THE POWER OF BEING UNDERSTOOD

AUDIT | TAX | CONSULTING
PREPARING FULL GAAP FINANCIAL STATEMENTS

Presented by RSM US LLP

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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

<table>
<thead>
<tr>
<th>Financial statement element</th>
<th>Percentage of total reported for that element</th>
<th>Governmental funds (&quot;10 percent test&quot;)</th>
<th>Governmental funds + enterprise funds (&quot;5 percent test&quot;)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets + deferred outflows of resources</td>
<td>≥ 10%</td>
<td>≥ 5%</td>
<td></td>
</tr>
<tr>
<td>Liabilities + deferred inflows of resources</td>
<td>≥ 10%</td>
<td>≥ 5%</td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>≥ 10%</td>
<td>≥ 5%</td>
<td></td>
</tr>
<tr>
<td>Expenditures/expenses</td>
<td>≥ 10%</td>
<td>≥ 5%</td>
<td></td>
</tr>
</tbody>
</table>
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
  - 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
• Net position format

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>$ 200</td>
</tr>
<tr>
<td>Deferred outflows of resources</td>
<td>10</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$ 210</strong></td>
</tr>
<tr>
<td>Liabilities</td>
<td>(100)</td>
</tr>
<tr>
<td>Deferred inflows of resources</td>
<td>(20)</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>(120)</strong></td>
</tr>
<tr>
<td><strong>Net position</strong></td>
<td><strong>$ 90</strong></td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Capital assets:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and construction in progress</td>
<td>$ 4,500</td>
</tr>
<tr>
<td>Depreciable buildings, machinery, and improvement</td>
<td>1,200</td>
</tr>
<tr>
<td><strong>Total Capital Assets</strong></td>
<td><strong>$ 5,700</strong></td>
</tr>
</tbody>
</table>
• Relative order of liquidity approach
• Report together but disclose components

<table>
<thead>
<tr>
<th>Liabilities:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Type A</td>
<td>$200</td>
</tr>
<tr>
<td>Type B</td>
<td>300</td>
</tr>
<tr>
<td>Type C</td>
<td></td>
</tr>
<tr>
<td>Due within one year</td>
<td>$100</td>
</tr>
<tr>
<td>Due in more than one year</td>
<td>2,200</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>2,300</td>
</tr>
</tbody>
</table>

Total liabilities: $2,800
Inter-Entity Receivables/Payables

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

<table>
<thead>
<tr>
<th>Internal balances</th>
<th>Governmental Activities</th>
<th>Business-type Activities</th>
<th>Primary Government Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 1,500</td>
<td>$ (1,500)</td>
<td></td>
</tr>
</tbody>
</table>
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

• Assets + deferred outflows – liabilities – deferred inflows = 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

<table>
<thead>
<tr>
<th>Functions / Programs</th>
<th>Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary government</strong></td>
<td></td>
</tr>
<tr>
<td>Governmental activities:</td>
<td></td>
</tr>
<tr>
<td>General government</td>
<td>$ 8,398,334</td>
</tr>
<tr>
<td>Public safety</td>
<td>16,783,245</td>
</tr>
<tr>
<td>Public works</td>
<td>12,398,029</td>
</tr>
<tr>
<td>Welfare and social services</td>
<td>499,899</td>
</tr>
<tr>
<td>Parks and recreation</td>
<td>2,345,675</td>
</tr>
<tr>
<td>Interest on long-term debt</td>
<td>1,211,098</td>
</tr>
<tr>
<td><strong>Total governmental activities</strong></td>
<td>$ 41,636,280</td>
</tr>
</tbody>
</table>
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
• Consolidated
  - Transfers between governmental activities and business-type activities eliminated

<table>
<thead>
<tr>
<th>Change in net position</th>
<th>Primary Government</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Governmental Activities</td>
</tr>
<tr>
<td>Net revenues (expenses)</td>
<td>$ (24,234,309)</td>
</tr>
</tbody>
</table>

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
- Transfers 4,850,000 (4,850,000) -

Total general revenues and transfers 23,729,723 (4,751,063) 18,978,660
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 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
• Assets & deferred outflows – liabilities & deferred inflows = 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
• 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 (level1,2,3) 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
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
• 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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