

312.634.4402

# RSM Team Members (Continued)



**Kelly Kirkman**  
Senior Manager

[Kelly.kirkman@rsmus.com](mailto:Kelly.kirkman@rsmus.com)

312.634.4407



**Bill Sarb**  
Senior Manager

[Bill.sarb@rsmus.com](mailto:Bill.sarb@rsmus.com)

847.413.4709



**Michael Jarda**  
Senior Manager

[Michael.jarda@rsmus.com](mailto:Michael.jarda@rsmus.com)

317.805.6282



**Linda Abernethy**  
Partner

[Linda.abernethy@rsmus.com](mailto:Linda.abernethy@rsmus.com)

847.413.6248

# 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

- Understand the new law changes House Enrolled Act (HEA) 1009
- Review current accounting practices
- Understand GAAP for governments
- Requirements for full accrual reporting
- Preparing a full accrual financial report
- Our focus is primarily on general principles, but will address some specific matters
  - Counties
  - Schools
  - Municipalities



# Agenda

- Overview of HEA 1009
  - Current State/Future State
  - Review of governmental GAAP
  - Preparing government-wide financial statements
  - Conversion and consolidation
  - Wrap-up
- 20 min
  - 10 min
  - 120 min
  - 120 min
  - 20 min
  - 10 min

# OVERVIEW OF THE NEW LAW

House Enrolled Act 1009

# 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

# HEA 1009 – Timing of Implementation

Year-End	HB 1009 Date	Gateway Due Date	Extended Financial Due date	Propose Mod Accrual Opening Balances	Assistance with Opening Balances and Testing of Balances for Identification of Issues
12/31/18	12/31/2019	3/1/2020	30-May-20	12/31/2018	1/1/19 thru 6/30/19
6/30/18	6/30/2020	8/29/2020	11/31/2020	6/30/2019	7/1/19 thru 12/31/19

# Full GAAP Financial Statements and Benefits

- Management's Discussion and Analysis
- Entity-Wide financial statements
- Fund financial statements
- Reconciliation of the two
- Full footnotes
- Required Supplementary Information
  - Pension and OPEB data
  - Budgetary data
  - Notes to RSI
- Benefits
  - Current financial resources
  - Long-term fiscal health
  - Compliance

# 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
- Conversion costs
  - Current period plus ongoing
  - Potentially may be charged to future bond issues

# Assistance from RSM Team

- We are here for you
- Training for your staff
- Modifications to your system to accumulate needed data
- Standard monthly journal entries for modified accrual
- Assistance with monthly and year-end closing
- Assistance with year-end audit preparation
- Conversion templates for full accrual
- Drafting year-end financial statements and footnotes
- Actuarial services

# CURRENT STATE OF FINANCIAL REPORTING



# Most IN Governments Follow the Statutory Approach

- Cash basis statements
  - Cash balances
  - Focus on receipts/disbursements not revenues/expenditures
- Reporting by department not function
- No modified accrual/full accrual
- Fixed assets and debt not reported in statements
- Required Supplementary Information not presented
- Footnotes missing certain disclosures
- Combining financial information presented in some cases
- Component Units not consistently addressed

# Highlights of the Statutory Approach

- Easy to comply
- Easy for lay persons to understand
- Consistently applied
- Financial information flows directly from accounting systems
- Gives a good picture of cash available, cash flows and some indication of spending patterns
- Budgetary comparisons easy

# Drawbacks of the Statutory Approach

- Movements in cash alone do not measure performance
- Holding bills can result in big variances
- Does not measure short-term or long-term compliance or economic resources
- Does not account for restrictions
- Disclosures inadequate for investors
- Component Units not addressed

# FUTURE STATE BASED UPON THE NEW LAW

# Full Accrual 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, 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

# Benefits of Full Accrual

- More comparable to other governments
- Truer picture of compliance with laws, regulations and restrictions
- Shows how the government is doing currently (fund perspective) and over the long-term (government-wide perspective)
- Eliminates variances that arise from the mere timing of cash payments
- Contains valuable information for bond holders and investors
- A step closer to the GFOA Certificate of Achievement for Excellence

# Essential Characteristics of Financial Data

- Understandable
- Reliable
- Relevant
- Timely
- Consistent
- Comparable



# OVERVIEW OF GOVERNMENTAL FUND ACCOUNTING

# Government Environment

- Profit motive vs. Service motive
- Return on investment vs. Stewardship and Compliance
- Appropriated budget vs. financial plan
- More than one measurement focus
- Fund accounting
- Budgetary Reporting

# Fund Accounting

- Present fairly the activities in accordance with GAAP
- Demonstrate compliance with legal & contractual provisions
- Fund – self-balancing set of accounts segregated for specific activities or objectives
- Number of funds – minimum number consistent with legal & operating requirements
- Fund categories
  - Governmental – activities supported by taxes, grants and similar
  - Proprietary – Business type activities
  - Fiduciary – Resources belonging to others
- Assets and deferred outflows – liabilities and deferred inflows = fund balance

# 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
  - Combine smaller grants into one special revenue fund

# Fund Types

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

# Chart of Accounts/ Fund Structure

- State Board has issued guidance
  - Counties
  - Municipalities
  - Schools
  - Other Governments

# Guidance from the State Board

- Review detail of chart of accounts and fund structure
- Municipals
- Counties
- Schools

# Interfund Activity

- Interfund loans – Due to/due from
- Interfund services provided and used
- Interfund transfers
- Interfund reimbursements



# 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

# Primary Government and Component Units

- Primary government
  - Separate legal status
  - Separately elected governing body
  - Fiscal Independence
- Component Units
  - Fiscal dependence
  - Board appointment
  - Misleading to exclude (college foundation)
    - Direct benefit
    - Access to resources
    - Significant
  - Blended vs. discretely presented

# 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

# Fiscal Dependence

- Fiscal Dependence
  - Does the PG control/influence financial management
    - Approval of PG required
      - Budget
      - Tax levy
      - Rates & charges
      - Issuance of debt

# Financial Benefit/Burden Relationship

- Financial benefit
  - PG is legally entitled to the assets of the PCU
  - PG controls the assets of the PCU
  - Excludes exchange/exchange-like transactions
- Financial Burden
  - PG has legal obligation to provide financial support or fund deficits
  - PG is obligated “in some manner” for the debt of the PCU

# Board Appointment

- PG appoints a voting majority of the PCU's governing board

# Ability of PG to Impose its Will

- PG has the legal authority to influence programs, projects, activities, or level of services provided by the PCU
  - Ability to remove Board members
  - Ability to modify or approve PCU's budget
  - Ability to modify or approve PCU's rates or fees charged
  - Ability to override or veto decisions of the PCU's board
  - Ability to hire/fire senior management
  - Other similar conditions

# Misleading to Exclude

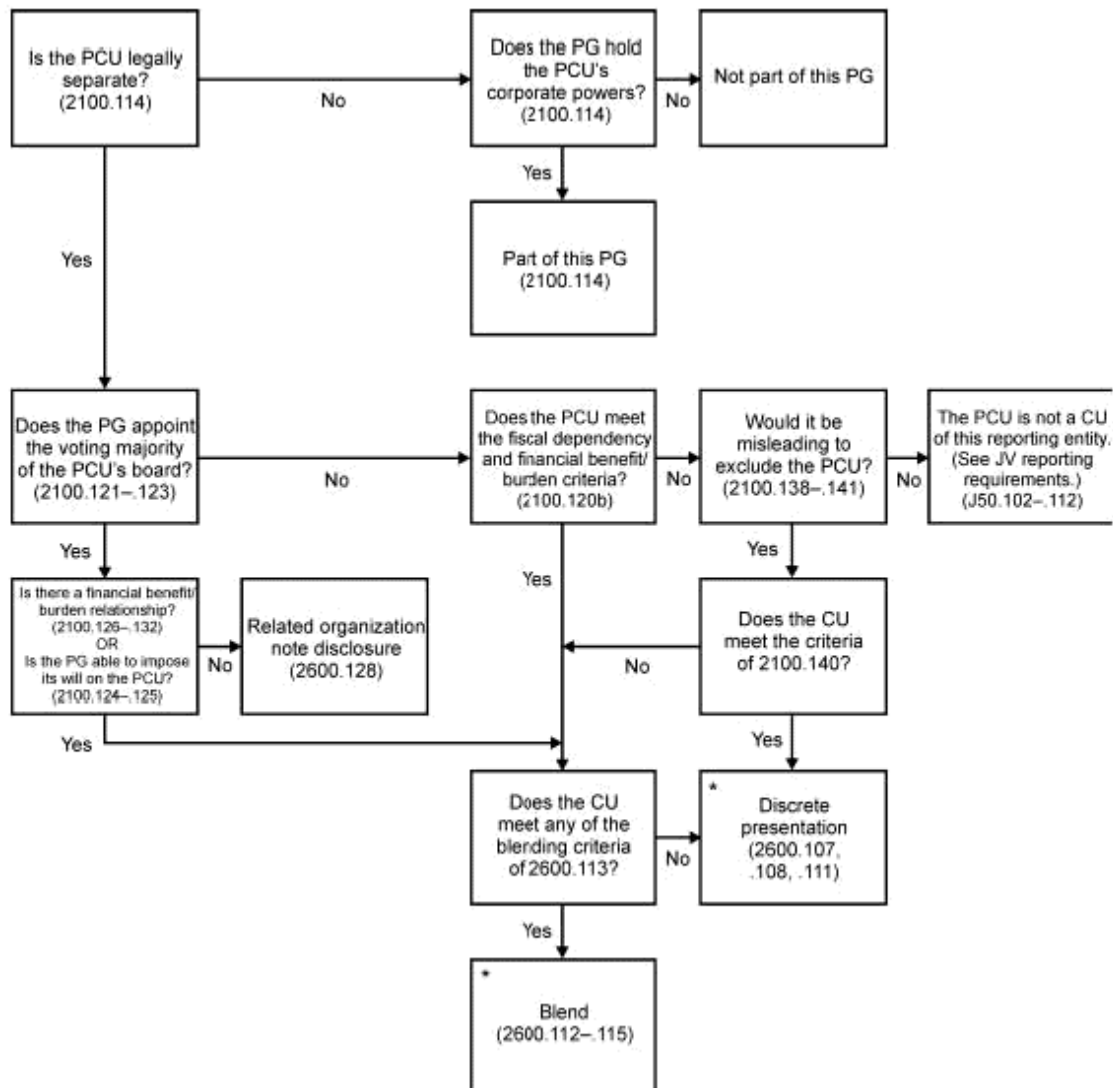
- Nature and significance of the PCU is so significant to exclude would be misleading
- A PCU that meets all the following should be included
  - Direct benefit – PCU provides nearly exclusive benefit to PG
  - Access to resources – PG can access the resources
  - Significance – PCU significant to the PG
- Examples
  - College/University foundation
  - Special troubled debt authority
- Blending is not appropriate for CU's of this nature



# Presentation of the CU

- Blended – separate fund or consolidated with PG
  - CU functions as an integral part of PG
    - Substantially same board + financial benefit/burden
    - Substantially same board + operational responsibility
    - Exclusive service to the PG
    - Total debt of CU repayable by PG
- Discretely Presented CU
  - CU does not function as an integral part of PG
  - Report in a separate column in GWFS
  - Note disclosures required
- Different fiscal year ends
  - Use most recent FYE of CU
  - Option to use next quarter
- Transactions with Blended CU's are eliminated, Discrete are not

# Evaluation of PCUs



# Measurement Focus and Basis of Accounting

- Measurement Focus
  - Current financial resources (fund reporting)
  - Total economic resources (entity-wide reporting)
  
- Basis of accounting
  - Modified accrual
  - Full accrual

# Types of Transactions

- Exchange and exchange-like transactions
- Non-Exchange
  - Derived tax revenues (sales & income tax)
  - Imposed nonexchange (property taxes, fines)
  - Government-mandated nonexchange (formula & exp driven grants)
  - Voluntary nonexchange (grants with contingencies like matching)
- Extraordinary items
  - Both unusual & infrequent
- Special items
  - Unusual OR infrequent
  - Under the control of management
- Direct changes to net position
  - Not permitted unless prior period adj or change in accounting

# Revenue Recognition in Governmental Funds

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

# Certain Nonexchange transactions

- Entitlements – recognize when eligibility is met
- Reimbursement grants – eligible expenditures incurred
- On-behalf payments
- Contributions of commodities
- Donated capital assets – not recorded in the funds

# Expenditure Recognition in Governmental Funds

- Modified accrual basis of accounting
  - Recognize liability if expected to be liquidated with current financial resources
  - Salaries, professional services, supplies, utilities, etc
- Exceptions
  - Debt Service
  - OPEB & Pensions
  - Leases with scheduled rent increases
  - Supply inventories and prepaids
  - Certain specified liabilities
    - Compensated absences
    - Claims and judgments
    - Termination benefits
  - Landfill costs

# Other Financing Sources and Uses

- Sources
  - Issuance of long-term debt – at face value
  - 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

# 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
- 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

- Depending on the number of funds, could have majority of activity in nonmajor category
- 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

# Governmental Funds Balance Sheet

- Governmental Funds Balance Sheet
- Assets and liabilities relating to near term activity therefore not classified
- Fund balance – 5 components
  - Nonspendable
  - Restricted
  - Committed
  - Assigned
  - Unassigned
  - Flow assumptions
- Total column required and comparative total data is optional
- Required reconciliation to governmental Statement of Net Position

# Statement of Revenues, Expenditures and Changes in Fund Balances

- Format
  - Revenues, Expenditures, Excess, OFSU, FB
- Revenues by major source
  - Taxes, licenses & permits, intergovernmental, charges for services
- Expenditures by function or program
  - Gen gov't, public safety, highways, health
- Character
  - Current, capital outlay, debt service
- Total column required and comparative total data is optional
- Elimination of interfunds optional
- Required reconciliation to statement of governmental activities

# 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 or balance sheet format
- Classified presentation required
- Major funds reported individually – 5% and 10% test
- 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
- Pension and OPEB funding progress
- Pension and OPEB NPL and contribution data
- Notes to the RSI

# Budgetary Information

- Same terminology
- Contents
  - Original budget
  - Final amended budget
  - Actual results
  - Variance columns required
- Need to show sufficient detail to demonstrate legal compliance
- Reconciliation required if budgetary “actual” different from FS

# 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
- Uncollateralized amounts in excess of FDIC insurance should be disclosed
- 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
- 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 – a formula grant from another government 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 – similar approach permitted

# 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
- 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
- Exceptions for governmental funds
  - Compensated absences
  - Long-term debt
  - Claims and judgments
  - Pension and OPEB
  - 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 notes (TANs) are always reported as a fund liability
- Bond anticipation notes (BANs) are typically not reported as a fund liability because they precede the long-term bond issuance
- 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

# SAMPLE 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 – all 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)*
- *Government funds – use modified accrual and do not record all assets and liabilities*

# 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 that could impact results
- Prescribed format required by GASB
- Stick to the required format

# GOVERNMENT-WIDE STATEMENT OF NET POSITION

# Formatting

- Balance sheet format

Assets	\$ 97	Liabilities	\$ 30
Deferred outflows of resources	<u>3</u>	Deferred inflows of resources	2
Total	<u>\$ 100</u>	Net position	68
		Total	<u>\$ 100</u>

- Net position format (preferred)

Assets	\$ 97		
Deferred outflows of resources	<u>3</u>		
Subtotal		\$ 100	
Liabilities	(30)		
Deferred inflows of resources	<u>(2)</u>		
Subtotal			(32)
Net position		<u>\$ 68</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	\$ 2,200
Depreciable buildings, machinery, and improvement	700



# Liabilities

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

Liabilities:		
Type A		\$ 100
Type B		150
Type C		
Due within one year	\$ 60	
Due in more than one year	<u>140</u>	
		<u>200</u>
Total liabilities		<u><u>\$ 450</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	\$ 100	\$ (100)	\$ -

# 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

- Include
  - All capital assets, including intangible
  - Debt used to construct, acquire, or improve a capital assets

Capital assets
- Accumulated depreciation
+ Capital-related deferred outflows
- Capital-related borrowings (bonds, including refunded bonds, loans, AP, leases, retainage payable)
- Capital-related deferred inflows (gain or loss on refunding)
Net investment in capital assets

- Exclude
  - Amounts related to debt proceeds not yet expended
    - Unexpended proceeds not yet capital assets (restricted) (no assets, no debt)
    - Related portion of debt not yet capital-related
  - Borrowings within the primary government
  - Borrowings used to finance capital acquisition for others

# 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

# Direct vs. Indirect Expenses

- Include in program cost by function:
  - All direct expense
    - Allocate any direct functional/programmatic expense not allocated at the fund level (i.e. costs of finance office)
  - Only direct expense
    - Disallocate any indirect costs allocated at the fund level
      - Exception: minor amounts built into charges for services
      - Only for purpose of government-wide reporting
        - ✓ Allocation remains in fund financial statements

# Capital Assets

- Need to develop a capitalization policy. Example policy includes dollar threshold and estimated useful life.

# 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	\$ 3,201,781
Public safety	14,190,015
Public works	13,472,462
Welfare and social services	733,058
Parks and recreation	4,112,906
Interest on long-term debt	1,123,331
Total governmental activities	<u>\$36,833,553</u>

# Program Revenues

- Basic characteristics
  - Incremental
  - Source other than the tax base



# Sources of Program Revenue

- 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

# Display of Program Revenue

- 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* grants
- Capital = capital asset of the government
  - Pass-through capital grants are not *capital* from the perspective of the pass-through government

# Assigning Costs

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

# 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

# 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>\$ (24,208,486)</u>	<u>\$ 39,014,025</u>	<u>\$ 14,805,539</u>
General revenues:			
Property taxes	15,837,255	98,937	15,936,192
State shared revenues	3,051,755	-	3,051,755
Grants and contributions not restricted to specific programs	2,396,125	-	2,396,125
Unrestricted investment earnings	176,941	-	176,941
Transfers	<u>5,850,000</u>	<u>(3,850,000)</u>	<u>2,000,000</u>
Total general revenues and transfers	<u>27,312,076</u>	<u>(3,751,063)</u>	<u>23,561,013</u>

# General Revenues

- All revenues that do *not* qualify as program revenues
  - Taxes (property, sales, income, excise, utility, 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
  - Current
  - Capital outlay
  - Debt service
- Other financing sources and uses
  - Debt related
  - Transfers

# Proprietary Fund Financial Statements

- Enterprise and Internal service funds
- Focus on major enterprise funds

# Balance Sheet – 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

# 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: 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

# Statement of Revenues, Expenses, and Changes in Fund 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 funds

# Notes to the Financial Statements

- Summary of Significant Accounting Policies
- Cash and Investments
- Property taxes
- Capital assets
- Debt
- Derivatives
- Tax abatements
- Pension/OPEB
- Other items
  - Interfunds
  - Fund balance restrictions
  - Risk financing
  - Segment Information for enterprise funds

# 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
- Define cash equivalents
- Disclose the activities reported in major funds
- Disclose flow assumptions for use of restricted resources

# Cash and Investments

- Bank deposits exposed to custodial 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
- 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
- Any capitalized interest in the business type activities/enterprise funds

# 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

# 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

# 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

# Pensions

- GASB Statement No. 68
  - Employers are required to recognize applicable pension amounts both on their financial statements as well as disclose within the notes to the financial statements.
    - Pension amounts include
      - a) Total Pension Liability (TPL)
      - b) Plan's Fiduciary Net Position
      - c) Net Pension Liability (NPL) = a – b
      - Pension Expense
      - Deferred Inflows/Outflows

# Pensions

- GASB Statement No. 68
  - Measurement of Total Pension Liability, Deferred Inflows/Outflows and Pension Expense
    - Cost Sharing Plans
      - Actuarial valuation not specific to any one employer
      - Active, Inactive and Retirees pertain to multiple employers
    - Single Employer Plans
      - Actuarial valuation is specific to one employer
      - Active, Inactive and Retirees pertain to only that employer
      - Employer / Plan Administrator is responsible for actuarial valuation and applicable assumptions

# Pensions

- GASB Statement No. 68
  - Required Disclosures
    - Name of the plan through which benefits are provided
    - Identification of the public employee retirement system or other entity that administers the plan (INPRS or Local)
    - Identification of the plan (PERF, TRF, 1977 Fund or County Sheriff's Retirement and Disability Plan)
    - A brief description of the benefit provisions
    - The number of employees covered by the plan
    - Whether the pension plan issues a stand-alone financial report, or is included in the report of a public employee retirement system or another entity, and, if so, how to obtain the report



# Pensions

- GASB Statement No. 68
  - Required Disclosures (Continued)
    - Actuarial Information
      - Assumptions used to measure the liability
      - Discount Rate
        - Assumptions
        - Expected Long-Term Rate of Return
        - Municipal Bond Rate (if applicable)
        - Sensitivity Analysis
      - Changes in Net Pension Liability
      - Deferred Inflows / Outflows due to:
        - Change in Assumptions
        - Differences between expected and actual plan experience
        - Differences between expected and actual investment performance

# Pensions

- GASB Statement No. 68
  - Required Supplementary Information (RSI)
    - 10-year schedules for all governments, regardless of type of plan (plus notes):
      - Changes in the net pension liability by source
        - Collective level for cost-sharing employers
      - Components of the net pension liability and ratios: **plan net position ÷ total pension liability; net pension liability ÷ covered-employee payroll**
        - Collective and individual level for cost-sharing
      - Contribution information, if a government has an actuarially determined contribution: **actuarially calculated contribution – actual contributions; contributions ÷ payroll**

# Pensions

- GASB Statement No. 68
  - Required Supplementary Information (RSI)
    - 10-year schedules for all governments, regardless of type of plan (plus notes):
      - Changes in the net pension liability (cost-sharing at collective level only)
      - Cost-sharing at both collective level and employer level with employer proportionate share percentage
        - Total pension liability, plan net position, net pension liability, and
          - Plan net position as a percentage of the total pension liability
          - Net pension liability as a percentage of covered-employee payroll
      - Statutory/contractual employer contributions, actual contributions made, the difference between them, and contributions made as a percentage of covered-employee payroll

# OPEB

- GASB Statement No. 75
  - Employers are required to recognize applicable OPEB amounts both on their financial statements as well as disclose within the notes to the financial statements.
    - OPEB amounts include
      - a) Total OPEB Liability
      - b) Plan's Fiduciary Net Position – N/A – no assets
      - c) Net Pension Liability (NPL) = a – b – N/A – no assets
      - OPEB Expense
      - Deferred Inflows/Outflows

# OPEB

- GASB Statement No. 75
  - Measurement of Total OPEB Liability, Deferred Inflows/Outflows and OPEB Expense
    - Single Employer Plans
      - Actuarial valuation is specific to one employer
      - Active, Inactive and Retirees pertain to only that employer
      - Employer / Plan Administrator is responsible for actuarial valuation and applicable assumptions

# OPEB

- GASB Statement No. 75
  - Required Disclosures
    - General information about the plan
      - Plan description
      - Benefits provided
      - Number of employees covered
      - Contribution requirements
    - Actuarial assumptions
    - Changes in the net OPEB liability table
    - Sensitivity analysis of the OPEB liability relating to both:
      - Discount Rate +/- 1%
      - Healthcare Trend Rate +/- 1%

# OPEB

- GASB Statement No. 75
  - Required Supplementary Information
    - A 10 year schedule of the changes in the OPEB liability table
    - A 10 year schedule showing the OPEB liability as a percentage of payroll
    - Notes to the required schedules

# Other Significant Disclosures

- Interfunds
  - Amounts due to and due from
  - Transfers to and transfers from
- Fund balance restrictions
  - Nonspendable
  - Restricted
  - Committed
  - Assigned
  - Unassigned
- Individual Fund deficits
- Risk financing activities including any pools
- Segment Information for enterprise funds



# Annual Financial Report

- Review sample GAAP financial statements
- City of Indianapolis
- Marion County

# CONVERTING FROM MODIFIED ACCRUAL TO FULL ACCRUAL

# Adjustments Overview-Statement of Net Position

- Add items not reported in governmental funds
  - Capital assets
  - Unmatured principal of long-term debt
  - Unmatured interest payable on long-term debt
  - Any portion of certain accrued liabilities that normally is not expected to be liquidated currently with expendable, available financial resources
  - Deferred outflows and inflows of resources
  - Inventories/prepays (if purchases method used)

# Adjustments Overview-Statement of Activities

- Remove certain items reported in governmental funds
  - The issuance of long-term debt
  - 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
- At the end of the process
  - Other financing sources/used eliminated
  - Expenditures => expense
  - Fund balance
  - + NET POSITION – GENERAL GOVERNMENT
  - Net position – governmental activities

# Capital Outlays

Item	Governmental Funds	Governmental Activities	Action required
Outlays to construct or acquire capital assets	Expenditure	Assets	Replace expenditures with capital assets constructed or acquired

	<u>DR</u>	<u>CR</u>
LAND	\$ 560	
EQUIPMENT	1,035	
Expenditures - capital outlay		\$ 560
Expenditures - public safety		1,035

# Issuance of Long-Term Debt

Item	Governmental Funds	Governmental Activities	Action required
Issuance of long-term debt	Other financing source	Liability	Replace other financing source with liability
Original issue discount	Other financing use	Contra-liability	Replace other financing use with contra-liability

	DR	CR
Other financing sources - bond issuance	\$ 4,700	
DISCOUNT - BONDS PAYABLE	10	
Other financing uses - original issue discount		\$ 10
BONDS PAYABLE		4,700

# Debt Service

Item	Governmental Funds	Governmental Activities	Action required
Repayment of the principal of long-term debt	Expenditure	Reduction of related liability	Replace expenditure with reduction of related liability

	<u>DR</u>	<u>CR</u>
BONDS PAYABLE	\$ 2,030	
Expenditures - debt service - principal		\$ 2,030



# Depreciation

Item	Governmental Funds	Governmental Activities	Action required
Depreciation on capital assets	Not reported	Expense and increase in related contra-asset account	Recognize expense and increase in related contra-asset account

	DR	CR
Expenditures - general government	\$ 230	
Expenditures - public safety	95	
Expenditures - highways and streets	500	
Expenditures - sanitation	30	
Expenditures - culture and recreation	350	
ACCUMULATED DEPRECIATION - BUILDINGS		\$ 10
ACCUMULATED DEPRECIATION - IMPROVEMENTS		165
ACCUMULATED DEPRECIATION - EQUIPMENT		550
ACCUMULATED DEPRECIATION - INFRASTRUCTURE		480

# Unavailable Property Tax Revenue

Item	Governmental Funds	Governmental Activities	Action required
Revenues of the current period not yet considered to be available to liquidate liabilities of the current period	Deferred item	Revenues	Replace deferred item with revenues

	<u>DR</u>	<u>CR</u>
Unavailable revenue	\$ 4,270	
Revenues		\$ 4,270

# Payables

Item	Governmental Funds	Governmental Activities	Action required
Expenditures related to prior periods	Expenditures	Reduction of related liability	Replace expenditures with reduction of related liability

	DR	CR
ACCRUED INTEREST PAYABLE	\$ 630	
COMPENSATED ABSENCES PAYABLE	645	
Expenditures - general government		\$ 90
Expenditures - public safety		280
Expenditures - highways and streets		80
Expenditures - sanitation		80
Expenditures - culture and recreation		115
Expenditures - debt service - interest		630

# Accrued Interest

Item	Governmental Funds	Governmental Activities	Action required
Accrued interest on long-term debt	Not reported	Reported as expense and liability	Report expense and liability

	DR	CR
Expenditures - debt service - interest <sup>15</sup>	\$ 685	
ACCRUED INTEREST PAYABLE		\$ 685

15 Worksheet "expenditure" accounts are ultimately reclassified as expense.

# Amortization

Item	Governmental Funds	Governmental Activities	Action required
Amortization of premium/discount on long-term debt	Not reported	Adjustment to interest expense	Reduce the unamortized premium/ discount and treat as an adjustment to the interest expense
Amortization of difference between carrying value of refunded debt and its net reacquisition price	Not reported	Adjustment to interest expense	Reduce the unamortized amount and treat as an adjustment to interest expense

	<u>DR</u>	<u>CR</u>
Expenditures - debt service - interest	\$ 35	
DISCOUNT - BONDS PAYABLE		\$ 5
DEFERRED CHARGE - REFUNDING		30

# Internal Service Funds

<b>Item</b>	<b>Objective</b>	<b>Action required</b>
Data from internal service funds	Incorporate with data of governmental funds	Add balances of internal service fund permanent and temporary accounts

# Intra-activity Balances

Item	Objective	Action required
Receivables and payables between funds reported within the same activity	Eliminate intra-activity receivables and payables	Eliminate 1) receivables and payables between governmental funds and 2) receivables and payables between enterprise funds

	<u>DR</u>	<u>CR</u>
Due to other funds - governmental funds	\$ 335	
Due from other funds - governmental funds		\$ 335

# Intra-activity Transfers

Item	Objective	Action required
Transfers between funds reported within the same activity	Eliminate intra-activity transfers	Eliminate 1) transfers between governmental funds and 2) transfers between enterprise funds

	DR	CR
Transfers from other funds - governmental funds	\$ 4,445	
Transfers to other funds - governmental funds		\$ 4,445



# 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
  - Need an inventory as of both the beginning and end of the year 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

# Resources and Contact Information

- “Governmental Accounting, Auditing and Financial Reporting” published by the GFOA, also known as the “Blue Book”
- Government Finance Officers Association
- GASB
- Indiana State Board of Accounts
- RSM
  - Training for your staff
  - Modifications to your system to accumulate needed data
  - Standard monthly journal entries for modified accrual
  - Assistance with monthly and year-end closing
  - Assistance with year-end audit preparation
  - Conversion templates for full accrual
  - Drafting year-end financial statements and footnotes



# QUESTIONS AND ANSWERS?

## RSM US LLP

9225 Priority Way West Drive, Suite 300

Indianapolis, IN 46240

317.805.6282

800 274 3978

[www.rsmus.com](http://www.rsmus.com)

This document contains general information, may be based on authorities that are subject to change, and is not a substitute for professional advice or services. This document does not constitute audit, tax, consulting, business, financial, investment, legal or other professional advice, and you should consult a qualified professional advisor before taking any action based on the information herein. RSM US LLP, its affiliates and related entities are not responsible for any loss resulting from or relating to reliance on this document by any person. Internal Revenue Service rules require us to inform you that this communication may be deemed a solicitation to provide tax services. This communication is being sent to individuals who have subscribed to receive it or who we believe would have an interest in the topics discussed.

RSM US LLP is a limited liability partnership and the U.S. member firm of RSM International, a global network of independent audit, tax and consulting firms. The member firms of RSM International collaborate to provide services to global clients, but are separate and distinct legal entities that cannot obligate each other. Each member firm is responsible only for its own acts and omissions, and not those of any other party. Visit [rsmus.com/aboutus](http://rsmus.com/aboutus) for more information regarding RSM US LLP and RSM International.

RSM® and the RSM logo are registered trademarks of RSM International Association. *The power of being understood®* is a registered trademark of RSM US LLP.

© 2018 RSM US LLP. All Rights Reserved.

