GET Talking with GAAP

SBOA GAAP
EFFICIENCY TEAM

INDIANA
COUNTY
AUDITORS'
ASSOCIATION

MAY 22, 2024

SBOA MEMO

“GAAP REPORTING OF LOCAL INCOME TAX”

JULY 12, 2023

UPDATED JUNE 2024

LIT Receivable

July 2023 Memo Recommendation:

Ensuing year supplemental distribution

\+ 15% audit year certified distributions

= LIT Receivable

GASB: Derived Tax Revenues

GASB Cod. Sec. N50.113: Recognize **assets** from derived tax revenue transactions in the period when the exchange transaction on which the tax is imposed occurs or when the resources are received, whichever occurs first. GASB Cod. Sec. N50.108: Recognition applies to both accrual and modified accrual statements.

GASB Cod. Sec. N50.113: **Revenue** in government-wide statements should be recognized in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred.

GASB Cod. Sec. N50.127(a): **Revenue** in modified accrual statements should be recognized in the period when the underlying exchange transaction occurs *and* the resources are available.

GASB 65 Paragraph 30: When an asset is recorded in governmental fund financial statements but the revenue is not available, the government should report **a deferred inflow of resources** until such time as the revenue becomes available.

LIT Receivable Presentation

Government-wide statements

Statement of Net Position: Receivable
Statement of Activities: Revenue

Modified accrual statements

Balance Sheet: Receivable
Statement of Revenue, Expenditures, and Changes in Fund Balance:
Deferred Inflows of Resources—Unavailable Revenue

Year Under Audit:	2023			*Receivable Calculations*	
LIT Types	Totals (all units)	County Unit only	Other Units	County Unit only	Other Units
Certified Shares	18,837,607	7,099,946	11,737,661	1,064,992	1,760,649
Public Safety	7,535,043	2,488,005	5,047,038	373,201	757,056
Economic Development	12,558,405	6,233,175	6,325,230	934,976	948,785
Jail LIT	5,023,362	5,023,362	-	753,504	-
Special Purpose	6,279,202	6,279,202	-	941,880	-
Property Tax Relief	-			-	-
	50,233,619			4,068,553	3,466,490

Supplemental Distribution:	2024				
LIT Types	Totals (all units)	County Unit only	Other Units	County Unit only	Other Units
Certified Shares	3,625,865	1,372,646	2,253,219	1,372,646	2,253,219
Public Safety	1,450,346	481,098	969,248	481,098	969,248
Economic Development	2,417,243	1,208,279	1,208,964	1,208,279	1,208,964
Jail LIT	966,897	966,897	-	966,897	-
Special Purpose	1,208,622	1,208,622	-	1,208,622	-
Property Tax Relief	-			-	-
				5,237,542	4,431,431

Sample Journal Entries

County Government-Wide Statements

Income tax receivable	9,306,095	
Revenue		9,306,095

Custodial Funds (total)

Receivables—Taxes for other governments	7,897,921	
Liabilities—Due to other governments		7,897,921

Governmental Fund Statements

General Fund—Certified Shares

Income tax receivable	2,437,638	
Deferred inflows of resources—unavailable revenue		2,437,638

Public Safety

Income tax receivable	854,299	
Deferred inflows of resources—unavailable revenue		854,299

Economic Development

Income tax receivable	2,143,255	
Deferred inflows of resources—unavailable revenue		2,143,255

Jail LIT

Income tax receivable	1,720,401	
Deferred inflows of resources—unavailable revenue		1,720,401

Special Purpose

Income tax receivable	2,150,502	
Deferred inflows of resources—unavailable revenue		2,150502

Formula to calculate supplemental distribution

Example: 2024 Supplemental Distribution

2022 Trust Balance
Less 15% of 2024 Certified Distributions
Less 2023 Special Distributions

= 2024 LIT Supplemental

For LIT types and unit detail, use the allocation in the certified distribution report from two years prior.

Trust Balance reports -- https://www.in.gov/sba/budget-information/local-income-tax-data/

Common Errors with GAAP Reports

General Information

- Common editing and consistency errors (i.e., Building commission or corporation or authority for component units)
- Verify the financial information flows to each section of the core financial statements
- Verify the combining statements tie to the face of the core financial statements
- Compare the current financial statements to the prior financial statements for missing notes/schedules (tax abatements, hospitals, debt, etc.)
- Financial software that are specifically designed for GAAP reporting (Caseware, Workiva, Neubrain, Gravity, etc.).

MD&A

- Verify that information in the MD&A and notes is required information and not information that should be included in the transmittal letter (stay to the facts and include only decisions or conditions expected to have a significant impact on your financial statements).
- Verify the information included on the MD&A can be traced to the core financial statements (schedules, calculations, percentages, etc).
- Include government wide and major fund statements.

Tools for Reporting

- Government Finance Officers Association (GFOA)Disclosure checklist is available online, https://www.gfoa.org/coa-award-criteria-checklists
- Thomson Reuters (PPC) is a subscription-based resource that offers a Governmental Disclosure Checklist, which is updated annually.

State
Examiner
Directive
2021-02 and
2018-01

Financial Statement Audit Tips

Tips for a Clean Audit

- State Examiner Directive 2021-02 for Gateway Upload
  - ACFR – GAAP statements due 90 days after fiscal year end to allow sufficient time for an on time GFOA submission. (April 1)
  - GAAP statements due within five months after year end date 12/31. (May 31)
  - GAAP financial statements are required to be uploaded to the Gateway system annually per State Examiner Directive 2018-01.

Tips for an Efficient Audit

- Procured auditors that audit GAAP financial statements have access to the monthly and annual uploads to the Gateway system, for both the primary government and their component units.
- County fiscal officers must review the compilations that are prepared by outside contractors. The fewer revisions of the financial statements result in a much more efficient audit.
- The timely submission of GAAP financial statements allows for sufficient audit time for an on time federal audit deadline of September 30.

GAAP Audit Extension Requests

- SBOA took an exception for extension requests for period of time during the COVID emergency.
- There is no provision for any extensions in the State law or the State Examiner Directives.
- When the GAAP Financial Statements are filed later than the April 1 and May 31 deadlines, it hinders the chances of a timely report, which can affect the governmental unit and federal awards.

GASBS
14, 61, 84, 90,97

Component Units

Definition

> “Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature of significance of their relationship with a primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading.”

--GASB Cod. Sec. 2100-119

Financial Accountability

Majority board appointment + Ability to impose will

Majority board appointment + Financial benefit or burden

Fiscal dependence + Financial benefit or burden

Primary government holds majority equity interest

Known DPCUs:

22 Libraries

17 Fire Districts

10 Solid Waste Districts

3 Hospitals/Health Care Centers

2 Airports

1 Building Corporation

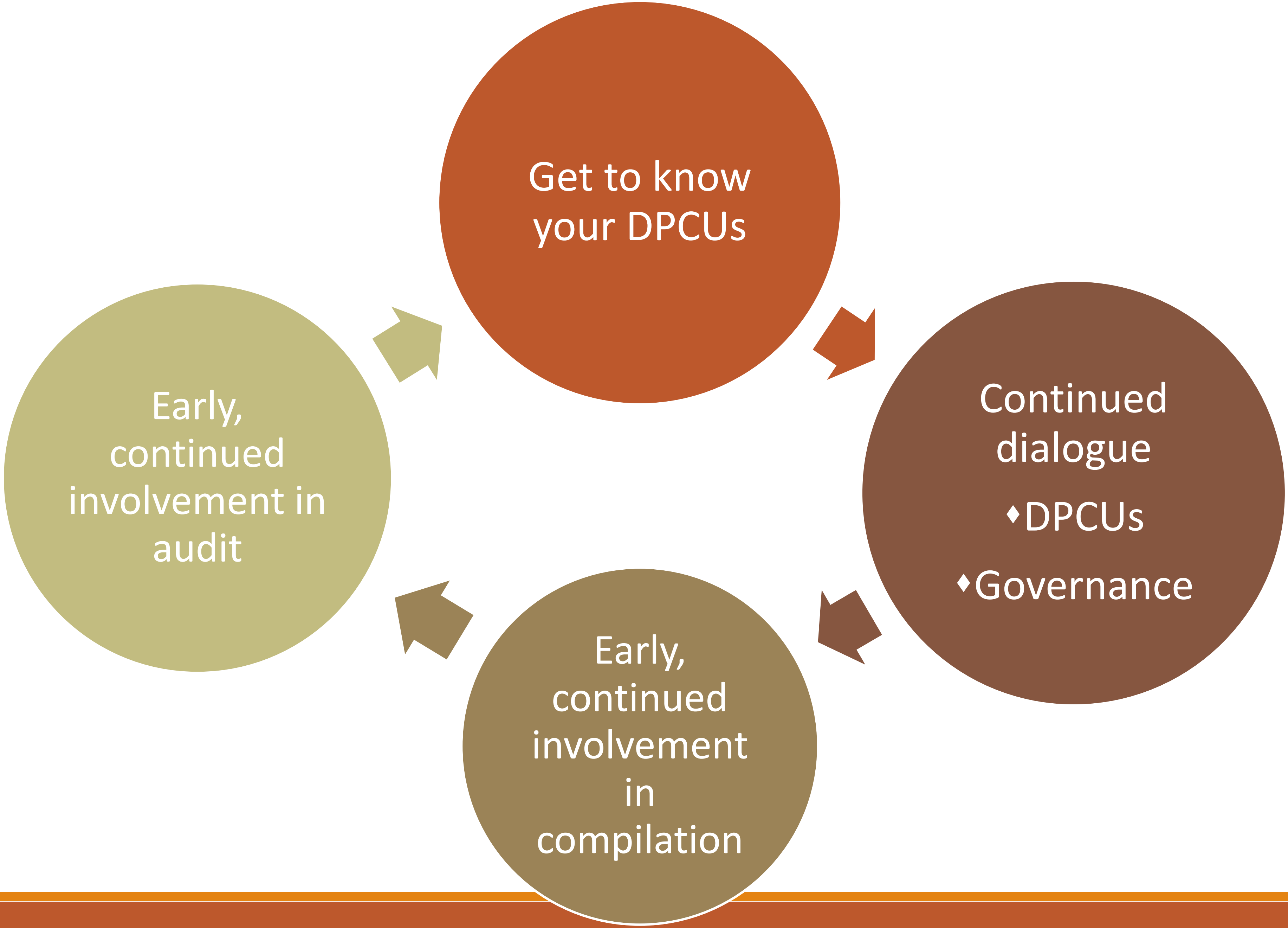
1 Fiduciary

Latest county GAAP audit reports:

3 Adverse opinions for excluding DPCUs

1 Qualified opinion for excluding a DPCU

2 Qualified opinions for misstatements by DPCUs



Get to know your DPCUs

Continued dialogue

- DPCUs
- Governance

Early, continued involvement in compilation

Early, continued involvement in audit

GAAP Efficiency Team (GET)

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