



Office of the State Controller

OFFICIAL MEMORANDUM

To: Chief Fiscal Officers, Vice Chancellors, and Business Managers

From: Dr. Linda Combs, State Controller *Linda Combs*

Date: April 24, 2019

Subject: 2019 Governmental Accounting and Auditing Update

I am pleased to announce that on June 5, 2019, the Office of the State Controller will host the 2019 OSC Governmental Accounting and Auditing Update at NCSU's McKimmon Center in Raleigh. This conference will provide an update of recent activities of the Governmental Accounting Standards Board (GASB), updates on auditing standards, and updates on current events in the accounting profession. Attendance will qualify for up to eight hours of CPE credit. The course announcement is attached for your review. Instructor biographies are available on OSC's website (see link below).

The registration fee is **\$65 per attendee** and includes breakfast and a buffet lunch. To register for this conference, visit the Office of the State Controller website at <https://www.osc.nc.gov/2019-osc-governmental-accounting-and-auditing-update>. Please register as soon as possible as the **registration deadline is Friday, May 24, 2019. Payments must be made on or before this date.** After this date, no requests for refunds will be considered.

Payment can be made by credit card or electronic transfer in the Cash Management Control System (CMCS) to the **Office of State Controller. Please note the change in how payments should be made.** Agencies should register attendees individually (with separate email addresses). Agencies using CMCS can submit one payment to cover all registration fees if all necessary notations have been made.

If you are paying by electronic transfer, please follow the instructions below:

- **NCAS agencies:** Use IGO vendor number 561611588-03. For the cash management transfer – in the description or remit message line you must include the following for proper processing: Attendee full name; Reference 2019 Governmental Accounting and Auditing Update.
- **Non-NCAS agencies paying through CMCS:** Use department code 4161 for payment – in the description or remit message line you must include the following for proper processing: Attendee full name; Reference 2019 Governmental Accounting and Auditing Update.

If you have questions, please contact Jan Prevo at jan.prevo@osc.nc.gov or 919-707-0714. We look forward to your participation in the conference and thank you for your service to our State.

Attachment

SA 19-30

DR. LINDA COMBS, STATE CONTROLLER
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<http://www.osc.nc.gov> ~~ An EEO/AA/AWD Employer



2019 Governmental Accounting and Auditing Update

Continuing Professional Education

North Carolina Office of the State Controller

- Date:** June 5, 2019
8:15 a.m. to 4:45 p.m.
- Location:** The McKimmon Conference and Training Center
N.C. State University
1101 Gorman Street
Raleigh, NC 27606
- Objective:** To provide an update of recent activities of the Governmental Accounting Standards Board (GASB), updates on auditing standards, and updates on current events in the accounting profession.
- Content:** Accounting Update
- What's going on out there – a current events look at the accounting profession
GASB Update
- GASB 83, Certain Asset Retirement Obligations
- GASB 84, Fiduciary Activities - including the Implementation Guide Exposure Draft
- GASB 87, Leases – including the Implementation Guide Exposure Draft
- GASB 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
- GASB 89, Accounting for Interest Cost Incurred before the End of a Construction Period
- GASB 90, Majority Equity Interests – an amendment of GASB Statements 14 and 61
- GASB Preliminary Views, Financial Reporting Model Improvements
- GASB Invitation to Comment, Revenue and Expense Recognition
- GASB Exposure Draft, Conduit Debt Obligations
Auditing Standards Update
- SAS 132, Auditor's Consideration of an Entity's Ability to Continue as a Going Concern
- SAS 133, Auditor Involvement with Exempt Offering Documents
- Exposure Document – Changes to Independent Auditor's Report
- Yellow Book Update
- Instructors:** Jerry Durham, CPA, CGFM, CFE, Assistant Director, Tennessee Division of Local Government Audit
- CPE Credit Offered:** Eight hours
- Materials:** Will be available in advance on the OSC web page
- Teaching Method:** Lecture
- Breakfast:** Available beginning at 7:30 a.m. (scrambled eggs, bacon, potatoes, and pastries)
- Lunch:** 12:00 p.m. – 1:00 p.m. (grilled pork tenderloin, barbecue chicken, sides, salad, and dessert)
- Prerequisites:** Employed by a State agency or institution that is part of the State financial reporting entity (i.e., an entity included in the State's Comprehensive Annual Financial Report)
- Advance Preparation:** None
- Level:** Basic
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DEVELOPER: [Tennessee Comptroller of the Treasury](#)

SPONSOR: [NC Office of the State Controller](#)



AGENDA

2019 Governmental Accounting and Auditing Update

June 5, 2019

- 8:15 – 8:20 Call to Order – Michael Euliss, Office of the State Controller, Communications/Government Relations/Training Director
- 8:20 – 8:30 Opening Remarks – Jim Dolan, Chief Deputy State Controller
- Accounting Update (Jerry Durham, Tennessee Division of Local Government Audit)**
- 8:30 – 8:55 What’s Happening Out There? – A Current Events Look into the Accounting Profession
- Governmental Accounting Standards Board Update (Jerry Durham)**
- 8:55 – 9:20 The Latest Inventions from the Mind of GASB (GASB Statements 83 and 88)
- 9:20 – 10:00 Do You Have a Fiduciary Responsibility to Implement GASB 84?
- 10:00 – 10:20 Break
- 10:20 – 10:45 Continued – Do You Have a Fiduciary Responsibility to Implement GASB 84?
- 10:45 – 11:50 GASB 87 – I Will Lease this Standard to You – Make Me an Offer
- 11:50 – 12:00 The Latest Inventions from the Mind of GASB (GASB Statements 89 and 90)
- 12:00 – 1:00 Lunch
- 1:00 – 1:10 Continued – The Latest Inventions from the Mind of GASB (GASB 89 and 90)
- 1:10 – 2:00 GASB PV - Financial Reporting Model Improvements??
- 2:00 – 2:20 GASB ITC – I Thought I Knew How to Record Revenues and Expenses
- 2:20 – 2:40 The Latest Inventions from the Mind of GASB (GASB Statement 91? – Conduit Debt)
- 2:40 – 3:00 Break
- Auditing Standards Update (Jerry Durham)**
- 3:00 – 3:50 The New and Improved Yellow Book
- 3:50 – 4:05 SAS 132 – Consideration of an Entity’s Ability to Continue as a Going Concern
- 4:05 – 4:15 SAS 133 – Auditor Involvement with Exempt Offering Documents
- 4:15 – 4:40 SAS 134 – Amendments to the Independent Auditor’s Report
- Closing Remarks – Michael Euliss, Office of the State Controller

Upcoming Training Dates:

July 16, 2019 – 2019 Professional Ethics and Conduct Webcast

December 10, 2019 – 2019 OSC Financial Conference



Jerry E. Durham, CPA, CGFM, CFE
Assistant Director
State of Tennessee
Comptroller of the Treasury
Division of Local Government Audit

Jerry is an Assistant Director for the State of Tennessee, Comptroller of the Treasury, Division of Local Government Audit. The division has statutory responsibility for audits of approximately 1,600 local governments and related organizations in Tennessee. Many of these governments are subject to the Single Audit Act and OMB's Uniform Guidance.

A 35-year veteran of the division, Jerry has served as an auditor, audit supervisor, training instructor, technical manager, and assistant director. Jerry is a Certified Public Accountant (CPA), Certified Government Financial Manager (CGFM), and a Certified Fraud Examiner (CFE). In his role as assistant director, he is responsible for developing professional compliance procedures and monitoring the division's quality performance under GASB, AICPA, OMB, and GAO accounting and auditing standards. Jerry also has responsibility for supervising the contract review process within the division. Most recently, Jerry assisted the division in implementing GASB Statements 74 and 75. In addition, Jerry teaches training classes for the Tennessee Department of Audit (Yellow Book and Audit Findings). Jerry has been selected as Department of Audit Instructor of the Year four times. Jerry has made training presentations for several other professional organizations including the Tennessee Society of Certified Public Accountants; Mississippi Society of Certified Public Accountants, Missouri Society of Certified Public Accountants, Alabama Society of Certified Public Accountants, Tennessee Government Finance Officers Association; National Association of State Auditors, Comptrollers and Treasurers; Association of Government Accountants; County Technical Assistance Service; Southeastern Intergovernmental Audit Forums; Nashville Chapter of the Association of Certified Fraud Examiners; and various county official's associations. Jerry currently serves on GFOA's CAAFR Committee, NASACT's Financial Management and Intergovernmental Affairs Committee, and NSAA's Audit Standards and Reporting Committee and Single Audit Committee. He has served the National State Auditors Association External Peer Review program as a reviewer,

team leader, and concurring reviewer and serves on the Special Review Committee for GFOA's Certificate of Achievement for Excellence in Financial Reporting program. Jerry has also provided training for the New York City Comptroller's Office and state auditors and administrative offices in Arkansas, Idaho, Kentucky, Minnesota, Mississippi, North Dakota, Montana, West Virginia, and North Carolina. In addition to these duties, Jerry currently serves on the state's Interagency Cash Flow Committee which operates under the authority of the Tennessee State Funding Board.

Jerry was a partner in the accounting firm of Crosthwaite Durham and Associates. He also served as controller for Rural Healthcare of America, Inc., and taught accounting as a member of the adjunct faculty for Columbia State Community College and Austin Peay State University.

Jerry received his accounting degree from the University of Tennessee at Martin. He is a member of the American Institute of Certified Public Accountants (AICPA); the Association of Government Accountants (AGA) and the Nashville Chapter where he served as chair of the CGFM committee; the Government Finance Officers' Association (GFOA) and the Tennessee Government Finance Officers' Association (TGFOA) where he serves as state liaison to the Board of Directors; the Association of Certified Fraud Examiners (ACFE) and the Nashville Chapter of ACFE. Jerry is also a graduate from the Tennessee Government Executive Institute (TGEI) which is a training program for government leaders through the University of Tennessee.

Jerry is married and has three children and four grandchildren.

North Carolina Office of the State Controller

Dr. Linda Combs

What's Happening Out There? June 5, 2019

Jerry E. Durham, CPA, CGFM, CFE

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Contact Information

- Jerry E. Durham, CPA, CGFM, CFE
- Assistant Director
- Tn Comptroller of the Treasury
- Division of Local Government Audit
- Jerry.Durham@cot.tn.gov
- 615.401.7951

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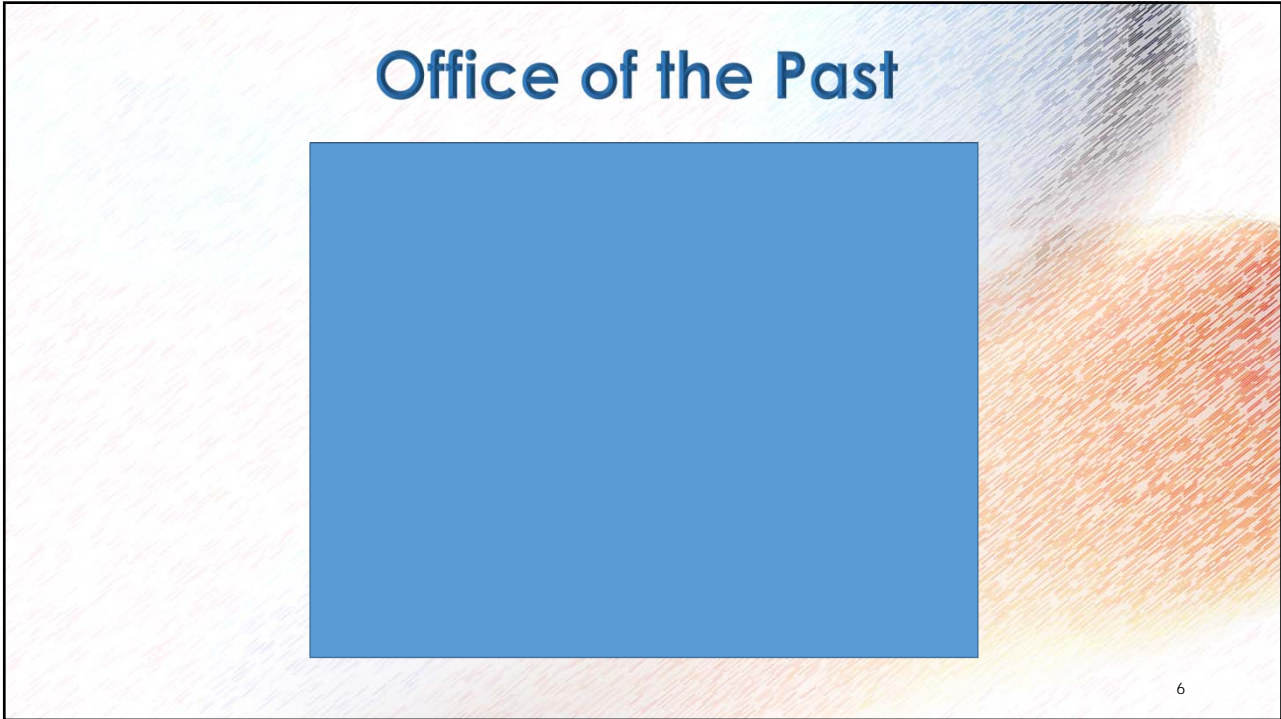
The Opinions expressed during this presentation are my own. They do not necessarily represent the views of the Tennessee Comptroller of the Treasury, his representatives, or the Tennessee Department of Audit.

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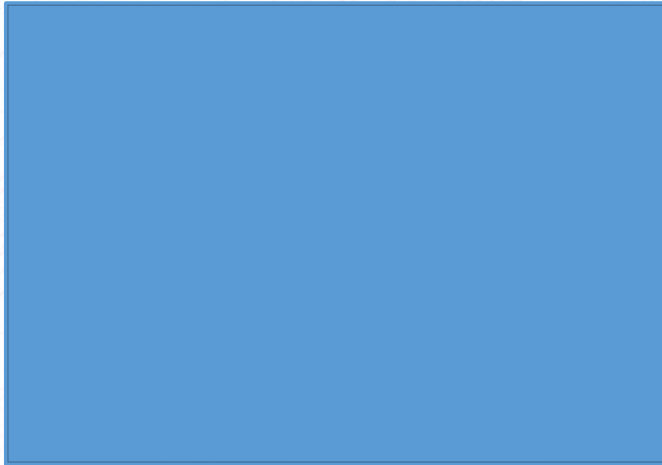
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Cyborg Employees

Stockholm



9

If Workers Slack Off, the Wristband Will Know. (And Amazon Has a Patent for It.)

By CEYLAN YEGINSU FEB. 1, 2018

LONDON — What if your employer made you wear a wristband that tracked your every move, and that even nudged you via vibrations when it judged that you were doing something wrong?

What if your supervisor could identify every time you paused to scratch or fidget, and for how long you took a bathroom break?

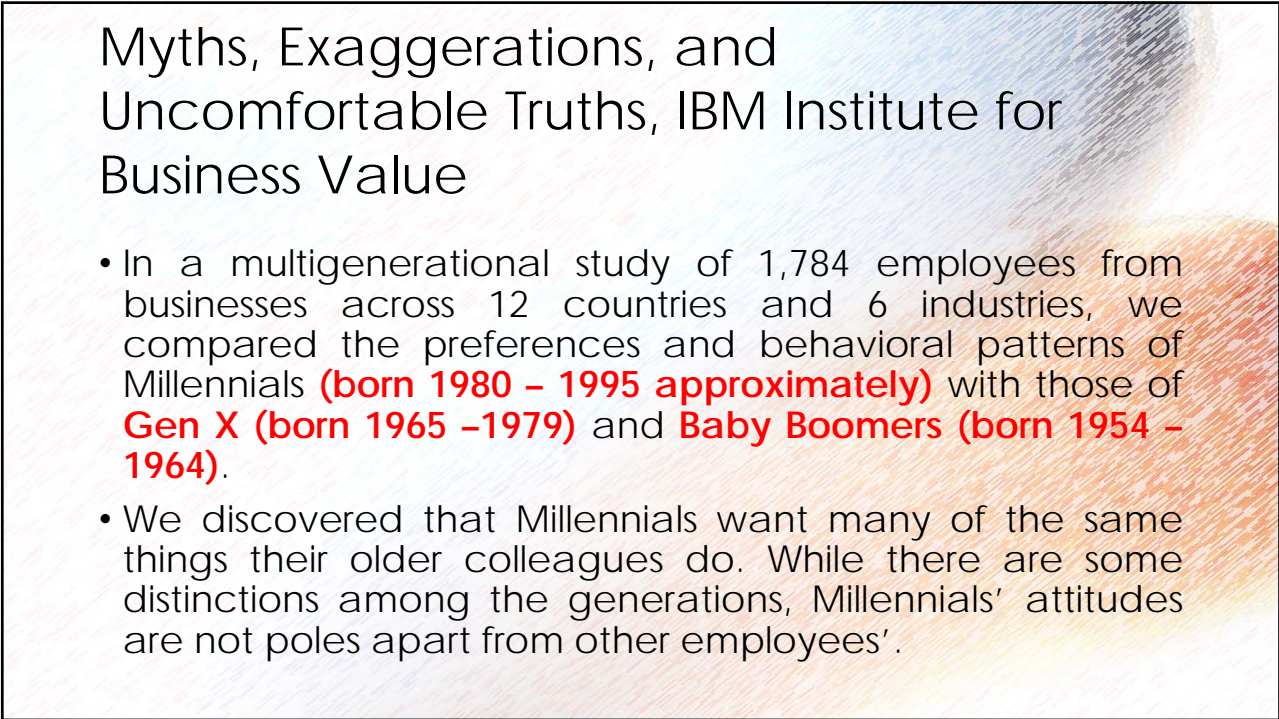
What may sound like dystopian fiction could become a reality for Amazon warehouse workers around the world. The company has won two patents for such a wristband, though it was unclear if Amazon planned to actually manufacture the tracking device and have employees wear it.

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Millennials

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Myths, Exaggerations, and Uncomfortable Truths, IBM Institute for Business Value




- In a multigenerational study of 1,784 employees from businesses across 12 countries and 6 industries, we compared the preferences and behavioral patterns of Millennials (**born 1980 – 1995 approximately**) with those of **Gen X (born 1965 –1979)** and **Baby Boomers (born 1954 – 1964)**.
- We discovered that Millennials want many of the same things their older colleagues do. While there are some distinctions among the generations, Millennials' attitudes are not poles apart from other employees'.

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Myth 1: Millennials' career goals and expectations are different from those of older generations.

Figure 1

Millennials place much the same weight on many of the same career goals as older employees do

Top career goals	 Millennials	 Gen X	 Baby Boomers
Make a positive impact on my organization	25%	21%	23%
Help solve social and/or environmental challenges	22%	20%	24%
Work with a diverse group of people	22%	22%	21%
Work for an organization among the best in my industry	21%	25%	23%
Do work I am passionate about	20%	21%	23%
Become an expert in my field	20%	20%	15%
Manage my work/life balance	18%	22%	21%
Become a senior leader	18%	18%	18%
Achieve financial security	17%	16%	18%
Start my own business	17%	12%	15%




Source: IBM Institute for Business Value Millennial Survey 2014, Millennials n=1,153, Gen X n=353, Baby Boomers n=278. Q15: Select the 2 long-term career goals that are most important to you.

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Myth 2: Millennials want constant acclaim and think everyone on the team should get a trophy.

Figure 3

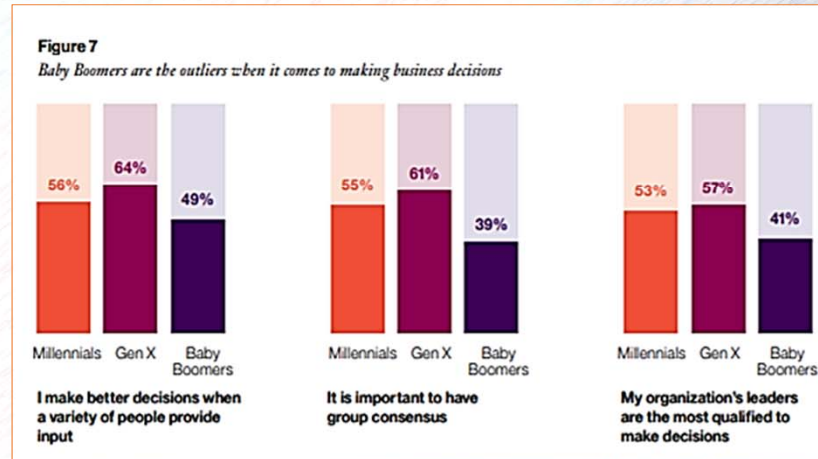
Millennials appreciate ethics and transparency above all other leadership traits

Attributes of the perfect boss	 Millennials	 Gen X	 Baby Boomers
Ethical and fair	35%	37%	35%
Transparent and readily shares information	35%	42%	27%
Dependable and consistent	32%	27%	35%
Is open to new ways of doing things	31%	36%	34%
Clearly defines goals and expectations	31%	42%	30%
Recognizes my accomplishments	29%	26%	23%
Provides hands-on guidance and feedback	29%	24%	28%
Is interested in my professional development	28%	23%	31%
Lets me work without much supervision	27%	21%	31%
Asks for my input	24%	23%	26%

Source: IBM Institute for Business Value Millennial Survey 2014, Millennials n=1,153, Gen X n=353, Baby Boomers n=278. Q19: What attributes would your perfect boss have? Rank your top 3 in order of importance, with 1 as the most important.

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Myth 4: Millennials, unlike their older colleagues, can't make a decision without first inviting everyone to weigh in.



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Burnout

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- Employee Burnout, Part 1: The 5 Main Causes
- Organizations are facing an employee burnout crisis. A recent Gallup study of nearly 7,500 full-time employees found that 23% of employees reported feeling burned out at work very often or always, while an additional 44% reported feeling burned out sometimes. That means about two-thirds of full-time workers experience burnout on the job.

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The Effects of Employee Burnout

Employees who say they very often or always experience burnout at work are:

63% more likely to take a sick day

Half as likely to discuss how to approach performance goals with their manager

23% more likely to visit the emergency room

2.6 times as likely to leave their current employer

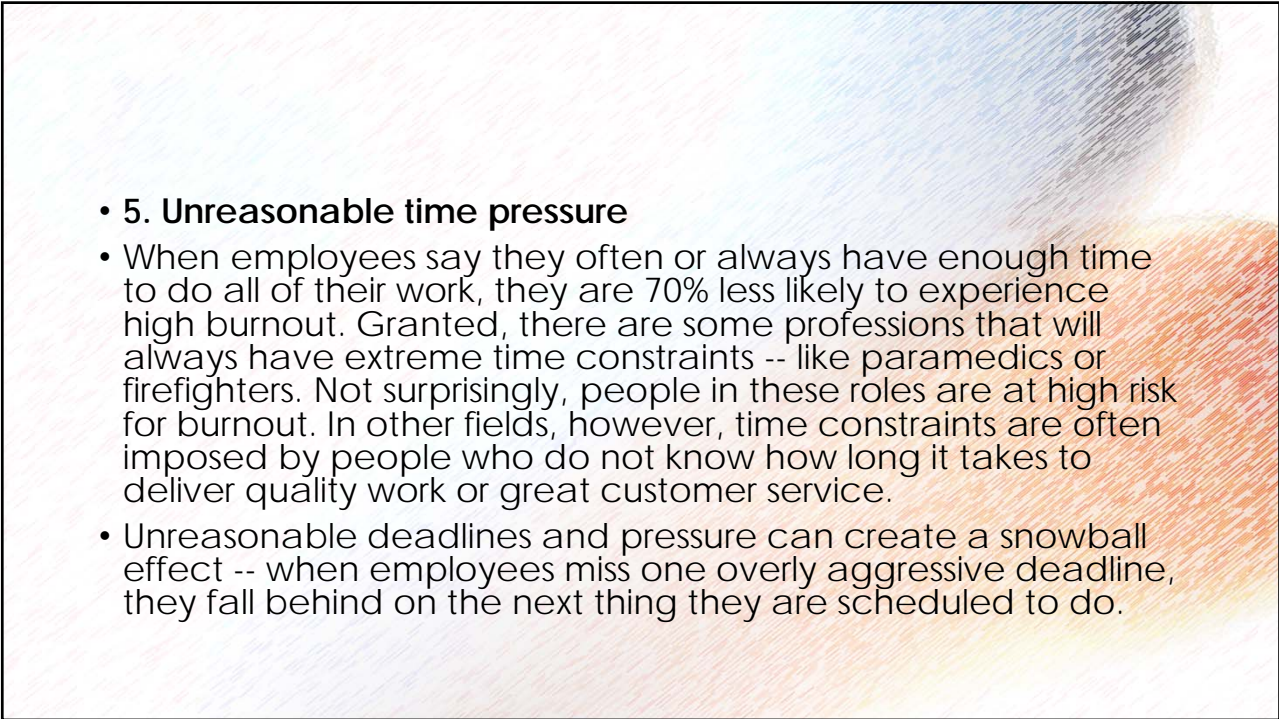
13% less confident in their performance

GALLUP

18

- 
- **2. Unmanageable workload**
 - When their workload is out of control, employees look to their managers to be their advocates for what they can and can't accomplish and for finding others to help them.

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- **5. Unreasonable time pressure**
 - When employees say they often or always have enough time to do all of their work, they are 70% less likely to experience high burnout. Granted, there are some professions that will always have extreme time constraints -- like paramedics or firefighters. Not surprisingly, people in these roles are at high risk for burnout. In other fields, however, time constraints are often imposed by people who do not know how long it takes to deliver quality work or great customer service.
 - Unreasonable deadlines and pressure can create a snowball effect -- when employees miss one overly aggressive deadline, they fall behind on the next thing they are scheduled to do.

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How long is your Workday?

Can a shorter workday work?

WORKPLACE 19 Apr 2018



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How long is your Workday?

The initiative was proposed by Jonathan Elliot, who was wondering how he was going to support his wife through cancer treatment and help with the care of his children, while also fulfilling his role as managing director of Collins SBA.

A book, *The Five Hour Workday*, by **Tower Paddle Boards** founder and CEO, Stephan Aarstol, had piqued his interest, as had accounts of Swedish companies introducing a **six-hour working day**. Elliot was already learning how much he could achieve in compressed hours, but could he make it work for the firm?

Elliot loved the idea of generating a mind-shift that would make people ask: is there a better way to do my work? At the same time, he says he knew that if staff output dropped as much as their time – 33 per cent – it would “blow up the

”

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How long is your Workday?

What are the rules of engagement?

- Start work anywhere between 8am and 9am, work five hours without a break, then if you have your work done, go home between 1pm and 2pm.
- Core hours are between 9am and 1pm when everyone is expected to be in the office, to allow communication and collaboration.
- Working five hours is the minimum requirement; use common sense to meet client needs.
- Treat the five-hour day as a reward, not a right.

“You can’t do a five-hour day unless you change your work habits, so at the beginning we had to be really strict about the rules, including start times, social chit-chat and breaks,” says Parsons.

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How long is your Workday?

The downsides of a shorter workday

The trial flushed out several challenges.

Five hours straight is an intense way of working that can leave staff mentally zapped. With no lunch until 1pm or later, hunger can be a problem, so the firm now supplies healthy snacks.

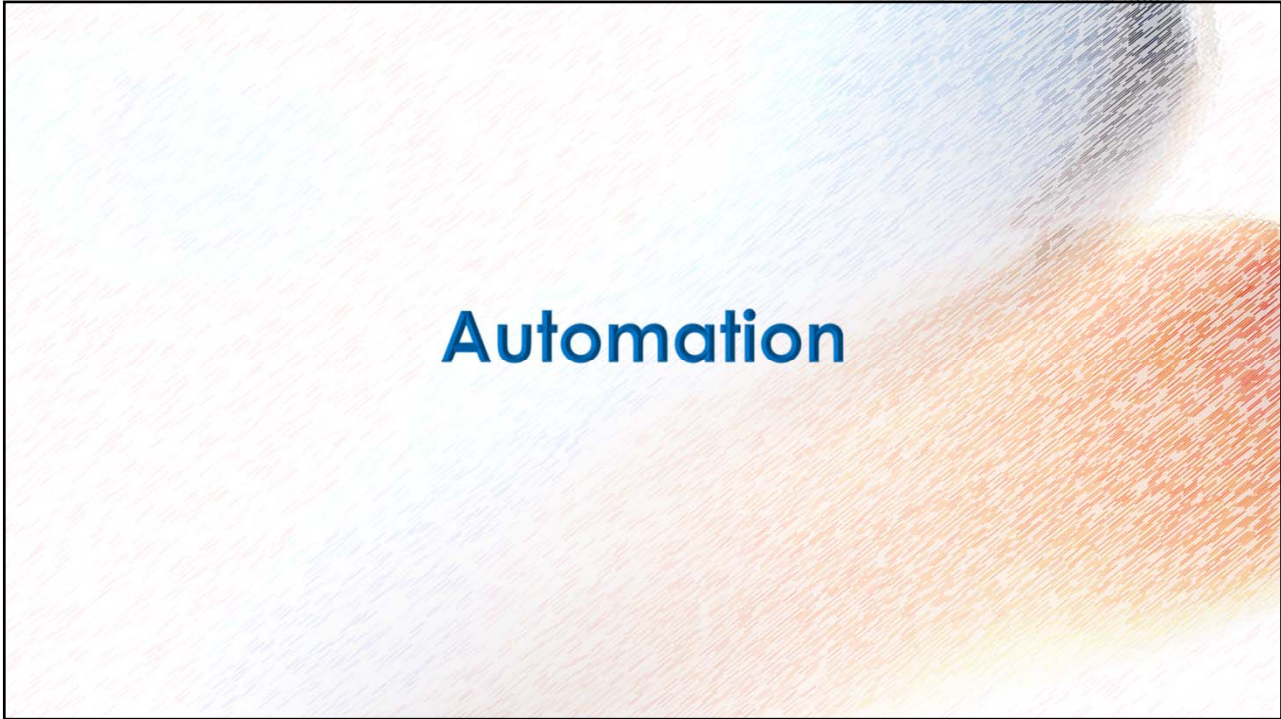
Stress levels increased for people who felt they had failed if they couldn’t complete work in five hours.

“We work with them to see if they can refine work practices, or if we need to adjust their workload,” says Parsons.

Others missed the social aspect of personal conversations at work. To compensate, everyone has to attend a regular social occasion every second month.

“It’s not perfect and it’s not for everyone, but in my 25 years of working, this is the most powerful workplace initiative I’ve ever been involved in,” says Parsons.

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Financial Management Magazine



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Financial Management Magazine

- Automation promises to bring efficiencies never seen before to the world's markets and industries.
- But it will also make entire professions a thing of the past, a displacement that will weigh heavily on future economies and governments.
- A recent [PwC report](#) on automation's effects on youth population, which is expected to be hardest hit by automation, **estimated that 30% of today's jobs will be gone by the 2030s.**
- Countries that stand to minimize the labor market effects of automation are those that are already gearing their youth towards highly skilled jobs and professions, according to the detailed PwC analysis.
- For countries with high levels of youth not in training, education, or employment (referred to as NEET in the report), the effects of automation could compound an already troubling situation **once robots begin serving fast-food customers and ringing up retail customers.**
- In the UK, an estimated 28% of jobs held primarily by younger workers (ages 16–24) are at risk of automation by the 2030s, according to the study.

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McDonald's Example

- Order:
 - By App
 - By Drive-through outside speaker box
 - By Kiosk inside the store
 - By speaking to a friendly and courteous real human person inside the store
- How long before a robot will be preparing your food and serving it to you?

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Robot Technology Post Script.....

- Bill Gates, says
 - "If a robot comes in to do the same thing, you'd think that we'd tax the robot at a similar level"

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CPE

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How the CPA continuing education game is changing

By Ken Tysiac

May 20, 2019 Journal of Accountancy

- A recent experiment with advisory services personnel of a top-20 CPA firm provided a glimpse of what continuing professional development might look like in the not-too-distant future.
- A course on complex problem-solving, managing change, and soft skills was delivered via virtual reality (VR). Instead of learning through a classroom lecture or a webcast, professionals wore VR headsets for a completely different educational experience.
- Clar Rosso, the executive vice president of Engagement & Learning Innovation for the Association of International Certified Professional Accountants, said the VR experience was well received by the learners, providing hope that CPAs will learn in a different way in the future.
- “While we haven’t figured out how to make VR learning experiences mainstream yet due to the large, somewhat pricey headsets, I believe in the next five years, VR experiences will be a mainstream CPD offering,” she said in an interview last week.

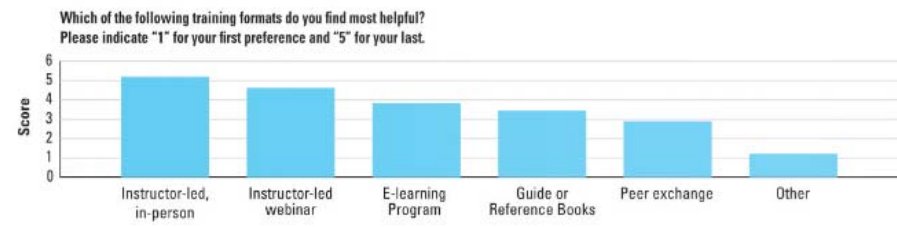
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AGA 2018 Uniform Guidance Survey

Survey Results

The majority of respondents (65 percent) said they would like to receive formal, in-person, instructor-led classroom training. The next most popular preferences include instructor-led webinars and e-learning. These findings concur with our workgroup's anecdotal experience, which shows the importance of peer exchange in formal classroom training and live interaction with subject matter expert instructors. The modality of such training is important as well. Classes often include role playing, which helps to imprint concepts being taught. **Figure 10** below provides respondent answers to the question about training format preferences.

Figure 10. Training Format Preferences



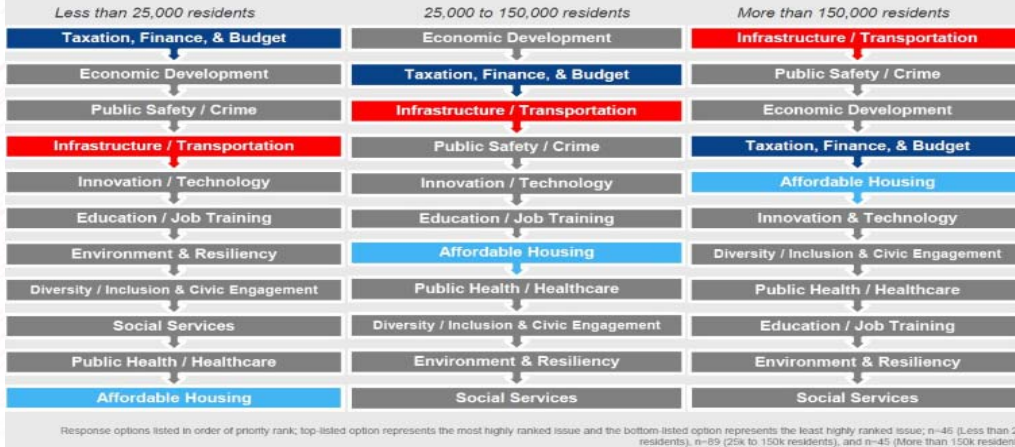
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Government Priorities

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Government Leader's Top Priorities

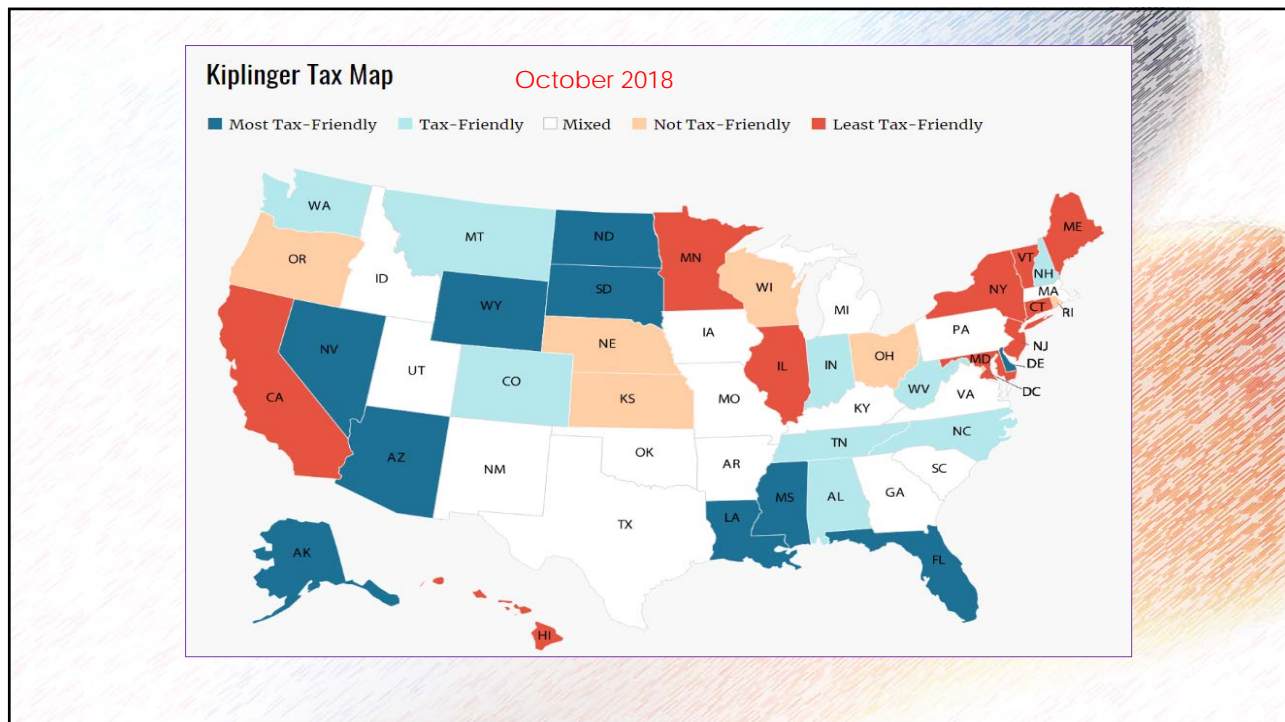
Which of the following represent the most and least important issues your city/county must prioritize to be successful in the future?



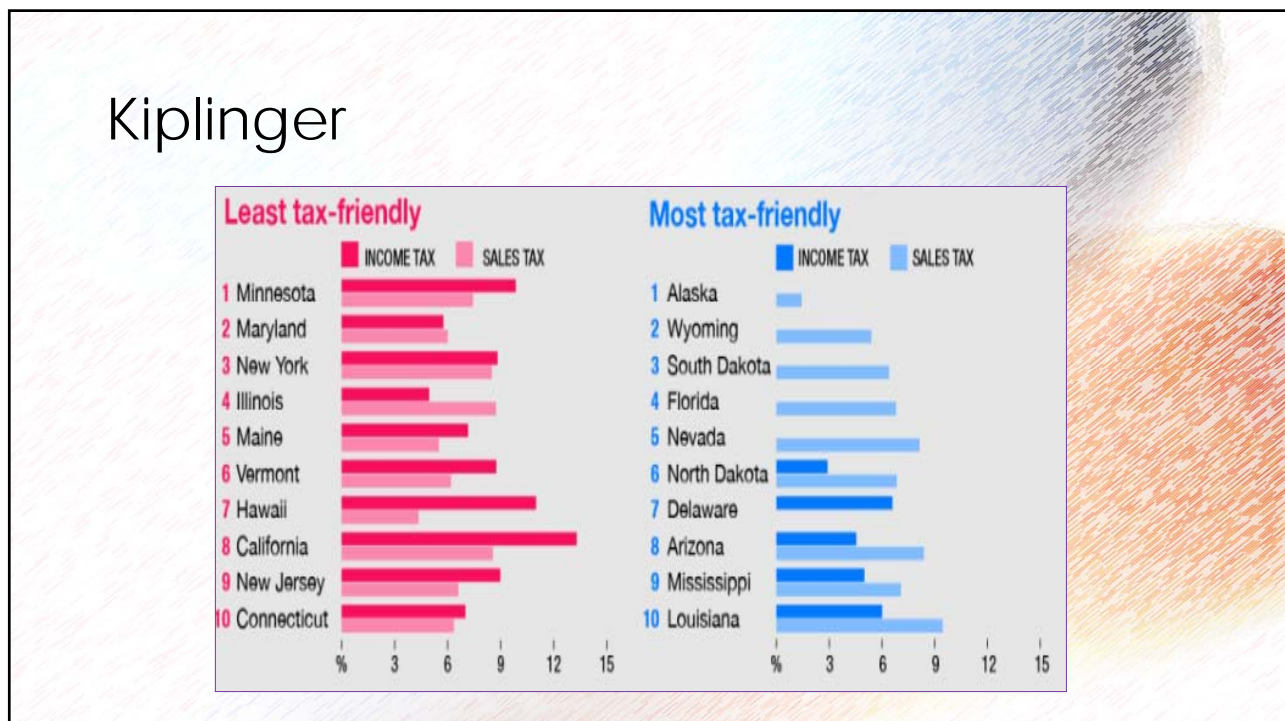
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Tax Friendly?

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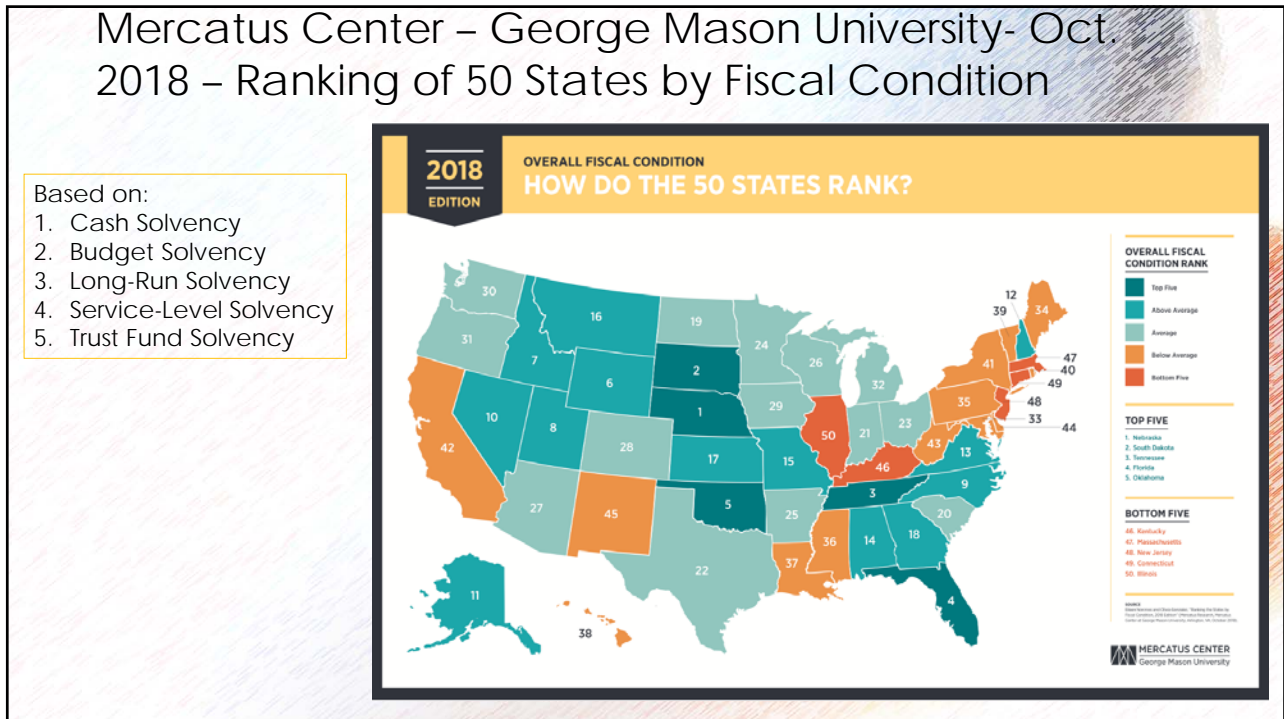
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Fiscal Condition

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Wealth

41

Forbes Magazine – What does it cost to live like the richest people in the world – October 2018.

Opera: Metropolitan Opera tickets for two, premium seats, for six Saturday-night shows (purchased in New York) **\$5,760** / 4.4%

Piano: Ebonized Model D concert-grand Steinway (New York) **\$171,100** / 4.3%

Motor Yacht: Viking Yacht 75 (New Jersey) **\$5.9 MIL** / NA

Sailing Yacht: Oyster 595 (U.K.) **\$2.5 MIL** / 8.7%

Sporting Shotguns: Pair of 12-gauge side-by-side from James Purdey & Sons (New Jersey) **\$318,353** / 3.6%

Thoroughbred: Average yearling, Keeneland September sale (Kentucky) **\$363,780** / N/A

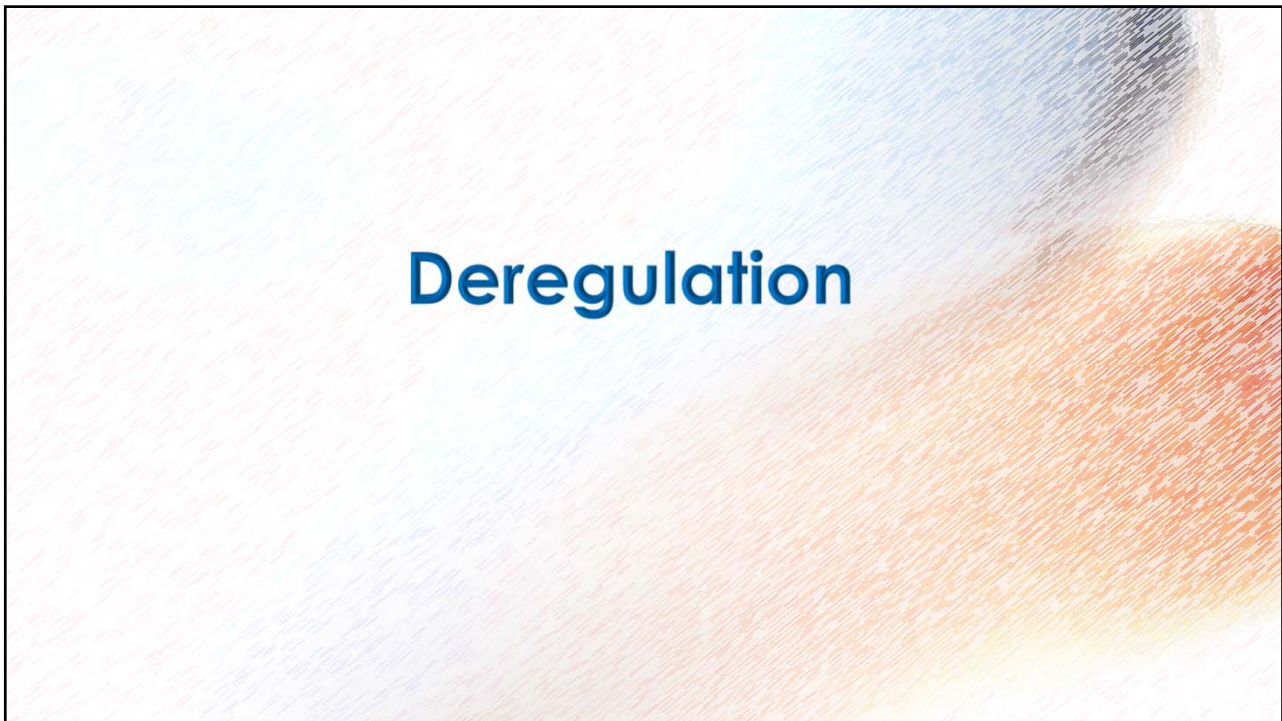
Train set: Thomas & Friends Lionel Christmas set with Bluetooth (North Carolina) **\$200** / N/A

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Legislative and Regulatory Issues

43



Deregulation

44

Journal of Accountancy

States' deregulatory push threatens CPA licensure

The CPA profession organizes resistance to legislative proposals that would reduce state licensing requirements.

By Sarah Ovaska-Few

September 7, 2018

CPAs around the United States are raising alarms about a recent wave of deregulatory legislative proposals that are endangering the profession. While these proposals haven't affected the profession yet, CPA profession leaders warn that the danger is far from over.

In Louisiana this year seven bills were introduced by state lawmakers — including one called the Right to Earn a Living Act — that would have negatively impacted established policies of multiple occupational licensing boards, including the State Board of Certified Public Accountants.

When Ron Gitz, CPA, CGMA, the executive director of the Society of Louisiana Certified Public Accountants (<https://www.lcpa.org/>), informed the LCPA's membership that the profession was at grave risk in the state, CPAs across the state jumped into action by emailing, calling, and visiting their lawmakers.

"Talk about loud voices," Gitz said about the uproar once CPAs realized what was happening.

Making the push more impressive is that several key points in the months-long fight fell in March and April, smack in the middle of the busy tax season.

Louisiana CPAs aren't alone in their struggle. Twenty-three other state legislative bodies considered similar deregulation efforts in 2018, said Skip Braziel, the AICPA's vice president—State Regulatory & Legislative Affairs.

It's not that CPAs are being singled out. Instead, they're being swept up in a larger political push to reduce state licensing requirements.

"The bills are written so broadly to bring us into the bills; that's why we've been engaged," Braziel said.

In Louisiana, the legislature eventually clocked out of its regular session in mid-May without taking action on the deregulation. The fight was exhausting, Gitz said, and it's likely to come back.

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CPA Evolution Project

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CPA Evolution Project

Journal of Accountancy

Working group considers changes to CPA licensing requirements

By Ken Tysiac
7 hours 1 minute ago

A working group formed by the National Association of State Boards of Accountancy (NASBA) and the AICPA is exploring possible changes to the CPA licensure requirements that would incorporate the skills and competencies in areas such as technology and data analytics that increasingly are needed in practice and business.

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CPA Evolution Project

"Technological innovation and changing client demands are rapidly transforming the skills accountants need to thrive," Allen said. "We want to reimagine the CPA learning and licensure approach. Working group members recognize the critical role of technological and data analysis expertise needed in firms and businesses today. Our goal is to recommend a strategy that provides the guiding principles for how to build related knowledge and skills into accounting curricula and how to test for those proficiencies on the CPA Exam."

"Based on what we've heard, there is no question that the profession is ready to take action on the opportunities that technology presents to us," Coffey said. "That includes an evolution in our approach to licensure that embraces the changes and continues our public protection mandate. I'm looking forward to the working group's recommendations and engaging with the profession and our key stakeholders throughout 2019."

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Online Sales Tax

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South Dakota v. Wayfair

- U.S. Supreme Court agreed in January 2018 to decide this case
 - 1967 *National Bellas Hess v. Department of Revenue of Illinois*
 - 1992 *Quill v. North Dakota*
- South Dakota is asking the Court to rule that S&L governments may require retailers with no in-state presence to collect sales taxes
- Impact:
 - GAO [report](#) (December 2017) estimates that states lost \$8 billion to \$13 billion in sales tax revenue in 2017
 - eCommerce sales in 2005 were \$87 billion compared to \$225.5 billion in 2012 (Dept. of Commerce)
 - Estimated to be \$462 billion in 2018

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South Dakota v. Wayfair

- Outcome:
- The Court granted a [writ of certiorari](#) in January 2018, heard the case on April 17, 2018, and issued its decision on June 21, 2018. A five-justice majority overturned *Quill*, ruling that the physical presence rule decided from *Quill* was "unsound and incorrect" in the current age of Internet services.
- In *Wayfair*, the Supreme Court overruled the physical presence nexus standard of *Quill* and *National Bellas Hess* for state and local taxation of remote sales.
- As soon as the Supreme Court issued its decision in *Wayfair* (on June 21, 2018), various states began issuing statements or guidance, or introducing bills in response.

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Online Sales Tax

Current Status of State Actions

- 38 of 45 Sales Tax States have statutes or regulations in place to require remote sellers to collect and remit – with small-seller thresholds
 - Not Yet: AR*, FL*, ID*, KS*, MO*
 - * Legislation being considered
 - Illinois budgeted \$150M in FY 2019 budget
 - Many states updated FY 20 revenue estimates with the impact of online sales tax revenues. Averaged around 2% of sales tax totals.
- By July 2018: HI, OK, RI, PA, VT
 - Sept 2018: MS
 - Oct 2018: AL, IL, IN, KY, ME, MD, MA, MI, MN, NV, NJ, ND, WA, WI
 - Nov 2018: NC, SC, SD
 - Dec 2018: CO, CT
 - Jan 2019: GA, IA, LA, NE, UT, WV
 - Feb 2019: WY
 - Later 2019: CA, NM, NY, TX, VA, WV

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Sports Betting

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SPORTS BETTING

Current Status of State Actions

Murphy/Christie v. NCAA
US Supreme Court 6-3 decision
May 14, 2018

Held that the provisions of the Professional and Amateur Sports Protection Act that prohibits state authorization and licensing of sports gambling violates the Constitution's anticommandeering rule

Grandfathered in: Nevada, Delaware, Montana, Oregon – had legalized sports betting laws on the books of some type

7 States Already Betting: Delaware, Mississippi, Nevada, New Jersey, Pennsylvania, Rhode Island, West Virginia

2 Other States with Authority: Arkansas and New Mexico (tribal casino)

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SEC Amendments

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Municipal Disclosures – SEC Proposes and Finalizes Amendments to Rule 15c2-12

- Proposal issued on March 1, 2017
 - Improves investor protection and enhances transparency in municipal securities market
 - Addresses concern about private bank lending
- Adds **two** new event notices under continuing disclosure undertakings
 - Currently there are 14 listed events
 - Requires notice within 10 days of the occurrence
- Final Rule issued on August 31, 2018
- Dates
 - Effective Date: October 30, 2018
 - Compliance Date: February 27, 2019

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Municipal Disclosures –Amendments to Rule 15c2-12

- Two new events are:
 - Incurrence of a **financial obligation** of the issuer or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation, any of which affect security holders, if material
 - Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the **financial obligation** of the issuer or obligated person, any of which reflect financial difficulties

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Municipal Disclosures –Amendments to Rule 15c2-12

- “Financial Obligation” is defined as:
 - A debt obligation (e.g., bank loans, capital leases)
 - Derivative instrument, or a
 - Guarantee of either of the above
- Final Rule does **not** include in the definition of “financial obligations”
 - Operating leases
 - Monetary obligation resulting from a judicial, administrative, or arbitration proceeding
- Materiality also not defined in the Final Rule

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Municipal Disclosures –Amendments to Rule 15c2-12

- What should be disclosed?
 - A description of the material terms of the financial obligation, including:
 - Date of incurrence
 - Principal amount
 - Maturity and amortization
 - Interest rate (or method of computation of the interest rate)
 - Default rates

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GASB Funding

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Economic Growth, Regulatory Relief, and Consumer Protection Act

- SB 2125
 - Signed into law by President on May 24, 2018
- Two key provisions:
 - Treats municipal securities as 2B liquid assets (the HOLA issue)
 - Maintains funding for GASB as provided in section 978 of Dodd-Frank Act

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XBRL

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XBRL Developments: State and Local Governments

- XBRL US has formed a state and local government workgroup
 - Developing a taxonomy for a CAFR
- Florida [HB 1073](#)
 - Authorizes the creation of Florida Open Financial Statement System
 - An interactive data repository for government financial statements
 - Requires the Florida CFO to determine whether a suitable XBRL taxonomy has been developed
 - Effective for FY ending on or after September 1, 2022
- California [SB 548](#)
 - Introduced in February 2019; has not passed Senate yet
 - Requires the state, counties, cities, school districts, special districts and pension funds submit financial statements in XBRL
- Will other states follow?

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Timeliness

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Timeliness of Audited Financial Statements

- SEC chair Jay Clayton calls for improved municipal market disclosure including timelier financial reporting
 - December 6, 2018, speech indicates SEC may be interested in taking additional regulatory action to improve municipal market disclosure
 - SEC's Office of Municipal Securities is working with MSRB to improve transparency and increase timeliness of issuer financial information.
- State and local government groups monitoring closely

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Questions?



Jerry E. Durham, CPA, CGFM, CFE

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**North Carolina
Office of the State Controller**

**The Latest Inventions
from the Mind of GASB**

June 5, 2019

Jerry E. Durham, CPA, CGFM, CFE

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Effective Dates—June 30

2018
<ul style="list-style-type: none">• Statement 75—OPEB (employers)• Statement 81—irrevocable split-interest agreements• Statement 85—omnibus (may be implemented by topic)• Statement 86—certain debt extinguishment issues• Implementation Guide 2017-1
2019
<ul style="list-style-type: none">• Statement 83—certain asset retirement obligations• Statement 88—certain debt disclosures• Implementation Guide 2018-1
2020
<ul style="list-style-type: none">• Statement 84—fiduciary activities• Statement 90—majority equity interests
2021
<ul style="list-style-type: none">• Statement 87—leases• Statement 89—interest cost

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Effective Dates—December 31

2018

- Statement 75—OPEB (employers)
- Statement 85—omnibus (may be implemented by topic)
- Statement 86—certain debt extinguishment issues
- Implementation Guide 2017-1

2019

- Statement 83—asset retirement obligations
- **Statement 84—fiduciary activities**
- Statement 88—certain debt disclosures
- Implementation Guide 2018-1
- **Statement 90—majority equity interests**

2020

- Statement 87—leases
- Statement 89—interest cost

3

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GASB Update – Where are we?

- 2020
 - Implementation Guide Update 2019-1 - **New**
- 2021 (and beyond)
 - GASB-87 – Leases
 - **Implementation Guide ED**
 - **Almost Final – To be GASB-91 – Conduit Debt Obligations**

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Implementation Dates

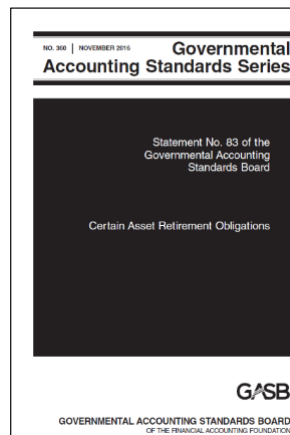
Effective Date - Periods Beginning <i>After</i>	Statement	First Fiscal Years Affected		
		June 30th	Sept. 30th	December 31st
June 15, 2018	GASB-83 – <i>Asset Retirement Obligations</i>	2019	2019	2019
June 15, 2018	GASB-88 – <i>Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements</i>	2019	2019	2019
June 15, 2018	IGU-2018-1	2019	2019	2019
December 15, 2018	GASB-84 – <i>Fiduciary Activities</i>	2020	2020	2019
December 15, 2018	GASB-90 – <i>Majority Equity Interests</i>	2020	2020	2019
June 15, 2019	IGU - 2019-1	2020	2020	2020
December 15, 2019	GASB-87 – <i>Leases</i>	2021	2021	2020
December 15, 2019	GASB-89 – <i>Accounting for Interest Cost before the End of a Construction Period</i>	2021	2021	2020
December 15, 2020	ALMOST FINAL - TO BE GASB-91 – <i>Conduit Debt Obligations</i>	2022	2022	2021

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Certain Asset Retirement Obligations



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Certain Asset Retirement Obligations

What:

The Board issued Statement 83 to establish accounting and financial reporting standards for legal obligations to retire certain capital assets, such as decommissioning nuclear power plants and removing sewage treatment plants

Why:

Statement 18 addressed only municipal landfills but governments have retirement obligations for other types of capital assets; diversity exists in practice

When:

Effective for fiscal years beginning after June 15, 2018

Earlier application is encouraged

8

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Definitions and Scope

Asset retirement obligation	Retirement of a tangible capital asset	Examples
Legally enforceable liability associated with the retirement of a tangible capital asset	The permanent removal of a capital asset from service (such as from sale, abandonment, recycling, or disposal)	<ul style="list-style-type: none"> • Nuclear power plant decommissioning • Coal ash pond closure • Contractually required land restoration, such as removal of wind turbines • Sewer Plants • X-Ray Equipment

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DEFINITION OF AN ARO

- Retirement of a tangible capital asset—The other-than-temporary removal of a capital asset from service (such as from sale, abandonment, recycling, or disposal) **but not impairments**:
 - Doesn't matter if capital asset was acquired or constructed;
 - May also occur when government is a lessor;
 - Legal obligation **must be enforceable**.

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Included in the Scope of GASB-83

Retirement of tangible capital assets – Examples:

- Nuclear power plant decommissioning.
- Coal ash pond closure (those that are not landfills).
- Contractually required land restoration such as removal of wind turbines.
- Removing sewage treatment / waste-energy plants.
- Other similar obligations.
- **But Not the Pollutions they Cause.**

Disposal of a replaced part that is a component of a capital asset (example – x-ray tube).

Environmental remediation associated with a retirement of tangible capital assets that results from the **normal** operations of those tangible capital assets.

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Included?

- What about underground Gasoline storage tanks?
- Do they meet the definition of an ARO?

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EXCLUDED FROM THE SCOPE OF THE GASB-83

- Obligations associated with:
 - Plan to sell or otherwise dispose of a tangible capital asset.
 - Preparation of a tangible capital asset for an alternative use.
 - Asbestos removal or pollution remediation (GASB-49) [GASB Cod. Sec. P40].
 - Maintenance of a tangible capital asset.
- Cost of replacement part that is a component of a capital asset.
- Landfill closure and postclosure care obligations (GASB 18).
- Conditional obligations to perform asset (for example depending on the year of regulation) retirement activities

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Recognition of Liabilities

- ▶ Similar to **GASB-49**:
 - Liability has to be incurred and reasonably estimable.
 - Must be external and internal events to obligate the government

EXTERNAL EVENTS EXAMPLES	INTERNAL EVENTS EXAMPLES
<ul style="list-style-type: none"> • Federal, state, local laws / regulations; • Legally binding contracts; • Court judgment imposing legally enforceable liability. 	<ul style="list-style-type: none"> • For contamination related events – occurrence; • Non-contamination: <ul style="list-style-type: none"> • Pattern of incurrence based on use (mine excavation); • Placing of capital asset into service; • Abandonment before use (permanent construction stoppage). • Acquisition of a capital asset with existing ARO.

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Recognition & Measurement

Initial Recognition	<p>ARO liability when incurred and reasonably estimable. Incurrence manifested by both external and internal obligating events.</p> <p>Measured based on the best estimate of the current value of outlays expected to be incurred.</p> <p>Current value is the amount that would be paid if all costs were acquired at the end of the current reporting period.</p>	Deferred outflow of resources—same amount as the ARO liability
Subsequent Recognition	<ul style="list-style-type: none"> • At least annually, adjust for general inflation or deflation • At least annually, evaluate relevant factors to determine if there is a significant change in the estimated outlays; remeasure liability when significant 	An outflow of resources (such as expense) in a systematic and rational manner over the estimated useful life of the capital asset. Immediately expense if capital asset is abandoned.

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Summary of ARO Events

- ▶ **Asset Retirement Obligations (ARO):**
 - Legally enforceable liability
 - Internal obligating event
 - Associated with a tangible capital asset
 - Recognize a liability when incurred and reasonably estimable
 - Use probability weighing of all potential outcomes or if this is not available at a reasonable cost, then use most likely amount
 - Record a deferred outflow = to liability
 - Remeasure the liability for effects of inflation and deflation annually and other relevant factors. Book if significant
 - Special recognition for minority interests calculated under other than GASB GAAP

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Measurement Exception for a Minority Owner of a Jointly Owned Capital Asset

Minority share (less than 50 percent) of ownership interest in an undivided interest arrangement is one of the following:

- A nongovernmental entity is the majority owner
- No majority owner, but a nongovernmental owner has the operational responsibility

Initial and Subsequent Measurement Exception

- The governmental minority owner should report its minority share of ARO using the measurement produced by the **nongovernmental** joint owner

The measurement date of such an ARO should be no more than one year and one day prior to the government's financial reporting date

Specific disclosure requirements in this circumstance

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Effects of Funding and Assurance

If legally required to provide funding and assurance, disclose that fact

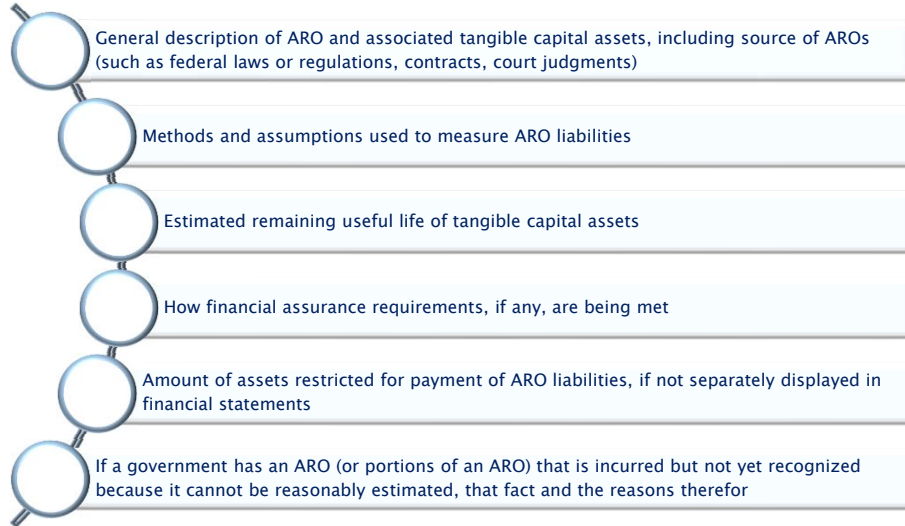
Do not offset ARO with assets restricted for payment of the ARO

Costs to comply with funding and assurance provisions are period costs separate from the ARO expense

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Disclosures



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QUIZ

- ▶ Which is *not* an example of a possible ARO under Statement 83?
 - A. A landfill
 - B. Radiological equipment at a government hospital
 - C. A nuclear power plant
 - D. A coal ash pond spill
 - E. A. and D.
 - F. All of the above

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QUIZ

- ▶ Which is *not* a prerequisite for recording an ARO?
 - A. A legally enforceable liability
 - B. An internally obligating event
 - C. Payments have been made to retire the asset
 - D. A deferred inflow equal to the liability
 - E. Remeasurement Annually
 - F. All of the above

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QUIZ

- ▶ Which of the following should be disclosed for an ARO?
 - A. Disclose funding or assurance requirements
 - B. Amounts accumulated and restricted for payment of the liability
 - C. Why a liability is not reasonably estimable
 - D. Remaining useful life of the asset
 - E. General Description of the ARO
 - F. All of the above

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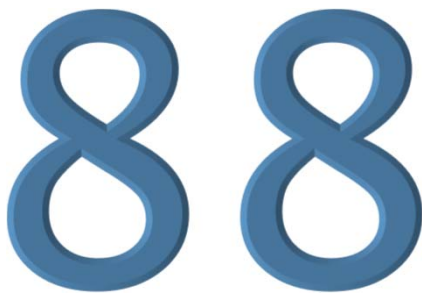
22

What should Auditors be doing **Now!**

- Examine capital asset schedules for possible ARO evaluation. Look at Sewer Treatment Facilities and X-ray equipment in particular.
- Ask about any assurance arrangements the government has with Federal or State regulators.
- Utilize any assurance amounts to determine the best estimate of the ARO liability at the present time.
- If there is no assurance agreement, then ask the entity to obtain an engineering estimate of the closure and postclosure costs. Do this now.
- For radiological equipment, ask if the medical facility has plans for getting rid of the equipment at the end of its useful life. Likely, they pay a company to accept the nuclear component.
- Determine materiality for the Opinion Unit. If material, record the ARO.

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Debt Disclosures

What:

The Board issued Statement 88 to improve existing standards for disclosure of debt

Why:

A review of existing standards related to disclosures of debt found that debt disclosures provide useful information, but that certain improvements could be made

When:

Effective for periods beginning after June 15, 2018

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Certain disclosures related to debt, including direct borrowings and direct placements

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Debt Disclosures

What:

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Why:

A review of existing standards related to disclosures of debt found that debt disclosures provide useful information, but that certain improvements could be made

When:

Effective for periods beginning after June 15, 2018

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Definition of Debt for Disclosure Purposes

“A liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of payment of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established”

- For purposes of this determination, interest to be accrued and subsequently paid (such as variable-rate interest) or added to the principal amount of the obligation, such as capital appreciation bonds, would not preclude the amount to be settled from being considered fixed at the date the contractual obligation is established.
- Leases and accounts payable are excluded from the definition of debt for disclosure purposes.
- **Capital Leases** are still debt but are considered financed purchases.

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Disclosures that Meet the Definition of Debt

- So based on the above definition, what would not be considered debt?
 - Compensated Absences?
 - Accrued Payroll?
 - IRS Penalties?
 - Net Pension Liabilities
 - Net OPEB Liabilities?
 - Claims and Judgments?
- So should all the above be disclosed?

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Disclosures that Meet the Definition of Debt

- SUMMARIZED Information (Not Details) on the following:
 - Amount of unused **lines** of credit;
 - Assets pledged as collateral for debt;
 - Terms specified in debt agreements related to *significant*:
 - Events of default with finance-related consequences *or* termination events with finance-related consequences;
 - Subjective acceleration clauses.
- Debt disclosures separated into the following categories:
 - Direct borrowings and direct placements of debt;
 - Other Debt.

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Terminology

- **Direct Borrowing** –when a government enters into a loan agreement with a lender (any financial institution)
- **Direct Placement** – when a government *issues* a debt security directly to an investor.
- **Lines of credit** are different from *letters of credit*.
 - A letter of credit is more of a *guarantee* of payment.
 - A line of credit is a full agreement to receive resources that are available to draw.
- **Assets pledged as collateral** (different than GASB-48 provisions which are *revenue* pledges)

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Debt Disclosures

- ▶ **GASB 88 Disclosures:**
 - This standard is about disclosures, not accounting.
 - The disclosures in Statement 88 are in addition to all other required disclosures for debt.

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Disclosure Example

Disclosure

Changes in long-term obligations for the year ended June 30, 20X2, are as follows:

	Balance at July 1, 20X1	Increases	Decreases	Balance at June 30, 20X2	Due within One Year
Governmental activities:					
General obligation bonds	\$21,500,000	\$ -	\$ 8,970,000	\$ 12,530,000	\$ 7,050,000
Notes from direct borrowings and direct placements	1,412,877	-	470,959	941,918	470,959
Total	\$22,912,877	\$ -	\$ 9,440,959	\$ 13,471,918	\$ 7,520,959
Business-type activities:					
Notes from direct borrowings	\$ 76,800	\$ -	\$ 6,400	\$ 70,400	\$ 6,400

The County's outstanding notes from direct borrowings and direct placements related to governmental activities of \$941,918 contain a provision that in an event of default, outstanding amounts become immediately due if the County is unable to make payment.

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Disclosure Example

The County's outstanding notes from direct borrowings related to business-type activities of \$70,400 are secured with collateral of an undeveloped lot zoned for commercial use. The outstanding notes from direct borrowings related to business-type activities of \$70,400 contain (1) a provision that in an event of default, the timing of repayment of outstanding amounts become immediately due if pledged revenues during the year are less than 120 percent of debt service coverage due in the following year and (2) a provision that if the County is unable to make payment, outstanding amounts are due immediately. The County's outstanding notes from direct borrowings related to business-type activities of \$70,400 contain a subjective acceleration clause that allows the lender to accelerate payment of the entire principal amount to become immediately due if the lender determines that a material adverse change occurs.

The County also has an unused line of credit in the amount of \$1,500,000.

Default Clause

Line of Credit

Acceleration Clause

Collateral Security

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Debt Disclosures

- ▶ **GASB 88 Disclosures:**
 - Disclosures about the above should be made for **significant**:
 - Events of default
 - Termination Events
 - Subjective acceleration clauses

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Disclosure Example

Debt service requirements on long-term debt at June 30, 20X2, are as follows:

Year Ending June 30,	Governmental Activities				Business-Type Activities	
	Bonds		Notes from Direct Borrowings and Direct Placements		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest	Principal	Interest
20X3	\$ 7,050,000	\$ 497,700	\$ 470,959	\$ 30,024	\$ 6,400	\$ 2,640
20X4	4,880,000	215,950	470,959	10,008	6,400	2,400
20X5	50,000	21,000	-	-	6,400	2,160
20X6	50,000	19,250	-	-	6,400	1,920
20X7	50,000	17,500	-	-	6,400	1,680
20X8-20Y2	250,000	52,500	-	-	32,000	4,800
20Y3-20Y7	200,000	17,500	-	-	6,400	240
	<u>\$12,530,000</u>	<u>\$ 841,400</u>	<u>\$ 941,918</u>	<u>\$ 40,032</u>	<u>\$ 70,400</u>	<u>\$ 15,840</u>

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QUIZ

- ▶ **Under Statement 88 what journal entries should be made to record direct debt?**
 - A. Debit Cash and Credit a current liability.
 - B. Debit Cash and Credit a long-term liability.
 - C. Debit Notes Receivable and Credit a long-term liability.
 - D. All of the above depending on the circumstances
 - E. None of the above

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QUIZ

- ▶ **Which of the following should be disclosed for direct debt and direct placements?**
 - A. Subjective acceleration clauses
 - B. Default clauses
 - C. Collateral pledged
 - D. Unused lines of credit
 - E. A. and B.
 - F. All of the above

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QUIZ

- ▶ Which of the following should be disclosed as separate information for direct debt and direct placements?
 - A. Names of banks from which direct debt was borrowed
 - B. Repayment Schedules
 - C. Changes in long-term debt
 - D. Where the audit report for the bank that provided direct borrowing can be obtained
 - E. B. and C.
 - F. All of the above

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The image shows the numbers '89' in a large, blue, 3D-style font. The numbers are centered within a white rectangular frame.

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Accounting for Interest Cost Incurred before the End of a Construction Period

What:	Why:	When:
<p>The Board issued Statement 89 to enhance the relevance of capital asset information and simplify financial reporting</p>	<p>Accounting guidance has been based on FASB Statements 34 and 62, which were incorporated into the GASB literature by GASB Statement 62 but were not reconsidered in light of GASB's Concepts Statements</p>	<p>Effective for periods beginning after December 15, 2019.</p> <p>Earlier application is encouraged.</p>

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Recognizing Construction Period Interest Cost

Financial statements prepared using the economic resources measurement focus:

- Interest cost incurred before the end of a construction period should be recognized as an expense in the period incurred.

Financial statements prepared using the current financial resources measurement focus:

- Interest cost incurred before the end of a construction period should be recognized as an expenditure consistent with governmental fund accounting principles.

Prospective application at transition

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Accounting for Interest Cost Incurred before the End of a Construction Period

- Removes the requirement to capitalize construction period interest costs in proprietary funds and BTA
- Prospective application only
- Perhaps the only GASB Statement you can implement by doing NOTHING (No restatements, no reclassifications, no capitalization, no lookback period)
- An easy target if you wish to early implement; in fact, we recommend it

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Accounting for Interest Cost Incurred before the End of a Construction Period

- What do you do if the GASB 89 implementation date comes right in the middle of a construction project? (Para. 6)
- Does GASB 89 apply to Regulated Industries that choose to capitalize or are required to capital interest costs. (GASB 62.476 and 485, and 476-500)

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Construction Period Interest Costs

▶ Exception

- Interest may be capitalized, like other period costs, for a regulatory asset if
 - The government qualifies as a regulated entity
 - The government has elected to utilize regulatory accounting
 - Interest costs will be recovered through future rates

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QUIZ

- ▶ Which of the following is a *True* statement about Statement 89?
 - A. This may be the best standard ever issued
 - B. This is one of the best standards ever issued
 - C. All of GASB Standards should be this simple
 - D. Accountants can actually read and understand this standard without spending a lot of time and effort.
 - E. None of the above
 - F. It depends

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QUIZ

- ▶ **The journal entry to record construction period interest is?**
 - A. Different for a governmental fund as opposed to an enterprise fund
 - B. Debit an expense/expenditure and credit cash
 - C. Debit a capital asset and credit cash
 - D. None of the above

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A large, blue, 3D-style number '90' is centered on a white background. The numbers have a slight shadow and a gradient, giving them a three-dimensional appearance.

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Accounting and Financial Reporting for Majority Equity Interests

Statement No. 90

49

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Majority Equity Interests

What:

The Board issued Statement 90 to clarify whether a majority equity interest should be reported as an investment or as a component unit and to provide consistent measurement of elements of acquired organizations and 100% equity interests in component units

Why:

Stakeholders requested that the GASB examine diversity in practice and potential conflicts in the existing guidance

When:

Effective for periods beginning after December 15, 2018

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Majority Equity Interests

▶ **Equity Interests Ownership Issues:**

◦ **Example:**

▶ Assume that Government A acquires 80 percent of the voting stock of a for-profit enterprise (the corporation). Government A appoints 8 of the 10 members of the governing body of the corporation and is able to impose its will on the corporation. Furthermore, the corporation is expected to provide financial benefits to, and impose financial burdens on, Government A. Under Statement 14, the corporation meets the financial accountability criteria for a component unit of Government A. However, if the sole purpose behind the acquisition of the corporation is to produce income or profit for Government A, should the definition of an investment in paragraph 64 of Statement 72 prevail, regardless of the fact that Government A is financially accountable for the corporation?

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Does the Majority Equity Interest Meet the Definition of an Investment?

YES	NO
Report as an investment	Report as a component unit
Measure the investment by applying the equity method prescribed in Statement 62, paragraphs 205-209 <i>Exception:</i> the following should apply fair value in accordance with Statement 72, paragraph 64: <ul style="list-style-type: none"> • Special-purpose governments engaged only in fiduciary activities • Fiduciary funds • Endowments (including permanent and term endowments) and permanent funds 	Recognize an asset for the majority equity interest and measure by applying the equity method prescribed in Statement 62, paragraphs 205-209
Applied prospectively only	

52

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100% Equity Interest That *Does Not* Meet the Definition of an Investment



These provisions would only be applied prospectively

53

53

GFOA Summary

MEMORANDUM

DATE: November 13, 2017

TO: CAAFR

FROM: Michele Mark Levine
Todd Buikema

RE: GASB ED: *Accounting and Financial Reporting for Majority Equity Interests*

On November 1, 2017, the Governmental Accounting Standards Board (GASB) issued an Exposure Draft (ED) entitled *Accounting and Financial Reporting for Majority Equity Interests* for public comments, which are due by January 19, 2018.

The ED addresses situations where a government owns a majority interest in a *legally separate entity*, and was issued because governments were questioning if such interests should be accounted for as Investments in accordance with GASB 72 or as Component Units in accordance with GASB 14, as amended (Cod. Sec. 2100.119-144).

The proposed guidance would distinguish between majority equity interests that are investments, as defined by Statement 72, paragraph 64 (Cod. Sec. 150.103) and those that are not.

54

54

GFOA Summary

MEMORANDUM

▶

▶

Investments:

- ▶ For majority equity interest *Investments** held by a special-purpose government (such as special districts or authorities that exist separate and apart from the general government) engaged only in fiduciary activities, a fiduciary fund, an endowment or a permanent fund, the value of the interest should be determined in accordance with the requirements in paragraph 64 of Statement 72, generally at fair value.
- ▶ For the majority equity interest Investments of other governments, the ED proposes that they should be accounted for as investments using the Equity Method, as defined in paragraphs 205 – 209 of GASB 62 (Cod Sec. 150.116). In these cases, the entity in which the majority equity investment is held should **not** be reported as a component unit, even if the entity meets the criteria to be a component unit.

* An investment is a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash.

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GFOA Summary

MEMORANDUM

▶ Non-Investments:

- ▶ Where the majority equity interest does not meet the definition of an investment, the entity should be reported as a component unit and the government or fund that holds the majority interest should also report an asset using the equity method. If the component unit is a blended component, the asset and net position of the component unit should be eliminated as part of the blending process.
- ▶ The ED also proposes special requirements for reporting a component unit in which the primary government acquires a 100% interest.
- ▶ Such wholly-owned component units should measure assets, liabilities, deferred items in accordance with paragraphs 29-42 of GASB 69 (Cod. Sec Co10.126-139), generally at acquisition value, at the date of acquisition.
- ▶ The flows statements of the component unit would then only report activity that took place after the date of acquisition.

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QUIZ

- ▶ **Statement 90 is applicable to?**
 - A. All government equity interests in other entities
 - B. Majority and Minority equity interests
 - C. Majority equity interests in other government entities
 - D. Majority equity interests in governments and other entities
 - E. All of the above

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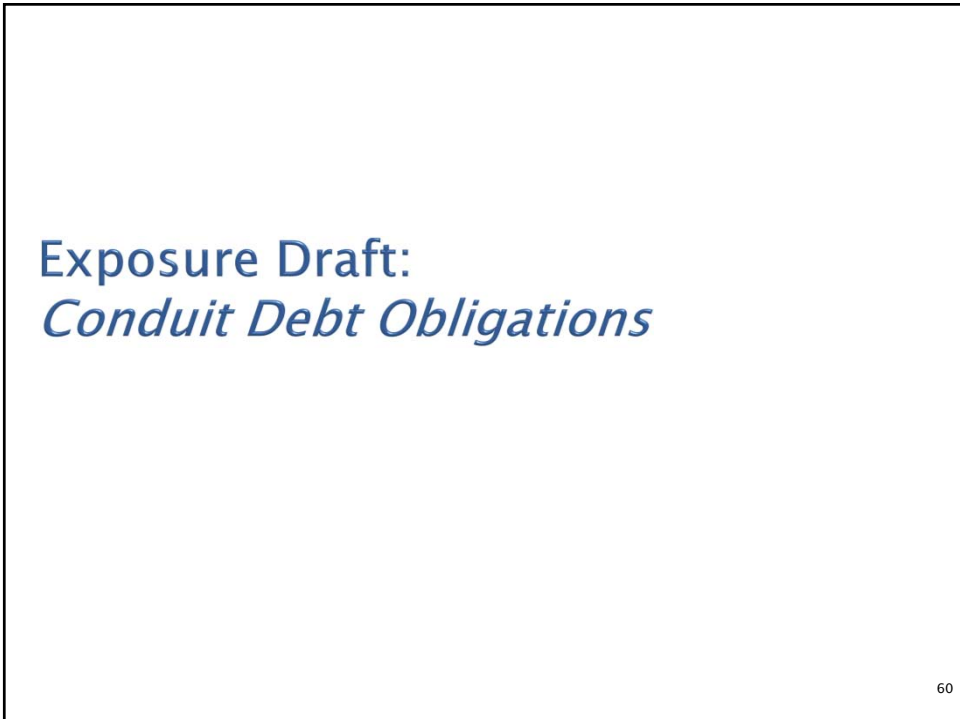
QUIZ

- ▶ **Under Statement 90**
 - A. Investment interests may be recorded under GASB 72
 - B. Equity interests may involve assets other than Investments
 - C. A component unit relationship may be established under certain circumstances.
 - D. Equity interests may be recorded as an asset of the primary government and a component unit of the primary government
 - E. Wholly owned (100%) component units should be recorded in accordance with GASB 69
 - F. All of the above

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Conduit Debt

What:

The Board has proposed improvements to the existing standards related to conduit debt obligations that would provide a single reporting method for government issuers

Why:

Interpretation 2 had been in effect for 20 years before its effectiveness was evaluated; based on GASB research, the Board believes improvements are needed to eliminate diversity in practice

When:

The Board approved an Exposure Draft in July 2018; the comment deadline is November 2, 2018

Effective:

Calendar YE

12/31/21

FYE 6/30/22

61

61

GASB Interpretation #2

Summary

This Interpretation provides disclosure requirements for conduit debt obligations. Conduit debt obligations are certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Although conduit debt obligations bear the name of the governmental issuer, the issuer has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued.

The required disclosures include a general description of the conduit debt transactions, the aggregate amount of all conduit debt obligations outstanding at the balance sheet date, and a clear indication that the issuer has no obligation for the debt beyond the resources provided by related leases or loans.

The provisions of this Interpretation are effective for financial statements for periods beginning after December 15, 1995. Earlier application is encouraged.

62

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Proposal: Definition of Conduit Debt

1. There are at least three parties involved: the government-issuer, the third-party obligor (borrower), and the debt holder or debt trustee.
2. The issuer and the third-party obligor are *not* within the same financial reporting entity.
3. The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
4. The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
5. The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation.
6. The issuer's commitment related to the debt service payments is limited.

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Proposal: Limited and Additional Commitments Extended by Issuers

Generally, issuers' commitments are *limited* to the resources provided by the third-party obligor.

Occasionally, an issuer may extend an **additional commitment** of its own resources and agree to support debt service in the event of the third-party obligor's default.

For example:

- Extending a moral obligation pledge
- Extending an appropriation pledge
- Extending a guarantee
- Pledging its own property, revenue, or other assets as security
- Requesting appropriations without a moral obligation pledge or appropriation pledge

64

Proposal: Recognition by the Issuer

Do *not* recognize a conduit debt obligation as a liability

May have a related liability arising out of an additional commitment

Report a liability only when qualitative factors indicate it is *more likely than not* that the issuer will support debt service payments for a conduit debt obligation

At least annually reevaluate whether recognition criteria are met while conduit debt is outstanding

65

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Proposal: Arrangements and Capital Assets

Some conduit debt obligations include “arrangements” that involve capital assets to be used by the third-party obligor but owned by the issuer.

- Payments from the third-party obligor are for debt service payments and are made to the debt holder or debt trustee.
- Payment schedule for the arrangement coincides with the debt service repayment schedule and sometimes is characterized as lease payments.
- Ownership (title) of the capital asset may pass to the third-party obligor at the end of the arrangement or remain with issuer.

66

Proposal: Arrangements and Capital Assets (continued)

Accounting by the issuer:

Do *not* report those arrangements as leases

Do not recognize a liability for the related conduit debt obligations

Do not recognize a receivable for the payments related to those arrangements

67

Recognition Exception

Record the liability and expense

- When it is “more likely than not” the issuer will support debt payments.

Amount Recognized

- The discounted present value of the best estimate of the future supported debt service payments.
- If no best estimate use a range of estimated values, the calculate the present value

68

Proposal: Arrangements and Capital Assets (continued)

Does title pass to third-party obligor at end of arrangement?	Does the issuer recognize a capital asset?	Does the issuer recognize a deferred inflow of resources?
Yes	No	No
No, and third party has exclusive use of <i>entire</i> capital asset	Yes, when the arrangement ends	No
No, and third party has exclusive use of only <i>portions</i> of the capital asset	Yes, at the inception of the arrangement	Yes, at the inception of the arrangement; deferred inflow recognized as revenue over the term of the arrangement

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69

Proposal: Leases

These
are Not
Leases

- Construction is financed by debt
- Issuer retains title
- Payments from Obligor equal debt service requirements
- Payments coincide with debt service repayment schedule

70

Proposal: Disclosures

A general description of the issuer's conduit debt obligations, organized by type of commitment

- Aggregate outstanding principal amount
- Each type of commitment extended by the issuer

If the issuer recognizes a related liability

- Beginning balances, increases, decreases, ending balances
- Cumulative payments that have been made
- Amounts, if any, expected to be recovered for those payments

71

Implementation Guide 2018-1

72

Implementation Guide 2018-1

Adds new questions on standards regarding

- OPEB
- Pensions
- Regulated operations
- Statistical section
- Tax abatement disclosures

Updates existing Q&A guidance related to

- Capital assets
- Cash flows reporting
- Investment disclosures
- Net position
- Pensions
- Statistical section
- Tax abatement disclosures

73

73

Questions

- ▶ Yes, I know. It is a bit overwhelming!
- ▶ And the assembly line keeps on rolling.
- ▶ Think I Love Lucy!!

74

North Carolina Office of the State Controller

Do you have a Fiduciary Responsibility to Implement GASB 84?

June 5, 2019

Jerry E. Durham, CPA, CGFM, CFE

1

Fiduciary Activities

What:

The Board issued Statement 84 to clarify when a government has a fiduciary responsibility and is required to present fiduciary fund financial statements

Why:

Existing standards require reporting of fiduciary responsibilities but do not define what they are; use of private-purpose trust funds and agency funds is inconsistent; BTAs are uncertain about how to report fiduciary activities

When:

Effective for fiscal years beginning after December 15, 2018

Earlier application is encouraged

2

2

Effective Dates—June 30

2018

- Statement 75—OPEB (employers)
- Statement 81—irrevocable split-interest agreements
- Statement 85—omnibus (may be implemented by topic)
- Statement 86—certain debt extinguishment issues
- Implementation Guide 2017-1

2019

- Statement 83—certain asset retirement obligations
- Statement 88—certain debt disclosures
- Implementation Guide 2018-1

2020

- Statement 84—fiduciary activities
- Statement 90—majority equity interests

2021

- Statement 87—leases
- Statement 89—interest cost

3

3

Effective Dates—December 31

2018

- Statement 75—OPEB (employers)
- Statement 85—omnibus (may be implemented by topic)
- Statement 86—certain debt extinguishment issues
- Implementation Guide 2017-1

2019

- Statement 83—asset retirement obligations
- Statement 84—fiduciary activities
- Statement 88—certain debt disclosures
- Implementation Guide 2018-1
- Statement 90—majority equity interests

2020

- Statement 87—leases
- Statement 89—interest cost

4

4

Fiduciary Activities

- ▶ **Statement No. 14, *The Financial Reporting Entity*, Paragraph 19**
 - Include “if the primary government has a fiduciary responsibility for them”

- ▶ **Statement No. 61, *The Financial Reporting Entity: Omnibus***
 - Fiduciary activities broader than reporting entity considerations –so not addressed

- ▶ **Existing standards**
 - Fiduciary responsibilities not defined
 - Inconsistent application
 - Business-type activities

- ▶ **Governmental Accounting Standards Advisory Council (GASAC)**
 - High priority to address fiduciary activities

5

5

Four potential paths to reports assets in a fiduciary fund

1. Is there a component unit present that are postemployment benefit arrangements? (Pensions / OPEB)

2. Is there are component unit present that may be a fiduciary activity, **but not a postemployment benefit arrangement?**

3. Are there postemployment benefit arrangements that are not component units (currently agency funds)?

4. Are there other potential fiduciary activities? (Investment trust funds, private purpose trusts, agency funds)?

6

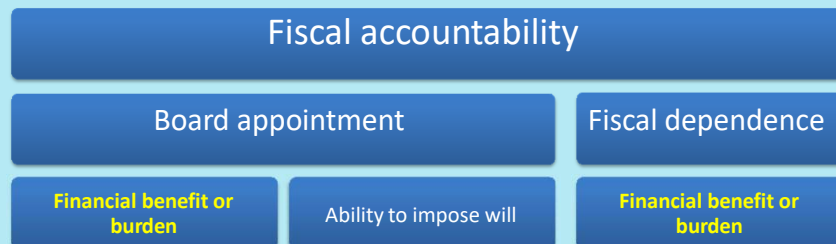
Evaluating Potential Fiduciary C.U's

- ▶ Legally Separate
 - Are Trust legally separate? – Exposure Draft IG Q&A
- ▶ Voting Majority of the Board (Test One)
 - Exposure Draft IG Q&A
- ▶ Imposition of will (Test One)
 - modify budgets, modify/approve rate of fees, ability to overrule decisions of board
- ▶ Fiscally dependent (Test Two)
 - Approve budget, approve rates, approve issuance of debt
- ▶ Misleading to exclude

7

Fiduciary component units

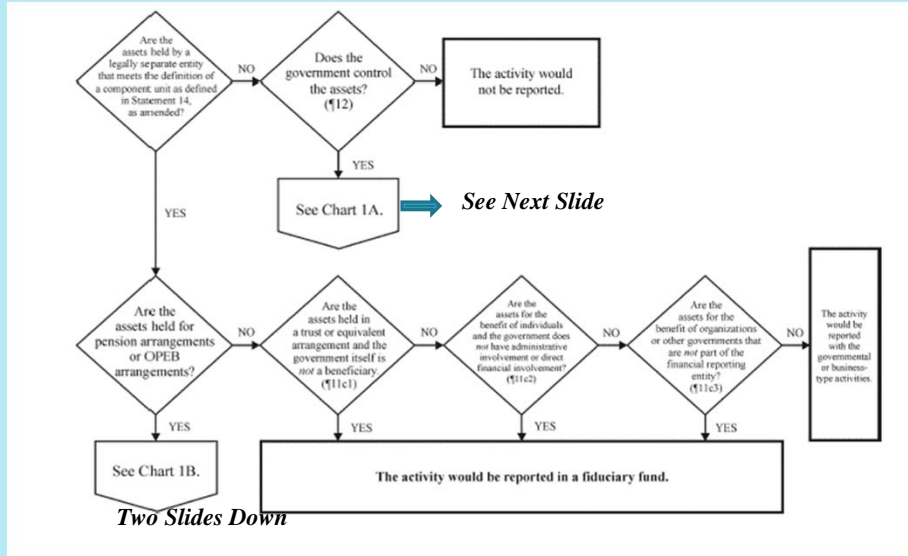
- Component unit (CU) criteria of GASB 14



- Normally, Pension and OPEB plans that are in GASB 67 and 74 compliant trusts are separate legal entities
- Primary government considered to have *financial burden* if it makes contributions to the plan
 - Legally required or assumed the obligation

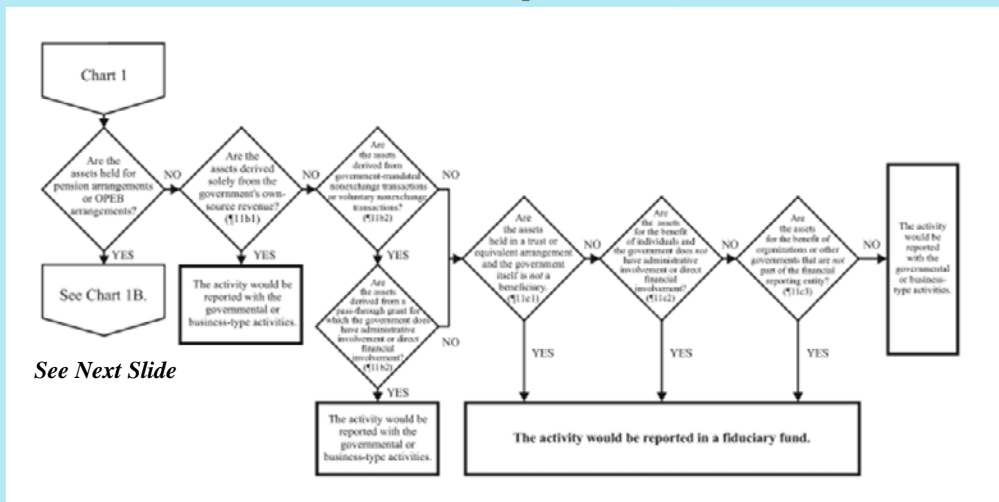
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The Maze!!! GASB-84 part 1!



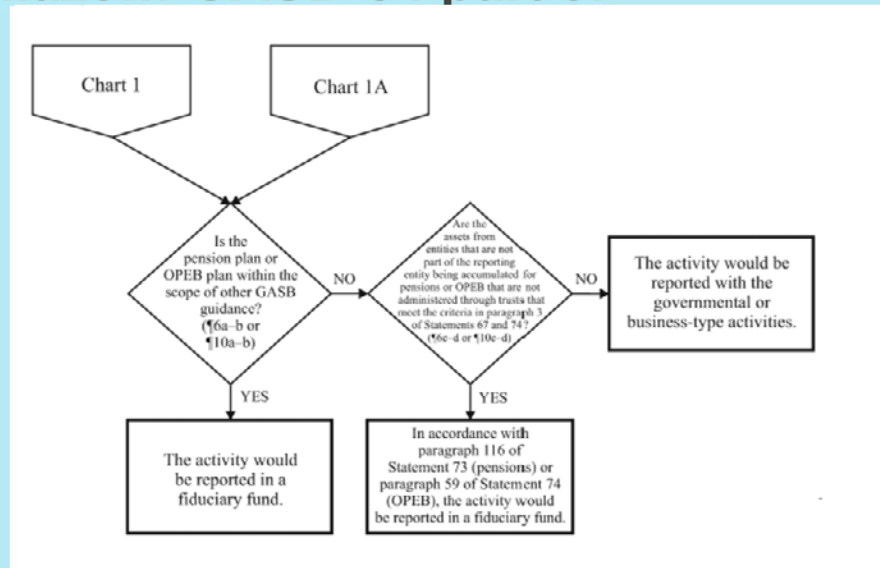
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The Maze!!! GASB-84 part 2!



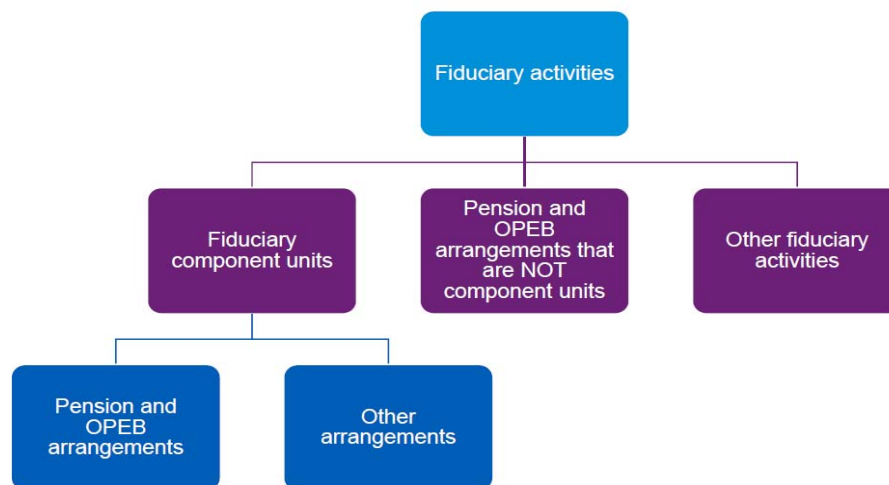
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The Maze!!! GASB-84 part 3!



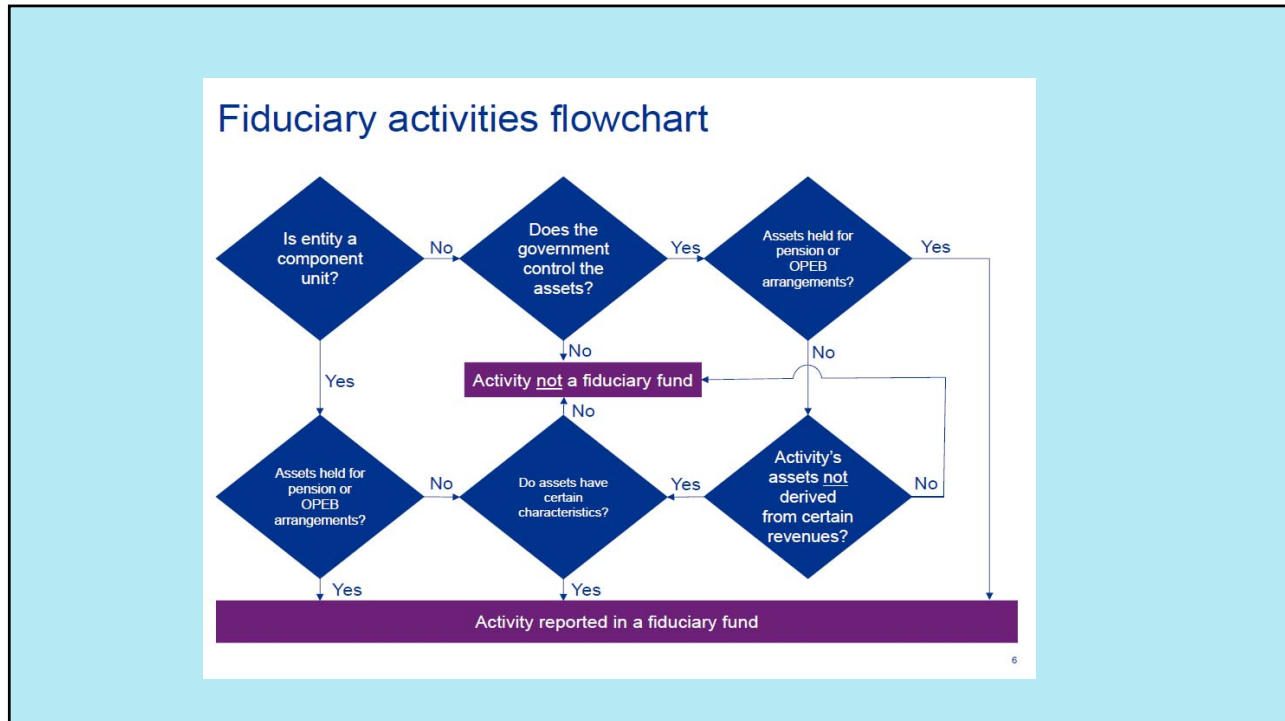
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Types fiduciary activities

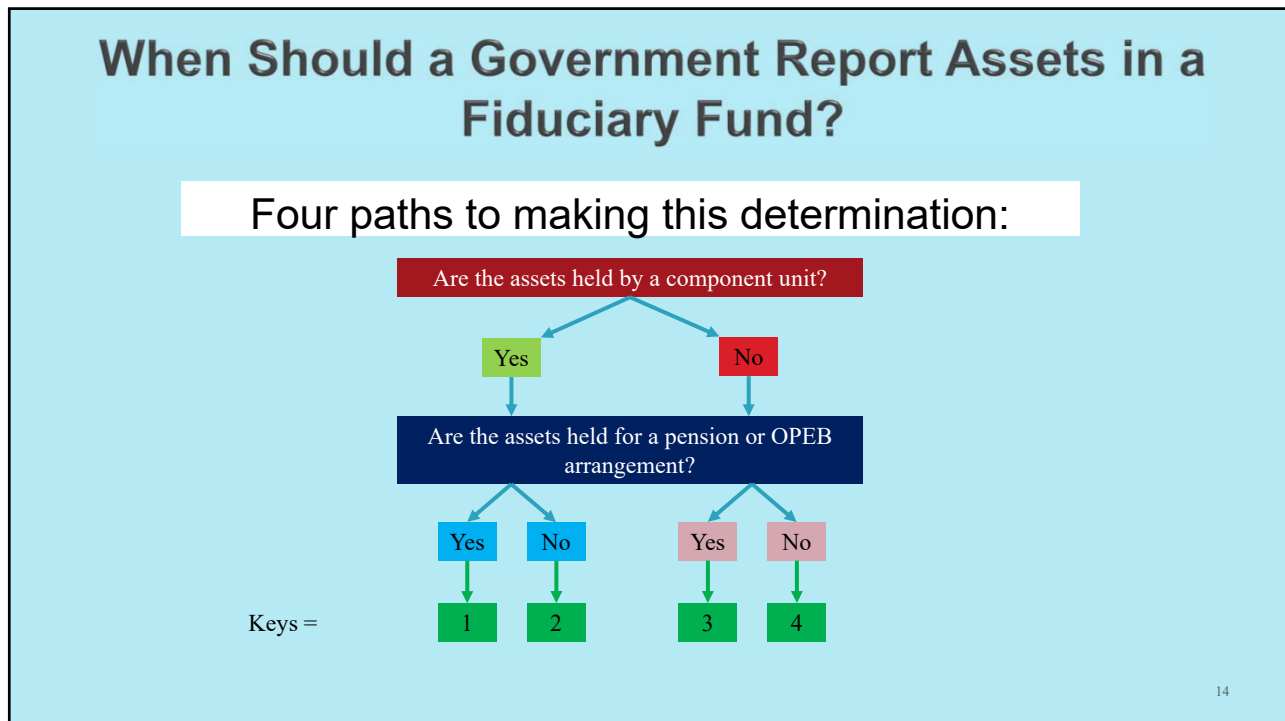


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14

The Four Keys to fiduciary

1

Is there **a component unit** that is providing postemployment benefits (Pensions or OPEB)?

Example – Statewide PERS is a component unit of a State.

2

Is there **a component unit** that does not provide postemployment benefits, *but is a fiduciary*?

Example – Foundation of an Institution of Higher Education that is a component unit.

15

The Four Keys to fiduciary

3

Are there postemployment benefit arrangements that are **not component units**?

Example – Municipal Plan that is not an irrevocable trust and is currently reported as an Agency Fund.

4

Are there any other fiduciary activities – such as:

- Investment Trust Funds?
- Other Endowments?
- Funds or activities that are *currently* Agency Funds?

Examples – Conservation Trust, Library or School Endowment, School Activity Funds

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

16

Fiduciary funds – Four types

Pension and other employee benefit trust funds

Investment trust funds

Private-purpose trust funds

Custodial funds

17

Fiduciary funds – Trusts

— Assets administered through a trust

- Government itself is not the beneficiary
- Assets dedicated to providing benefits to recipients under benefit terms
- Assets legally protected from creditors of the government

Pension and other employee benefit trust funds

- Pension or OPEB plans administered through trusts under GASB 67 or GASB 74
- Other employee benefit plans where resources held in trust and contributions to trust are irrevocable

Investment trust funds

- Assets held in trust
- External portion of investment pools
- Individual investment accounts

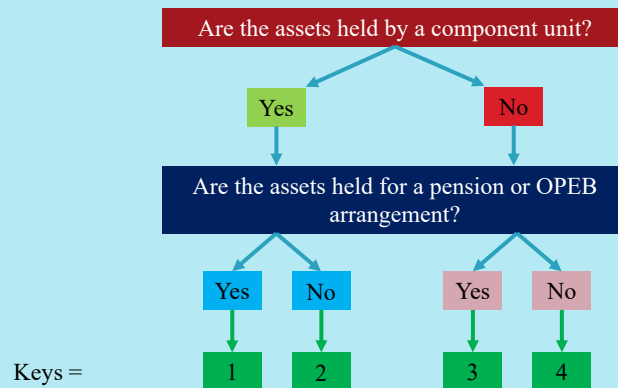
Private-purpose trust funds

- Fiduciary activities held in trust **not** required to be reported as pension, other employee benefit, or investment trust funds

18

When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:



19

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Component Units That Are Postemployment Benefit Arrangements Are Fiduciary if...

They are one of the following arrangements:

1

- St. 67
¶3 Pension plan administered through a trust that meets criteria
- St. 74
¶3 OPEB plan administered through a trust that meets criteria
- St. 73
¶116 Assets from entities not part of the reporting entity accumulated for pensions
- St. 74
¶59 Assets from entities not part of the reporting entity accumulated for OPEB

20

20

Other Component Units Are Fiduciary if...

They have one or more of the following characteristics:



Assets are:

- Administered through a trust in which government is *not* a beneficiary
- Dedicated to providing benefits, AND
- Legally protected from the creditors of government



- Assets are for the benefit of individuals
- Assets are *not* derived from government's provision of goods or services to the individuals AND
- Government does *not* have administrative involvement or direct financial involvement w/ the assets



- Assets are for the benefit of organizations/ governments *not* part of the reporting entity AND
- Assets are *not* derived from government's provision of goods or services to them

2

or

or

21

21

Fiduciary component units

- ▶ **Control is not a factor in determining whether the activity is fiduciary if the entity is a Component Unit.**

22

Postemployment Benefit Arrangements That Are Not Component Units Are Fiduciary if...

- Arrangement is one of those in **1** AND
- The government **controls** the assets of the arrangement
 - Control means one or both of the following is true:

3

• Government *holds* the assets

• Government has ability to *direct* the use, exchange, or employment of the assets in a manner that provides benefits to the specified or intended beneficiaries

23

23

Component Units That Are Postemployment Benefit Arrangements Are Fiduciary if...

They are one of the following arrangements:

1

- St. 67
¶3 Pension plan administered through a trust that meets criteria
- St. 74
¶3 OPEB plan administered through a trust that meets criteria
- St. 73
¶116 Assets from entities not part of the reporting entity accumulated for pensions
- St. 74
¶59 Assets from entities not part of the reporting entity accumulated for OPEB

24

24

What is Control?

3

- ▶ Control for those pension or OPEB arrangements that are **not** component units must be evaluated.
- ▶ **Concept Statement No. 4:**
 - Control of an asset is the ability of the government to utilize the resource's present service capacity and to determine the nature and manner of use of the present service capacity embodied in the resource.
 - Restrictions that stipulate assets can only be use for purpose described in custodial agreements/trust do not negate a government's control.

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What is Control?

3

- ▶ GASB 84 defines Controls as:
 - Government holds the assets
 - Government (or designee) has the ability to direct the use, exchange, or employment
 - Having a designee does not relinquish fiduciary responsibility from the government
 - Appointing a designee / administrator / contractor doesn't matter.
 - Restriction on assets does not matter.

26

All Other Activities Are Fiduciary if...

4

- Arrangement meets one or more of the criteria in 2 AND
- The government **controls** the assets AND
- Those assets are *not* derived either:
 - Solely from the government's own-source revenues, or
 - From grants, with the exception of pass-through grants for which the government does not have administrative or direct financial involvement

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Other Component Units Are Fiduciary if...

They have one or more of the following characteristics:

2



Assets are:

- Administered through a trust in which government is *not* a beneficiary
- Dedicated to providing benefits, AND
- Legally protected from the creditors of government

or



- Assets are for the benefit of individuals
- Assets are *not* derived from government's provision of goods or services to the individuals AND
- Government does *not* have administrative involvement or direct financial involvement w/ the assets

or



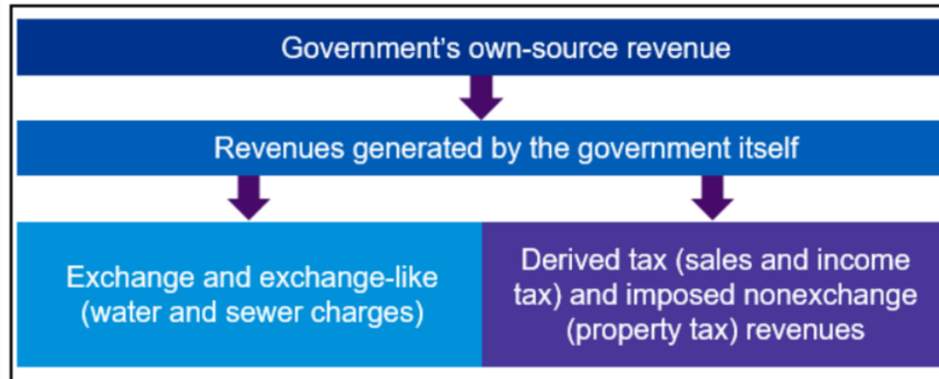
- Assets are for the benefit of organizations/ governments *not* part of the reporting entity AND
- Assets are *not* derived from government's provision of goods or services to them

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Own-Source Revenue

- ▶ Assets associated with activity not derived:
 - ▶ solely from the government's own-source revenue, or
 - ▶ from government-mandated or voluntary nonexchange transactions



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All other Activities(cont.)

- ▶ Criteria for Control of the assets, and
- ▶ Assets not derived from own source revenue or govt mandated or voluntary nonexchange:

1

- Administered through a trust or equivalent, government not beneficiary
- Dedicated to provide benefits to recipients per the benefit terms
- Legally protected from the government's creditors

2

- Benefit of individuals and government does not have administrative or direct financial involvement with the assets
- Not derived from provision of goods and services to those individuals

3

- Benefit of organizations or other governments not part of reporting entity
- Not derived from provision of goods and services to those organizations or other governments

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Implementation Consideration

Evaluating Whether Activity is Derived from Government's Own Source Revenue

- Basic principle: the government cannot be a fiduciary for its own resources

Tuition – Student activity fees	Nursing home patient accounts
Other student activity accounts	Deposits (customers vs. other)
Jails – Prisoner inmate account	Retainage payable on contracts
Property taxes	Employee benefits
Tax increment financing (TIFs)	Courts

19

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Assets *not* derived from certain revenues

4

- Assets associated with activity *not* derived (1) **solely** from the government's own-source revenue, or (2) **from government-mandated or voluntary nonexchange transactions**

- Except for pass-through grants for which the government does *not* have administrative or direct financial involvement (GASB 24 ¶5)

- Examples:

Administrative involvement

- Monitors secondary recipients for compliance with requirements
- Determines eligible secondary recipients
- Ability to exercise discretion on how funds are allocated

Direct financial involvement

- Finances some program costs through grantor-imposed matching requirement
- Liable for disallowed costs

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Other Activities – Custodial Funds

- ▶ Custodial Funds:
 - Report custodial activity not held in a Trust.
 - Report the external portion of an external investment pool that is not held in Trust in a separate “External Investment Pool Fund” column under Custodial Funds.

33

Stand-Alone Business-Type Activities

A stand alone BTA's fiduciary activities should be reported in separate fiduciary fund financial statements.

Exception: Resources expected to be held 3 months or less can be reported instead in the statement of net position, with inflows and outflows reported as operating cash flows in the statement of cash flows

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Examples – All Other Activities

- ▶ Taxes
 - Property Tax Collected by County on Behalf of City
 - City Sales Tax
- ▶ Inmate Funds
- ▶ Student Activity Funds or SSO Funds held by the School
- ▶ Pass-through Grants
- ▶ Customer Deposits
- ▶ IRC 457 Plans
- ▶ Escheat Funds

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Examples – All Other Activities

- ▶ Tax Increment Financing
- ▶ Patient Accounts
- ▶ Retainage Payable on Contracts
- ▶ Courts (Litigants, Heirs, Others)
- ▶ Employee payroll deductions
- ▶ Cemetery Associations
- ▶ Asset Seizures
- ▶ Cash Bonds

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Alternative way to decide fiduciary activities

1. Is the entity a component unit? **If no go to step 3.**
2. Are the assets held for pensions or OPEB arrangements? **If no, go to step 4. If 1 and 2 are yes, then fiduciary reporting.**
3. Does the government control the assets? **If no, stop – not a fiduciary fund. Go to Step 5.**
4. Does the assets meet the revenue and other characteristics? **If no, stop – not a fiduciary fund. If yes – fiduciary fund.**
5. Are the assets held for pension or OPEB arrangements? **If yes, report in a fiduciary fund**
6. Are the assets not derived from certain revenues? **If no, stop – not a fiduciary fund. If yes – fiduciary fund.**

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Component Unit – Postemployment Benefits

- ▶ Normally, pension and OPEB plans that are in GASB 67 and GASB 74 compliant trusts are separate **legal** entities
 - Exposure Draft IG – 4.1; Pension/OPEB Trust are considered legally separate for financial reporting purposes
 - Exposure Draft IG – 4.3; if Pension/OPEB is an **equivalent** arrangement legally separate is a legal issue. (legal - consider CU criteria, not evaluate control)
- ▶ Absent a Board – Common with OPEB and Single Employer Pension Plans
 - Exposure Draft IG – 4.5 – indicate most likely board responsibilities fall to the sponsoring government.

38

Individual Vs Organization

- ▶ Key consideration as one requires consideration of **Administrative Involvement**
 - Individual – Have to consider
 - Organization – No consideration
- ▶ Exposure Draft IG 4.17 – Chess Club
 - Assets are for the benefit of an organization if the benefits accrue to the organization as an institution....club is not legally separate...it is not itself an institution. As a result, the provisions in paragraph 11c(2) should be applied.

39

What is Administrative Involvement vs. Direct Financial Involvement?

Administrative Involvement Could Be:

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

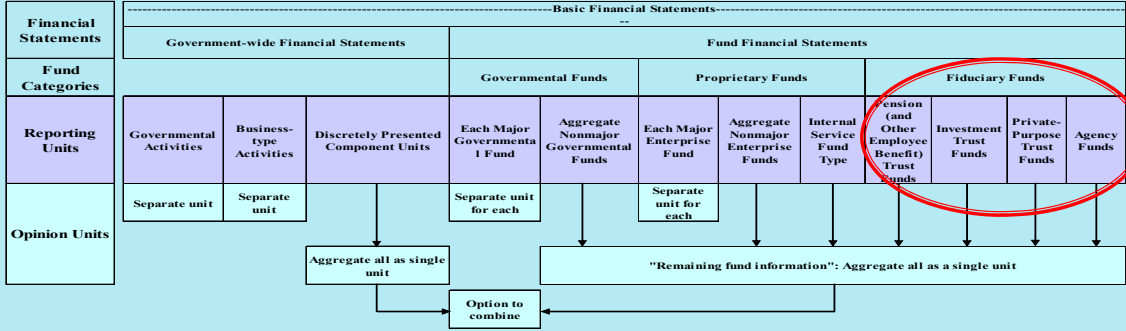
Direct Financial Involvement Could Be:

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

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GASB Governments

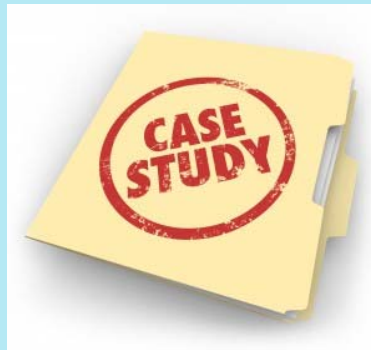
Overview of Reporting Units and Opinion Units
FOR DISCUSSION PURPOSES ONLY



41

41

Case Studies Derived From ED IG



42

Property Tax

- ▶ Local School District has levied a property tax for the fiscal year
- ▶ Property tax levies are billed and collected by the County Government
- ▶ The County collects and remits the amounts associated with the Districts levy monthly as the amounts are collected
- ▶ The School District is not part of the reporting entity of the County.

Fiduciary or not fiduciary?

43

Evaluation

- ▶ Property Tax

<i>Step 1</i>	<i>Answer</i>
Component Unit Criteria Met	
<i>OR</i>	
Govt controls the assets	
AND	
Assets not derived from the governments own source revenue/govt. mandated/voluntary nonexchange	
<i>Step 2</i>	
1. Trust which govt not a beneficiary 2. dedicated to providing benefits in accordance with terms 3. legally protect from govt's creditors	
<i>OR</i>	
For the benefit of individuals & govt does not have <i>administrative involvement or direct financial involvement</i>	
AND	
Assets not derived from the governments provisions of goods & services to those individuals	
<i>OR</i>	
For the benefit of organizations or other govts that are not part of financial reporting entity	
AND	
Assets not derived from the governments provisions of goods & services to those individuals	
Conclusion (if you have a yes answer in step 1 and step 2 the activity is fiduciary)	

44

Property Tax – ED IG 4.39

- ▶ Q—A county collects property taxes on behalf of the other tax-levying governments within its jurisdiction. The county collects a fee, equal to 1 percent of the amount billed, from the other governments to provide this service. The taxes are deposited into the county collector’s property tax distribution account, a custodial fund. Should the county report the fees in the custodial fund with the taxes collected?

45

Property Tax – ED IG 4.39

- ▶ A—No. The county is obligated to provide the collection service for which a fee is charged to the other taxing governments. The nature of that transaction is exchange or exchange-like, resulting in own-source revenues of the county. Paragraph 11b(1) of Statement 84 states that an activity is not fiduciary if the assets are derived from the government’s own-source revenues. Therefore, the county should report the fees in its governmental fund financial statements.

46

Seized assets – ED IG – 4.11

- ▶ Q—A county sheriff seizes cash and other financial assets from an individual suspected of committing a crime. The cash is deposited in a separate bank account in the county’s name. The seized assets are held by the sheriff until the defendant is tried in court and the court issues a verdict. The case may take years to settle. If the defendant is found guilty, the cash and other financial assets are forfeited. Upon forfeiture, seized cash and other financial assets are distributed to various law enforcement agencies (including the county sheriff) pursuant to the court order. If the defendant is found not guilty, the seized assets are returned to the defendant. Should the county report the holding of the seized cash and other financial assets as a fiduciary activity before a judgment is rendered?

47

Seized assets – ED IG – 4.11

- ▶ A—Yes. The seized cash and other financial assets are held by the county, and the control criteria in paragraph 12 of Statement 84 are met. The assets are not derived from the county’s own-source revenues because resources held via asset seizures are not the property of the government until a judgment is rendered against the defendant. The assets also are not derived from government-mandated nonexchange transactions or voluntary nonexchange transactions. Finally, the assets are for the benefit of an individual (the defendant), and the county does not have administrative involvement (it is not establishing specific guidelines for how the resources can be spent until after there is a judgment) or direct financial involvement. As a result, the activity (financial assets and related liability) should be reported as a fiduciary activity until a judgment is rendered.

48

Payroll withholding – ED IG 4.16

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

49

Payroll withholding – ED IG 4.16

- ▶ A—No. Although the government has control of the assets because it has custody of the cash withheld, the unremitted amounts in the clearing account are a liability of the government. When the deductions are withheld from an employee's pay, the amounts withheld and accrued by the employer become a liability of the government. As a result, the government is holding the amounts for its own benefit and the criteria in paragraph 11c of Statement 84 are not met.

50

Inmate Fund – ED IG 4.25 & 4.15

- ▶ Inmates housed in the local government jail are provided an individual inmate account
 - Funded by earnings from jobs
 - Deposits of money when obtained or by family members
- ▶ Inmates make purchases as needed,
 - Order magazines/stationary outside the jail
 - Commissary purchases
- ▶ Correctional Officer required to provide authorizing signature on outside purchases
 - Signature to ensure outside contraband does not enter facility
- ▶ Upon release the balance of the individual account is provided to the individual.

Fiduciary or not fiduciary?

51

Evaluation

- ▶ Inmate Fund

<i>Step 1</i>	<i>Answer</i>
Component Unit Criteria Met	
<i>OR</i>	
Govt controls the assets	
AND	
Assets not derived from the governments own source revenue/govt. mandated/voluntary nonexchange	
<i>Step 2</i>	
1. Trust which govt not a beneficiary 2. dedicated to providing benefits in accordance with terms 3. legally protect from govt's creditors	
<i>OR</i>	
For the benefit of individuals & govt does not have <i>administrative involvement or direct financial involvement</i>	
AND	
Assets not derived from the governments provisions of goods & services to those individuals	
<i>OR</i>	
For the benefit of organizations or other govts that are not part of financial reporting entity	
AND	
Assets not derived from the governments provisions of goods & services to those individuals	
Conclusion (if you have a yes answer in step 1 and step 2 the activity is fiduciary)	

52

KEY ELEMENTS OF 84 TO ANSWER SAF QUESTIONS

- Focus is on par. 11(c)(2) of GASB-84 for Student Funds
 - For activities not addressed in paragraphs 6-10 (pensions, OPEB, fiduciary component units etc.) the activity **is a fiduciary activity** if **all** the following criteria are met:
 - a. Assets controlled by the government
 - b. The assets associated with the activity are *not derived* either:
 - (1) Solely from the government's own source revenues; *or*
 - (2) From government-mandated nonexchange transactions or voluntary nonexchange transactions, (except for pass-through grants where there is no administrative or direct financial involvement).
 - c. **The assets associated with the activity have one or more of the following**
 - (1) Assets are held in trust where government is not a beneficiary etc. and assets are legally protected from creditors;
 - (2) **Assets are for the benefit of individuals AND the government does *not* have administrative involvement with the assets and are not derived from provision of goods / services to the individuals.**

53

Student Activity Fund – ED IG 4.21

- ▶ A school district holds the funds raised by various student clubs, which are not legally separate from the school district.
- ▶ There is no school board or school administration policy related to the club's activities and how the resources can be spent
- ▶ The disbursements from the aggregated club account are approved by the faculty advisor (who is representing the school district) assigned to each club.
- ▶ Approval, rejection, or modification of the spending is strictly at the discretion of the faculty advisor.
- ▶ The funds are not held in a trust or equivalent arrangement.

Fiduciary or not fiduciary?

54

Evaluation

▶ Student Activity Fund

Step 1	Answer
Component Unit Criteria Met	
<i>OR</i>	
Govt controls the assets	
AND	
Assets not derived from the governments own source revenue/govt. mandated/voluntary nonexchange	
Step 2	
1. Trust which govt not a beneficiary 2. dedicated to providing benefits in accordance with terms 3. legally protect from govt's creditors	
<i>OR</i>	
For the benefit of individuals & govt does not have <i>administrative involvement</i> or <i>direct financial involvement</i>	
AND	
Assets not derived from the governments provisions of goods & services to those individuals	
<i>OR</i>	
For the benefit of organizations or other govts that are not part of financial reporting entity	
AND	
Assets not derived from the governments provisions of goods & services to those individuals	
Conclusion (if you have a yes answer in step 1 and step 2 the activity is fiduciary)	

55

Student Activity Fund – ED IG 4.21

- ▶ Yes. The school district does have administrative involvement. The school district’s role is considered to be substantive because in the absence of an approved policy, the faculty advisor (who is acting in the capacity of a school representative) has the ability to reject, modify, or approve how the resources are spent. The faculty advisor’s approval is more than just a formality and is analogous to the example provided in footnote 1 of Statement 84 regarding the determination of eligible expenditures that are established by the government.

56

Student Activity Fund – ED IG 4.21 modified

- ▶ Same consideration except the a parent(s) of the a club establish how the resources can be spent?

Fiduciary or not fiduciary?

57

Student Activity Fund – ED IG 4.22

- ▶ Q—A school board establishes and approves a policy related to the receipt, disbursement, and holding of funds for various student clubs and organizations that are not legally separate from the school district. The policy includes specific guidelines related to how the funds raised by the clubs and organizations can be spent. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

58

Student Activity Fund – ED IG 4.22

- ▶ A—Yes. The school district does have administrative involvement. The school district's role is considered to be substantive because the school has established specific guidelines on how the resources can be spent in an approved policy.

59

Student Activity Fund – ED IG 4.22

- ▶ Q—Assume the same facts as in Question 4.22, except that the policy that applies to all clubs only addresses issues such as the authorized account signers and the prohibition of spending for illegal activities. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

60

Student Activity Fund – ED IG 4.22

- ▶ A—No. The school district does *not* have administrative involvement. The school district's role is *not* considered to be substantive because the school has not established specific guidelines regarding how the resources of the clubs and organizations can be spent.

61

What About Statement 32

- ▶ With GASB Statement No. 32 many of the 457 plans were no longer reported within the reporting entity.
- ▶ Does this statement change the treatment under Statement No. 84?

62

Its Fiduciary Now What?

63

Fiduciary Fund Types

- ▶ Pension/OPEB trust funds – we know these!!
- ▶ Investment trust funds - report fiduciary activities from the external portion of investment pools and individual investment accounts that are held in a trust that meets the criteria in paragraph 11c(1).
- ▶ Private-purpose trust funds - report all fiduciary activities that (a) are not required to be reported in pension (and other employee benefit) trust funds or investment trust funds and (b) are held in a trust that meets the criteria in paragraph 11c(1).
- ▶ Custodial funds - report fiduciary activities that are not required to be reported in the other three trust funds.

64

FIDUCIARY FUND REPORTING – ONLY ONE MAJOR CHANGE

- Pension and other Employee Benefit Trust Funds – **no change**
- Investment Trust Funds – **no change**
- Private-Purpose Trust Funds – **no change**
- Custodial Funds – **NEW**
 - Could be Multi-Column
 - **External portion of investment pool**

65

Fiduciary Fund Types - Custodial

- ▶ Custodial funds
 - Report fiduciary activities not held in trust
 - Report external portion of investment pool not held in trust in separate 'external investment pool fund' column under custodial funds
- ▶ Exception: Assets normally expected to be held 3 months or less by a business-type activity
 - May report asset and corresponding liability instead of a separate custodial fund
 - Additions/deductions reported as operating cash inflows/outflows in statement of cash flows

66

Statement of Change in Net Position - Custodial Funds

- Required to report for Custodial Funds:
 - Agency funds did not report this statement.
- If resources held for three months or less
 - Option to report single aggregated totals for
 - Additions
 - Deductions
 - Example – County collects and remits property taxes to other taxing bodies
 - Addition – *Property taxes collected for other governments*
 - Deduction – *Property taxes remitted to other governments*

67

Government ABC Statement of Fiduciary Net Position Fiduciary Funds June 30, 20X2 (in thousands)				
	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Custodial Funds
ASSETS				
Cash and cash equivalents	\$ 184,351	\$ 840,693	\$ 104,747	\$ 58,196
Receivables:				
Employee	2,123	—	—	—
Employer	83,004	—	—	—
Taxes for other governments	—	—	—	206,937
Interest and dividends	175,402	12,186	—	—
Sale of investments	30,879	—	—	—
Total receivables	291,408	12,186	—	206,937
Investments at fair value:				
Short-term investments	2,268,960	241,645	61,591	—
Bonds, notes, mortgages, and preferred stock	14,115,391	804,575	187,650	—
Common stock	20,342,440	—	520,196	—
Real estate	3,408,145	—	—	—
International investments	1,723,951	—	—	—
Mutual funds	72,315	178,045	—	—
Pooled investment funds	23,128	—	—	—
Total investments	41,954,330	1,224,267	769,437	—
Securities lending collateral	1,746,544	—	—	—
Other assets	13,519	181	81,157	361
Total assets	44,190,152	2,077,307	955,341	265,494
LIABILITIES				
Accounts payable and other liabilities	130,846	1,381	61,447	1,451
Due to local governments	—	—	—	164,201
Obligations under securities lending	1,346,544	—	—	—
Other long-term liabilities	1,617	—	7,870	—
Total liabilities	1,479,007	1,381	69,317	165,652
NET POSITION				
Restricted for:				
Pensions	29,897,802	—	—	—
Postemployment benefits other than pensions	12,813,343	—	—	—
Pool participants	—	2,075,946	—	—
Individuals, organizations, and other governments	—	—	865,024	96,842
Total net position	\$ 42,711,145	\$ 2,075,946	\$ 865,024	\$ 96,842

► *Similar except
for Custodial
Funds*

68

Government ABC Statement of Changes in Fiduciary Net Position Fiduciary Funds for the Year Ended June 30, 20X2 (in thousands)				
	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Custodial Funds
ADDITIONS				
Contributions:				
Members	\$ 297,846	\$ —	\$ —	\$ —
Employers	1,250,384	—	—	—
Other plans	148,792	—	—	—
Gifts and bequests	—	—	187,268	—
Total contributions	1,706,022	—	187,268	—
Investment earnings:				
Net increase in fair value of investments	1,852,408	64,663	33,702	—
Interest, dividends, and other	1,416,448	58,465	30,378	—
Securities lending income	76,075	—	—	—
Total investment earnings	3,344,931	123,128	64,080	—
Less investment costs:				
Investment activity costs	32,281	50,236	63	—
Securities lending costs	73,842	—	—	—
Net investment earnings	3,239,008	72,892	64,017	—
Capital share and individual account transactions:				
Shares sold	—	2,817,210	—	—
Reinvested distributions	—	72,892	—	—
Shares redeemed	—	(2,778,843)	—	—
Net capital share and individual account transactions	—	113,259	—	—
Sales tax collections for other governments	—	—	—	1,811,120
Miscellaneous	1,130	—	—	1,488
Total additions	4,946,160	166,151	261,275	1,812,598
DEDUCTIONS				
Benefits paid to participants or beneficiaries	1,963,047	—	—	—
Medical, dental, and life insurance for retirees	536,027	—	—	—
Refunds and transfers to other systems	170,514	—	—	—
Administrative expense	19,920	—	43	293
Beneficiary payments to individuals	—	—	211,179	—
Payments of sales tax to other governments	—	—	—	1,811,120
Distributions to shareholders	—	72,892	—	—
Total deductions	2,689,508	72,892	211,222	1,811,413
Net increase (decrease) in fiduciary net position	2,256,652	113,259	50,053	1,175
Net position—beginning	40,454,493	1,962,687	635,971	98,667
Net position—ending	\$ 42,454,493	\$ 1,962,687	\$ 635,971	\$ 99,842

▶ *Similar
except for
Custodial
Funds*

69

Liability Recognition

- ▶ Recognize a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources
 - Events that compel a government to disburse resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the asset.

Liabilities other than those to beneficiaries should be recognized in accordance with existing accounting standards using the economic resources measurement focus

70

ED IG Question 4.47

- ▶ Q—The city’s parks department sponsors a youth soccer program from April through July each year. Registration is free, but each participant is encouraged to contribute to the uniforms and equipment fund. The city has determined that the contributions meet the criteria in Statement 84 to be accounted for in a custodial fund. Should the city recognize a liability in the custodial fund for those expected purchases when the donations are received at registration?

71

ED IG Question 4.47

- ▶ A—No. Liabilities should be recognized when the uniforms and equipment are acquired by the coaches. At that point, the city is compelled to disburse the resources. The city will report net position in the fund for the difference between the resources held and the liabilities incurred.

72

Stand-Alone Business-Type Activities

- ▶ A stand alone BTA's fiduciary activities should be reported in separate fiduciary fund financial statements.
- ▶ Resources expected to be held 3 months or less can be reported instead in the statement of net position, with inflows and outflows reported as operating cash flows in the statement of cash flows

73

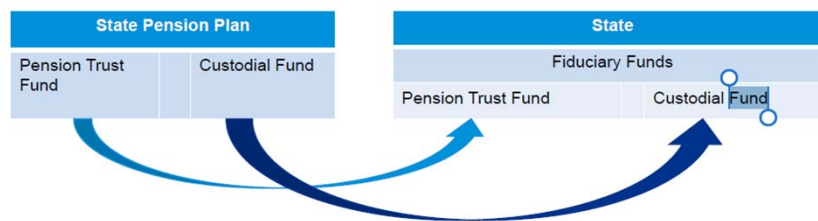
Reporting Entity Consideration

- ▶ As the primary government what is the appropriate treatment of fiduciary funds of a discrete component unit?
- ▶ Statement 84 does not affect the current guidance of Statement 34 par. 126.
 - Requires inclusion of the aggregated total of a CU, which does not include its fiduciary funds or fiduciary CU's.
 - Exception, see next slide.

74

Fiduciary component units

- Fiduciary fund financial statements of a primary government
 - Fiduciary component unit should include combined information of its own fiduciary component units
 - Aggregated with primary governments fiduciary funds
 - Example: State Pension Plan is a component unit of the State. State Pension Plan has a component unit that is a custodial fund



75

How to implement??

Someone has to be in charge to gather information – completeness is key

- May take many *periods*
- May involve legal team and treasurer / CFO
- May involve software changes

Compare each activity against

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

Information could be in

- Laws / regulations (especially student activity funds)
- Contracts
- Trust agreements / similar
- Gather information on revenue sources / uses

DOCUMENT IT – consistent forms a good idea

76

How to implement??

Could result in

- Reclassification to governmental / enterprise funds
- Reclassification from one fiduciary type to another
- Adjustments
- Redrafting of policies / procedures for fund creation, accounting and reporting
- Systems updating

DOCUMENT DECISIONS / CHANGES – consistent forms a good idea

Implementation Guide will be final by late spring

77

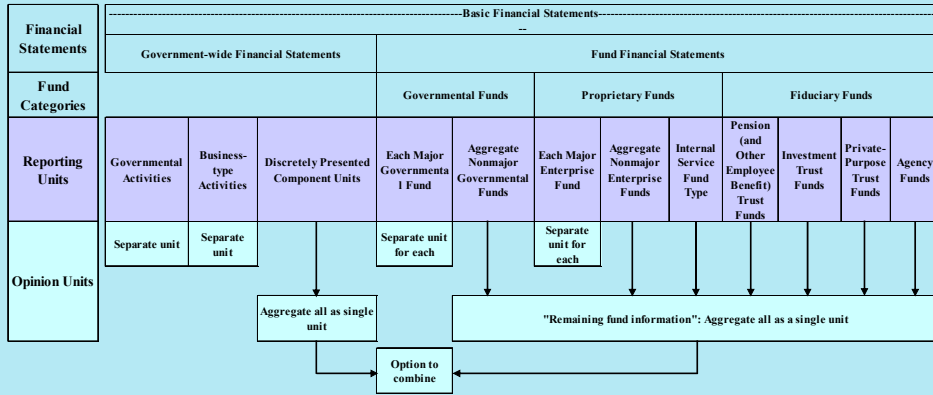
Materiality - Accountant

- ▶ Add IG question regarding materiality from GASB IG 2015-1 Question 7.4.1
- ▶ Q—In preparing financial statements, how should those financial statements be viewed for determining materiality?
 - Quantitative and Qualitative significance
 - Components of remaining fund info consider professional judgement considering relevant qualitative factors and relationship of fund reporting units to other info in the financial statements
 - quantitative materiality determination for each fiduciary fund type could be made based on the significance of those funds to all fiduciary funds of the reporting government, or it could be based on the significance of those funds to all funds of the government

78

Materiality - Auditor

Overview of Reporting Units and Opinion Units
FOR DISCUSSION PURPOSES ONLY



Audit Materiality is based on the opinion unit

79

Questions?

The main question I have is, Are you serious GASB?

80

**GASB 87, I WILL LEASE
THIS STANDARD TO
YOU FOR A MERE
PITTANCE – MAKE ME
AN OFFER**

**North Carolina
Office of the
State Controller**

JUNE 5, 2019

JERRY E. DURHAM,
CPA, CGFM, CFE

1

WHAT WE WILL CONSIDER

- Discuss an overview of the single model for recording leases (capitalization)
- Discuss lessor considerations
- Analyze the importance of creating a lease inventory
- Identify issues related to defining leases, including separate components
- Analyze early auditor considerations

2

2

LEASES, SO WHAT – WHAT’S THE BIG DEAL???

GOVERNMENTS ARE LESSEES

- **Global Change** (including FASB / International)
- **90,000+ governments may be effected, including Tribal Nations**
- **Existing GAAP largely from the 1970’s (if not before)**
 - **GASB-62 adopted mostly FASB-13 (GASB Cod Sec. L20)**

GOVERNMENTS ARE LESSORS

- Airports
- Stadiums
- Casinos / entertainment venues
- Ports / marinas
- Utilities
- Institutions of Higher Education

Governments may be both Lessees and Lessors!

3

EXISTING GAAP FOR LEASES

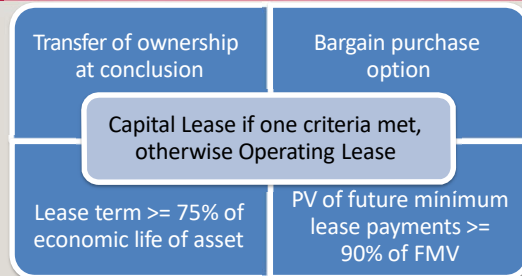
- GASB Codification Section L20 - Leases
 - NCGA Statement 5, *Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments*
 - GASB Statement 13, *Accounting for Operating Leases with Scheduled Rent Increases*
 - GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

4

4

Current lease accounting

▶ LESSEE - DETERMINES TYPE OF LEASE – CAPITAL OR OPERATING



Lease Type	Accounting – accrual basis	Disclosure
Capital	Debit: capital assets Credit: long-term debt for PV of future minimum payments	Disclose future minimum payments
Operating	Expense payments as made	Disclose future minimum payments (if noncancelable)

5

EXISTING GAAP FOR LEASES

- Capital leases have the ‘famous 4’ that if one are hit, it’s capitalized – akin to financed purchases -
 - The present value of the minimum lease payments is 90% (or more) of fair value at inception
 - Lease term is 75% (or more) of asset economic life
 - There is a bargain purchase option – often \$1
 - Ownership transfers at conclusion – cost is sometimes embedded in liability

6

6

EXISTING GAAP FOR LEASES

- All others are operating
- Disclosure:
 - Capital leases - minimum payments
 - Operating leases, expenses / expenditures
 - Noncancelable leases disclose minimum payments
- Problem – many operating leases in government are really noncancelable – current accounting does not meet GAAP definition of a liability (present obligation with little or no discretion to avoid)

7

7

8

2017 TENNESSEE CAFR

For the Year(s) Ended June 30	Principal	Interest	Executory Costs	Governmental Activities Lease Obligation Payable
2018	\$ 1,495	\$ 1,162	\$ 772	\$ 3,429
2019	1,541	1,156	791	3,488
2020	1,576	1,145	811	3,532
2021	1,641	1,128	831	3,600
2022	1,693	1,104	852	3,649
2023-2027	8,969	4,556	4,590	18,115
2028-2029	2,479	654	1,796	4,929
Total	\$ 19,394	\$ 10,905	\$ 10,443	40,742
Less - interest				(10,905)
Less - executory costs				(10,443)
Present value of net minimum lease payments				<u>\$ 19,394</u>

8

9

2017 TENNESSEE CAFR

A. Lease Obligations

Operating lease obligations — The state has entered into various operating leases for land, buildings and equipment. Most leases contain termination clauses providing for cancellation after 30, 60 or 90 days' written notice to lessors. In addition, most leases contain appropriation clauses indicating that continuation of the lease is subject to funding by the legislature. It is expected that in the normal course of business most of these leases will be replaced by similar leases. The state has also entered into various operating leases, which have non-cancelable lease terms. Below is a schedule of future minimum lease payments under these leases (expressed in thousands).

9

10

2017 TENNESSEE CAFR

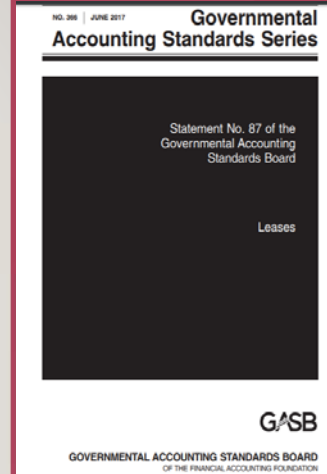
For the Year(s) Ended June 30	Noncancelable Operating Leases
2018	\$ 17,846
2019	15,787
2020	14,990
2021	12,517
2022	12,032
2023-2027	40,924
Total minimum payments required	<u>\$ 114,096</u>

Expenditures for rent under leases for the year ended June 30, 2017, amounted to \$79.7 million.

10

GASB'S LEASE PROJECT OVERVIEW

- 2011 – added to research agenda
- 2013 – added to current agenda
- 2014 – preliminary views issued
- 2015 – field test / public hearings
- 2016 – exposure draft issued / public hearing
- 2017 – final standard released in June
- 2020 – Statement 87 effective 12/31/2020



11

GASB 87 CHANGES

No classification of leases into operating/capital or other categories

Underlying assumption that leases are **financings**

Exceptions (lessors and lessees)

- Short-term leases
- Leases that transfer ownership and do not contain termination options

Exceptions for lessors

- Leases of assets that are investments
- Certain regulated leases (e.g., airport-airline agreements)

12

Definition of a Lease

A contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified by the contract for a period of time in an exchange or exchange-like transaction.

13

DEFINITION OF A LEASE

Control requires both of the following:

1. the right to obtain the present service capacity from use of the underlying asset, and
2. the right to determine the nature and manner of use of the underlying asset

Control applied to the right-to-use lease asset (a capital asset) "specified in the contract"

- Control criteria NOT limited to contracts that convey substantially **all** of the present service capacity from use of the underlying asset
 - Right-to-use lease assets include rights to use underlying assets for portions of time, such as certain days each week or certain hours each day

14

LEASES SCOPE EXCLUSIONS

Intangible assets (mineral rights, patents, software, copyrights)

- Except for the sublease of an intangible right-to-use asset

Biological assets (including timber, living plants, and living animals)

Inventory

Service concession arrangements (See GASB Statement 60)

Assets financed with outstanding conduit debt unless both the asset and conduit debt are reported by lessor

Supply contracts (such as typical power purchase agreements, which do not convey control of the right to use the underlying power generating facility)

15

CONTRACTS THAT TRANSFER OWNERSHIP EXCEPTION

If a contract

- Transfers ownership of the underlying asset to the lessee by the end of the contract **AND**
- Does not contain termination options (other than fiscal funding or cancellation clauses)

This type of contract is not a lease and should be reported as a financed purchase

These contracts are not subject to the measurement or financial reporting requirements of the Leases statement

16

CONTRACTS THAT TRANSFER OWNERSHIP EXCEPTION

“At the end of such term LESSEE shall acquire legal title to the Vehicles and terminate this Lease with respect thereto by paying to LESSOR all amounts that are due and unpaid hereunder and the remaining principal balance with respect to such Vehicles as shown on the Schedule relating thereto.”

3. TERM AND RENT: The Lease term shall commence as of the date that the Vehicles are delivered to LESSEE, or LESSEE's Agent (the "Commencement Date") and shall continue for the term shown on the attached Schedule relating thereto, unless Lessee notifies LESSOR that an Event of Non-appropriation (described below) has occurred or LESSEE exercises its option under Section 18. At the end of such term LESSEE shall acquire legal title to the Vehicles and terminate this Lease with respect thereto by paying to LESSOR all amounts then due and unpaid hereunder and the remaining principal balance with respect to such Vehicles as shown on the Schedule relating thereto. In lieu of such payment LESSOR hereby grants LESSEE the option to renew this Lease with respect to such Vehicles for the additional period as shown on the Schedule relating thereto, provided that the rate of interest applicable to such additional period shall be mutually agreed upon by LESSOR and LESSEE. LESSEE shall give written notice to LESSOR at least ninety (90) days prior to the end of the Lease term as to whether it will terminate this Lease and acquire the Vehicles or exercise its option to renew in accordance with this Section 3. LESSOR shall endeavor to give written notice to LESSEE at least sixty (60) days prior to the end of the Lease term if no such notice has been received from LESSEE. The rent under this Lease shall be payable in lawful money of the United States of America, from any and all legally available funds, and at the times and in the amounts as indicated on each attached Schedule. In lieu of cash, LESSOR will accept payment by check or wire transfer of immediately available funds only. Each payment will consist of a principal and interest component.

17

LEASE TERM – WHEN DOES IT START/END FOR FINANCIAL REPORTING PURPOSES?

Starts with the noncancelable period, plus periods covered by lessees' and lessors' options to:

- Extend the lease, if the option is reasonably certain of being exercised
- Terminate the lease, if the option is reasonably certain of NOT being exercised

Excludes “cancelable” periods

- Periods for which lessee and lessor each have the option to terminate or both parties have to agree to extend
 - Rolling month-to-month leases

Fiscal funding/cancelation clauses ignored unless reasonably certain of being exercised

18

LEASE TERM - EXAMPLE

Step

1

Determine the noncancelable period

- Contract provides the government control of the right-to-use a bus for 3 years.
 - After three years, there is an option to extend for 2 years
 - After two years, the government can terminate the lease

19

LEASE TERM – EXAMPLE (CONT.)

Step

1

Determine the noncancelable period – 2 years

Step

2

Assess the options

- Contract provides the government control of the right-to-use a bus for 3 years.
 - After three years, there is an option to extend for 2 years
 - After two years, the government can terminate the lease

20

LEASE TERM – EXAMPLE (CONT.)

Step
1 **Determine the noncancelable period – 2 years**

Step
2 **Assess the options**
Is it reasonably certain the termination option will be exercised by the government?

- **Contract provides the government control of the right-to-use a bus for 3 years.**

- After three years, there is an option to extend for 2 years
- After two years, the government can terminate the lease

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LEASE TERM – EXAMPLE (CONT.)

Step
1 **Determine the noncancelable period – 2 years**

Step
2 **Assess the options**
Is it reasonably certain the termination option will be exercised by the government? **NO**
Is it reasonably certain the option to extend will be exercised by the government?

- **Contract provides the government control of the right-to-use a bus for 3 years.**

- After three years, there is an option to extend for 2 years
- After two years, the government can terminate the lease

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LEASE TERM – EXAMPLE (CONT.)

Step 1 Determine the noncancelable period – 2 years

Step 2 Assess the options
 Is it reasonably certain the termination option will be exercised by the government? **NO**
 Is it reasonably certain the option to extend will be exercised by the government? **YES**

- Contract provides the government control of the right-to-use a bus for 3 years.
 - After three years, there is an option to extend for 2 years
 - After two years, the government can terminate the lease

LEASE TERM – EXAMPLE (CONT.)

Lease Term - Example	
Noncancelable period	Years 1 – 2
+ Period covered by option to terminate when it is NOT certain to be exercised	Year 3
+ Period covered by Option to Extend when it is reasonably certain to be exercised	Year 4 – 5
Total Lease Term	5 Years

- Contract provides the government control of the right-to-use a bus for 3 years.
 - After three years, there is an option to extend for 2 years
 - After two years, the government can terminate the lease

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LEASE TERM

- For *financial reporting*, when does the lease start and end?
 - Starts with the noncancelable period, plus periods covered by lessees' and lessors' options to:
 - Extend the lease, if the option is *reasonably certain* of being exercised
 - Terminate the lease, if the option is *reasonably certain* of NOT being exercised
 - Excludes "cancelable" periods
 - Periods for which lessee and lessor each have the option to terminate or both parties have to agree to extend
 - Rolling month-to-month leases
 - Fiscal funding/cancelation clauses ignored unless *reasonably certain* of being exercised

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LEASE TERM — EXAMPLE I

- 5 year lease with lessee-only option to cancel at 4

Lessee options		Lessor options		Term
Terminate	Extend	Terminate	Extend	
Uncertain	n/a	n/a	n/a	5 years
Reasonably Certain	n/a	n/a	n/a	4 years

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LEASE TERM — EXAMPLE 2

- 5 year lease with lessee option to extend to 6 and lessor option to cancel at 4

Lessee options		Lessor options		Term
Terminate	Extend	Terminate	Extend	
n/a	Uncertain	Uncertain	n/a	5 years
n/a	Uncertain	Reasonably Certain	n/a	4 years
n/a	Reasonably Certain	Uncertain	n/a	6 years
n/a	Reasonably Certain	Reasonably Certain	n/a	4 years

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LEASE TERM — EXAMPLE 3

- 5 year lease with lessee and lessor options to cancel at 4

Lessee options		Lessor options		Term
Terminate	Extend	Terminate	Extend	
Uncertain	n/a	Uncertain	n/a	4 years
Uncertain	n/a	Reasonably Certain	n/a	4 years
Reasonably Certain	n/a	Uncertain	n/a	4 years
Reasonably Certain	n/a	Reasonably Certain	n/a	4 years

- Cancelable after 4th year because both lessee and lessor can cancel

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REASSESSMENT OF LEASE TERM

Reassess the lease term only if one or more of the following occurs:

Lessee or lessor elects to exercise an option even though originally determined that the lessee or lessor would not exercise that option

Lessee or lessor elects to not exercise an option even though previously determined that the lessee or lessor would exercise that option

An event specified in the contract that requires an extension or termination of the lease takes place.

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SHORT-TERM LEASE EXCEPTION

- A *short-term* lease is one that, at the beginning of the lease, has a “maximum possible term” under the contract, including any options to extend, of 12 months or less
- Practicality exception for short-term leases
 - For a lease that is cancelable either by the lessee or lessor, such as month-to-month or year-to-year leases, the maximum possible term is the noncancelable period including any notice period

No Balance Sheet Impact

No disclosures required

Flows statements reflect the activity based on contract provision

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CONTRACTS WITH MULTIPLE COMPONENTS

- Separate contracts into lease and nonlease components or multiple lease components
- Allocate consideration to multiple underlying assets if:

Service components of contract

Differing lease terms, or

Are in differing major asset classes for disclosure

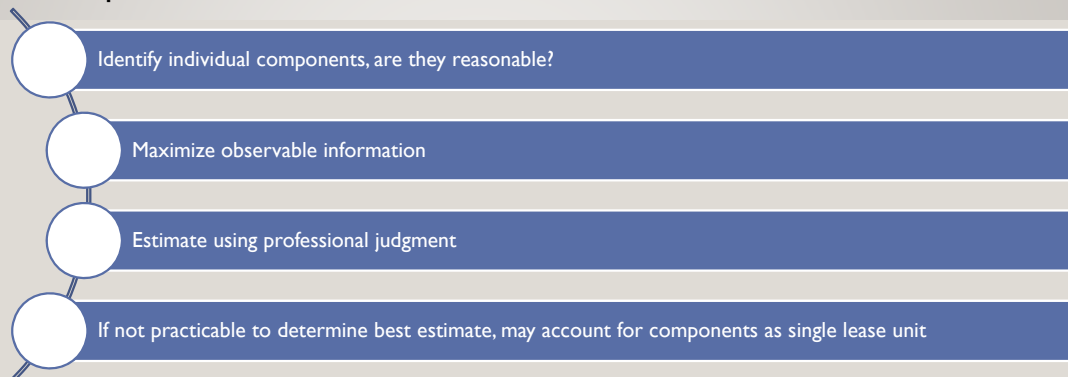
Consider **Contract Combinations** when reviewing Multiple Components

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CONTRACTS WITH MULTIPLE COMPONENTS

Allocation process:



No Policy provision in Standard

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IMPLEMENTATION GUIDE

- 7.9.8. Q—Should a government's capitalization policy be applied only to individual assets or can it be applied to a group of assets acquired together? Consider a government that has established a capitalization threshold of \$5,000 for equipment. If the government purchases 100 computers costing \$1,500 each, should the computers be capitalized? •
- A—Authoritative pronouncements do not address the manner in which a capitalization policy should be established and applied. Capitalization policies adopted by governments include many considerations such as finding an appropriate balance between ensuring that all significant capital assets, collectively, are capitalized and minimizing the cost of record keeping for capital assets. It may be appropriate for a government to establish a capitalization policy that would require capitalization of certain types of assets whose individual acquisition costs are less than the threshold for an individual asset. Computers, classroom furniture, and library books are assets that may not meet the capitalization policy on an individual basis, yet might be considered material collectively.

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LESSEE

RECOGNITION & MEASUREMENT

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INITIAL & SUBSEQUENT REPORTING

	Party	Assets	Liabilities	Deferred Inflow of Resources
Initial Reporting	Lessee	Intangible asset (lease liability + prepayments + initial direct costs placing asset into use)	Present value of future lease payments (fixed, variable, including guarantees etc.)	None
	Lessor	Lease receivable, capital asset remains on books	Should be none	Lease receivable + cash that relates to future period (e.g. last month's rent)
Subsequent Reporting	Lessee	Amortize intangible over shorter of useful life or term of lease	Reduce by lease payments (effective interest)	None
	Lessor	Depreciate capital asset unless required to be returned in original or better condition Reduce receivable, taking into account accrued interest	Should be none	Recognize revenue in effective interest method (systematic & rational)

- Lease liability does not include lease payments that are dependent on lessee's performance or usage of underlying asset
- Lease liability payments discounted using the rate the lessor charges the lessee (may be implicit) or, if that rate cannot be readily determined, the lessee's incremental borrowing rate
- If the underlying asset becomes impaired, apply capital asset impairment guidance of Statement 42 to the right-to-use lease asset

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LESSEE – BUS LEASE EXAMPLE

The government has a long-standing process of leasing its buses.

- On January 1, 2021, the government enters into a contract for five buses. The contract states the term is 5 years, with monthly payments of \$2,000 due every 1st of the month. Lessor provided the borrowing rate of 6%.
- After three years, the government may cancel the contract.
- After the fifth year, the purchase price for each bus is \$12,000.
- The government regularly leases buses and has historically utilized the buses for the full term of the contract and have never terminated early. The contract does not provide the lessor an option to terminate. At the date of the contract, the government does not have any intent to terminate early. At the end of the lease, the government intends to return the buses, there is no transfer of ownership provision.

✓ **Does this meet the definition of a lease?**



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LESSEE – BUS LEASE EXAMPLE (CONT.)

The government has a long-standing process of leasing its buses.

- On January 1, 2021, the government enters into a **contract** for **five buses**. The contract states the **term is 5 years**, with monthly **payments of \$2,000** due every 1st of the month. Lessor provided the borrowing rate of 6%.
- After three years, the government may cancel the contract.
- After the fifth year, the purchase price for each bus is \$12,000.
- The government regularly leases buses and has historically utilized the buses for the full term of the contract and have never terminated early. The contract does not provide the lessor an option to terminate. At the date of the contract, the government does not have any intent to terminate early. At the end of the lease, the government intends to return the buses, there is no transfer of ownership provision.

✓ **Does this meet the definition of a lease? YES**



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LESSEE – BUS LEASE EXAMPLE (CONT.)

Identifying the Lease Term

	Lessee options		Lessor options	
	Terminate	Extend	Terminate	Extend
Year 1	N/A	N/A	N/A	N/A
Year 2	N/A	N/A	N/A	N/A
Year 3	N/A	N/A	N/A	N/A
Year 4	Reasonably certain will not exercise	N/A	N/A	N/A
Year 5	Reasonably certain will not exercise	N/A	N/A	N/A

What is the term of the lease?

Should the purchase price be considered in the lease liability?



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LESSEE – BUS LEASE EXAMPLE (CONT.)

Identifying the Lease Term

	Lessee options		Lessor options	
	Terminate	Extend	Terminate	Extend
Year 1	N/A	N/A	N/A	N/A
Year 2	N/A	N/A	N/A	N/A
Year 3	N/A	N/A	N/A	N/A
Year 4	Reasonably certain will not exercise	N/A	N/A	N/A
Year 5	Reasonably certain will not exercise	N/A	N/A	N/A

What is the term of the lease? **5 YEARS**

Should the purchase price be considered in the lease liability? **NO**



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LESSEE – BUS LEASE EXAMPLE (CONT.)

Assumptions for Lease Liability calculation:

Buses are delivered on January 1, 2021, date of 1st payment.

Payment schedule 5 years, assuming a 6% interest rate.

Purchase price, not certain of being exercised (exclude)

Present value of \$2,000 monthly payments for 5 years (60 months):

- Rate = (6% per year / 12 months to get rate per month)
- Nper (number of payments) = 60
- Pmt (monthly payment) = 2,000
- FV (future value) = 0
- Type = 1 if payments are made at beginning of period, 0 if payments are made at end of period

$$=PV(6\%/12,60,-2000,0,0)$$



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LESSEE – BUS LEASE EXAMPLE (CONT.)

Assumptions for Lease Liability calculation:

Buses are delivered on January 1, 2021, date of 1st payment.

Payment schedule 5 years, assuming a 6% interest rate.

Purchase price, not certain of being exercised (exclude)

Present value of \$2,000 monthly payments for 5 years (60 months):

- Rate = (6% per year / 12 months to get rate per month)
- Nper (number of payments) = 60
- Pmt (monthly payment) = 2,000
- FV (future value) = 0
- Type = 1 if payments are made at beginning of period, 0 if payments are made at end of period

$$=PV(6\%/12,60,-2000,0,0)$$



Present Value = \$103,451

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LESSEE – BUS LEASE EXAMPLE (CONT.)

Annualized Payment Schedule

	Principal	Interest	Total Payment
2021	18,290	5,710	24,000
2022	19,419	4,581	24,000
2023	20,616	3,384	24,000
2024	21,888	2,112	24,000
2025	<u>23,238</u>	<u>762</u>	<u>24,000</u>
	103,451	16,549	120,000

Year 1	Amortization	20,690
Year 2	Amortization	20,690
Year 3	Amortization	20,690
Year 4	Amortization	20,690
Year 5	Amortization	<u>20,691</u>
		103,451



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LESSEE – BUS LEASE EXAMPLE (CONT.)

Governmental Fund - Initial Journal Entry	Debit	Credit
Capital outlay	103,451	
Other financing sources - lease proceeds		103,451
<i>To record capital expenditure and related proceeds from lease of buses</i>		

Entity-wide - Initial Journal Entry	Debit	Credit
Other financing sources - lease proceeds	103,451	
Lease liability – due within one year		18,290
Lease liability – due beyond one year		85,161
Intangible lease asset - vehicles	103,451	
Capital outlay		103,451
<i>To record intangible asset and related liability from lease of buses</i>		



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LESSEE – BUS LEASE EXAMPLE (CONT.)

Enterprise funds - Initial Journal Entry	Debit	Credit
Intangible lease asset - vehicles	103,451	
Lease liability – due within one year		18,290
Lease liability – due beyond one year		85,161



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LESSEE – BUS LEASE EXAMPLE (CONT.)

Governmental Fund - Year 1 Journal Entry	Debit	Credit
Interest expense	5,710	
Lease principal payment expenditure	18,290	
Cash		24,000
<i>To record 12 monthly lease payments for first year</i>		

Entity-wide - Year 1 Journal Entries	Debit	Credit
Lease liability – due within on year	18,290	
Lease principal payment expenditure		18,290
Amortization expense	20,690	
Accumulated amortization		20,690
<i>To eliminate fund level activity for first year</i>		



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LESSEE – BUS LEASE EXAMPLE (CONT.)

Enterprise funds - Year 1 Journal Entry	Debit	Credit
Lease liability – due within one year	18,290	
Interest expense	5,710	
Cash		24,000
<i>To record 12 monthly lease payments for first year</i>		
Amortization expense	20,690	
Accumulated amortization		20,690
<i>To record annual amortization expense</i>		



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LESSEE – BUS LEASE EXAMPLE (CONT.)

Enterprise funds and Entity-wide Year 1 Journal Entry

	Debit	Credit
Lease liability – due beyond one year	19,419	
Lease liability – due within one year		19,419

To adjust due within one year liability

Consider need for accrued
interest based on payment
schedule.



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LESSEE – BUS LEASE EXAMPLE (CONT.)

Governmental Fund - Year 2 Journal Entry

	Debit	Credit
Interest expense	4,581	
Lease principal payment expenditure	19,419	
Cash		24,000

To record 12 monthly lease payments for second year

Entity-wide - Year 2 Journal Entries

	Debit	Credit
Lease liability – due within one year	19,419	
Lease principal payment expenditure		19,419
Amortization expense	20,690	
Accumulated amortization		20,690

To eliminate fund level activity for second year



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LESSEE – BUS LEASE EXAMPLE (CONT.)

Enterprise funds - Year 2 Journal Entry	Debit	Credit
Interest expense	4,581	
Lease liability – due within one year	19,419	
Cash		24,000
<i>To record 12 monthly lease payments for second year</i>		
Amortization expense	20,690	
Accumulated amortization		20,690
<i>To record annual amortization expense</i>		



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LESSEE – BUS LEASE EXAMPLE (CONT.)

Enterprise funds and Entity-wide Year 2 Journal Entry	Debit	Credit
Lease liability – due beyond one year	20,616	
Lease liability – due within one year		20,616
<i>To adjust due within one year liability</i>		

Consider need for accrued interest based on payment schedule.



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LESSEE – BUS LEASE EXAMPLE (CONT.)

Three years remaining on bus lease

End of year 2 balances

Lease liability – due within one year	\$ 20,616
Lease liability – due beyond one year	<u>45,126</u>
Total	65,742
Vehicle - leased asset	\$ 103,451
Accumulated amortization - Vehicle - leased asset	<u>(41,380)</u>
Vehicle NBV	62,071



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LESSEE—DISCLOSURES

- a. A general description of leasing arrangements, including:
 1. Basis, terms, and conditions, on which variable lease payments are determined
 2. Existence, terms, and conditions of residual value guarantees provided by the lessee
- b. Total amount of assets recorded under leases, and the related accumulated amortization, disclosed separately from other capital assets
- c. Lease assets disaggregated by major classes of underlying assets, disclosed separately from other capital assets
- d. Variable lease payments recognized during the period but not previously included in the lease liability

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LESSEE—DISCLOSURES

- e. Other payments recognized during the period but not previously included in the lease liability (such as residual value guarantees or penalties)
- f. A maturity analysis of all future lease payments
 - Payments for each of the first five years
 - Payments in five-year increments thereafter
 - Show principal and interest separately
- g. Lease commitments, other than short-term leases, for which the lease term has not yet begun
- h. Components of any net impairment loss (gross impairment loss less change in lease liability)

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LESSEE – BUS LEASE DISCLOSURE EXAMPLE - “GENERAL DESCRIPTION DISCLOSURE”

“The government is leasing five buses for five years, starting January 1, 2021, with monthly payments of \$2,000 with an interest rate of 6%.”

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LESSEE – BUS LEASE DISCLOSURE EXAMPLE (CONT.)

Capital Assets – Year 2	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated				
Land	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
Total Capital Assets not being depreciated	1,000,000	-	-	1,000,000
Capital assets being depreciated / amortized				
Building	5,000,000	500,000	-	5,500,000
Equipment	400,000	36,000	10,000	426,000
Leased Building (Intangible asset)	500,000	100,000	-	600,000
Leased Vehicles (Intangible asset)	103,451	-	-	103,451
Total capital assets being depreciated / amortized	6,003,451	636,000	10,000	6,629,451
Less: Accumulated depreciation for				
Building	3,300,000	110,000	-	3,410,000
Equipment	340,800	28,400	10,000	359,200
Less: Accumulated amortization for				
Leased building	20,000	20,000	-	40,000
Leased vehicles	20,690	20,690	-	41,380
Total depreciation and amortization	3,681,490	179,090	10,000	3,850,580
Net capital assets being depreciated and amortized	2,321,961	456,910	-	2,778,871
Total, net of accumulated depreciation	\$ 3,321,961	\$ 456,910	\$ -	\$ 3,778,871



Impact on Net Investment in Capital Assets

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LESSEE – BUS LEASE DISCLOSURE EXAMPLE (CONT.)

A maturity analysis of all future lease payments
 Payments for each of the first five years

- Payments in five-year increments thereafter
- Show principal and interest separately

	Principal	Interest	Total Payment
2023	\$ 20,616	\$ 3,384	\$ 24,000
2024	21,888	2,112	24,000
2025	23,238	762	24,000
2026	-	-	-
2027	-	-	-
2028 - 2032	-	-	-
	\$ 65,742	\$ 6,258	\$ 72,000

Combine with building lease payment schedule for financial statement presentation

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LESSEE – BUS LEASE EXAMPLE, EXPANDED

Multiple contract components

- What if the lease agreement requires the government to pay an additional \$500 per quarter for maintenance, including oil change, tune ups, etc. for each bus?
- Should that be included in the lease liability?
- Does \$500 per quarter for five buses seem reasonable?
- Is it identifiable in the contract?



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LESSEE – BUS LEASE EXAMPLE, EXPANDED (CONT.)

Multiple contract components

- What if the lease agreement requires the government to pay an additional \$500 per quarter for maintenance, including oil change, tune ups, etc. for each bus?
- Should that be included in the lease liability? **NO**
- Does \$500 per quarter for five buses seem reasonable? **YES**
- Is it identifiable in the contract? **YES**



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LESSEE – ACTIVITY BUS EXAMPLE, EXPANDED (CONT.)

Multiple contract components

Governmental Fund - Year 1 Journal Entry	Debit	Credit
Interest expense	5,710	
Lease principal payment expenditure	18,290	
Maintenance expense	2,000	
Cash		26,000
<i>To record 12 monthly lease payments for first year</i>		
Entity-wide - Year 1 Journal Entries		
Lease liability	18,290	
Lease principal payment expenditure		18,290
Amortization expense	20,690	
Accumulated amortization		20,690
<i>To eliminate fund level activity for first year</i>		



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LESSEE – ACTIVITY BUS EXAMPLE, EXPANDED (CONT.)

Multiple contract components

Enterprise funds - Year 1 Journal Entry	Debit	Credit
Lease liability	18,290	
Interest expense	5,710	
Maintenance fees	2,000	
Cash		26,000
<i>To record 12 monthly lease payments for first year</i>		



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LESSEE – BUS LEASE EXAMPLE, EXPANDED (CONT.)

Additional payment factors in contract

- What if the lease agreement requires the government to pay \$50 per month, per bus for mileage, plus \$1 dollar per mile for every mile over 500 miles each month.
 - What should be included in the lease liability?
 - Is a piece of the contract “fixed in substance”?
 - Is a piece of the contract excluded from the lease liability?



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LESSEE – BUS LEASE EXAMPLE, EXPANDED (CONT.)

Additional payment factors in contract

Monthly payment = \$2,000

Additional monthly fixed payment for mileage = \$50

Monthly variable payment for mileage = \$1/ per mile for every mile over 500 miles each month.

- What additional payments should be included in lease liability?
 - Payments that are fixed in substance are included in the liability
- Is a piece of the contract “fixed in substance”?
 - Yes, the monthly charge of \$50 should be included
- Is a piece of the contract excluded from the lease liability?
 - Yes, the mileage fee is not based on an index or rate, it is based on the lessee’s usage of the underlying asset.



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LESSEE – BUS LEASE EXAMPLE, EXPANDED (CONT.)

	Monthly	Fixed in Substance	Variable	Total			
Monthly payment	\$2,000	+	\$50	+	0	=	\$2,050
Variable payment	\$1/ mile over 500 per bus						

Annualized Payment Schedule			
	Principal	Interest	Total Payment
2021	18,748	5,852	24,600
2022	19,904	4,696	24,600
2023	21,132	3,468	24,600
2024	22,435	2,165	24,600
2025	23,819	781	24,600
	106,038	16,962	123,000



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LESSEE – BUS LEASE EXAMPLE, EXPANDED (CONT.)

Additional payment factors in contract

In the first month, the cumulative amount of mileage over 500 per bus was 750 miles

Governmental Fund - Year 1 Journal Entry	Debit	Credit
Interest expense	5,852	
Lease principal payment expenditure	18,748	
Mileage expenditure	750	
Cash		25,350
<i>To record 12 monthly lease payments for first year and mileage expenditure</i>		



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LESSEE – BUS LEASE EXAMPLE, EXPANDED (CONT.)

Additional payment factors in contract

In the first month, the cumulative amount of mileage over 500 per bus was 750 miles

Enterprise funds - Year 1 Journal Entry	Debit	Credit
Lease liability	18,748	
Interest expense	5,852	
Mileage expense	750	
Cash		25,350
<i>To record 12 monthly lease payments for first year</i>		



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LESSEE – BUS LEASE EXAMPLE, EXPANDED (CONT.)

Lease Termination For LESSEES

What if in year 4, the government gave notice that they would be terminating the lease in year 4 after the year 4 payments were made?

Annualized Payment Schedule			
	Principal	Interest	Total Payment
2021	18,290	5,710	24,000
2022	19,419	4,581	24,000
2023	20,616	3,384	24,000
2024	21,888	2,112	24,000
2025	23,238	762	24,000
	103,451	16,549	120,000



Back to the original Bus Lease example

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LEASE MODIFICATIONS

For LESSEES

Remeasure the lease liability on the effective date of modification

- Assess the need for an updated discount rate

Adjust the right-of-use asset by the difference between the modified liability and the liability immediately before the modification

- If asset reduced to \$0, any additional reduction is reported as a gain

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LESSEE – BUS LEASE EXAMPLE, EXPANDED (CONT.)

Lease Termination For LESSEES

For partial/full lease terminations (other than purchases), lessees reduce/remove the lease asset and obligation

Recognize the difference as a gain or loss

Entity-wide - Year 4 Journal Entries	Debit	Credit
Lease liability	23,238	
Intangible lease asset - vehicles		20,691
Gain on termination of lease		2,547

To record the termination of the lease in Year 4

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STATEMENT OF NET POSITION - LESSEE

	Current Guidance	Proposed Guidance
Underlying tangible capital asset	Yes	No
Right to use underlying tangible capital asset	No	Yes
Lease payable	Yes	Yes

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STATEMENT OF NET POSITION - LESSOR

	Current Guidance	Proposed Guidance
Lease receivable	Yes	Yes
Underlying capital asset	No	Yes

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COMMON LEASED ASSETS



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LESSOR

RECOGNITION & MEASUREMENT

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INITIAL & SUBSEQUENT REPORTING

	Party	Assets	Liabilities	Deferred Inflow of Resources
Initial Reporting	Lessee	Intangible asset (lease liability + prepayments + initial direct costs placing asset into use)	Present value of future lease payments (fixed, variable, including guarantees etc.)	None
	Lessor	Lease receivable, capital asset remains on books	Should be none	Lease receivable + cash that relates to future period (e.g. last month's rent)
Subsequent Reporting	Lessee	Amortize intangible over shorter of useful life or term of lease	Reduce by lease payments (effective interest)	None
	Lessor	Depreciate capital asset unless required to be returned in original or better condition Reduce receivable, taking into account accrued interest	Should be none	Recognize revenue in effective interest method (systematic & rational)

- Do not derecognize the underlying asset and do not recognize a residual asset
- Depreciate underlying asset as normal, unless required to be returned in its original or enhanced condition or has an indefinite useful life

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LESSOR - EXCEPTIONS

- Two main transactions do not apply the general lessor recognition and measurement guidance (but still required to provide certain disclosures)
 - Leases of tangible assets that are investments
 - No lease receivable reported for leased investment assets because investments are reported at fair value
 - Certain regulated leases (e.g., airport-airline agreements)
 - Airport-airline agreements have features that don't operate like financings



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LESSOR - DISCLOSURES

Lease activities may be grouped for disclosure purposes

- a. A general description of leasing arrangements
 - The basis, terms, and conditions on which variable lease payments not included in the lease receivable are determined
- b. The total amount of inflows recognized in the reporting period related to leases, if not displayed on face of financials

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LESSOR - DISCLOSURES

- c. The lease inflows related to variable lease payments and other payments not previously included in the lease receivable
 - Include inflows related to residual value guarantees and termination penalties
- d. If lease payments secure lessor's debt:
 - The existence, terms, and conditions of options by the lessee to terminate a lease or abate lease payments

Similar disclosures required for certain regulated leases (airport-airline agreements)



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LESSOR - DISCLOSURES

If government's *principal ongoing operations* consist of leasing to other entities,

- Disclose maturity analysis of all future lease payments included in lease receivable
 - Payments for each of the first five years
 - Payments in five-year increments thereafter
 - Show principal and interest separately

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LESSOR – OFFICE SPACE EXAMPLE

- Lease between a Primary Government (State X) and a discretely presented component unit (DPCU) (governmental in stand-alone financial statements) in which both have 6/30 fiscal year ends.
- State X's current rental agreement has expired and is electing to relocate to a new larger space offered by the DPCU. As part of the agreement the DPCU has to install entry security access at each entrance within the first month of the agreement. The cost of the installation is \$2,500.00
- The agreement begins on 7/01/2021. The term is for one year with an option to extend each year for the next four years by the lessee.
- With prior agreements, State X has elected the options to extend and current indications are that State X will exercise the options for future agreements.



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LESSOR – OFFICE SPACE EXAMPLE (CONT.)

- The agreement calls for a monthly payment due on the 1st of each month for an amount of \$1,962
- The agreement does not provide a stated interest rate.
- The DPCU, during the implementation of GASB Statement No. 72, determined the building and space being leased was a capital asset at that time.



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LESSOR – OFFICE SPACE EXAMPLE (CONT.)

Identifying the Lease term

	Lessee options		Lessor options	
	Terminate	Extend	Terminate	Extend
Year 1	Reasonably certain will	N/A	N/A	N/A
Year 2	Reasonably certain will	N/A	N/A	N/A
Year 3	Reasonably certain will	N/A	N/A	N/A
Year 4	Reasonably certain will	N/A	N/A	N/A
Year 5	Reasonably certain will	N/A	N/A	N/A



Requires evaluation of both parties when there are lessee/lessor options.

- What is the term of the lease?

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LESSOR – OFFICE SPACE EXAMPLE (CONT.)

Identifying the Lease term

	Lessee options		Lessor options	
	Terminate	Extend	Terminate	Extend
Year 1	Reasonably certain will	N/A	N/A	N/A
Year 2	Reasonably certain will	N/A	N/A	N/A
Year 3	Reasonably certain will	N/A	N/A	N/A
Year 4	Reasonably certain will	N/A	N/A	N/A
Year 5	Reasonably certain will	N/A	N/A	N/A



- What is the term of the lease? **Five Years**

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LESSOR – OFFICE SPACE EXAMPLE (CONT.)

The rental begins on July 1, 2021 and that is the date the first payment is due.

Payment schedule, assumes a 4% interest rate.

Present value of \$1,962 monthly payments for 5 years (60 months):

- Rate = (4% per year / 12 months to get rate per month)
- Nper (number of payments) = 60
- Pmt (monthly payment) = 1,962
- FV (future value) = 0
- Type = 1 if payments are made at beginning of period, 0 if payments are made at end of period

Present Value = \$106,890



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LESSOR – OFFICE SPACE EXAMPLE

Amortization table – Measurement of the lease receivable based on the fixed payments outlined in the agreement

Annualized Payment Schedule			
	Principal	Interest	Total Payment
2021	19,995	3,549	23,544
2022	20,440	3,104	23,544
2023	21,273	2,271	23,544
2024	22,140	1,404	23,544
2025	<u>23,042</u>	<u>502</u>	<u>23,544</u>
	106,890	10,830	117,720



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LESSOR – OFFICE SPACE EXAMPLE (CONT.)

Initial Journal Entry

	Debit	Credit
Lease receivable	106,890	
Deferred inflow of resources		106,890
<i>To record receivable and related deferred inflow (7/1)</i>		

Initial Journal Entry

	Debit	Credit
Expenditure/expense	2,500	
Cash		2,500
<i>To record direct cost associated with the agreement (Year 1 July)</i>		



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LESSOR – OFFICE SPACE EXAMPLE (CONT.)

Year 1 Journal Entry

	Debit	Credit
Cash	23,544	
Interest Income		3,549
Lease Receivable		19,995
<i>To record receipt of 12 monthly lease payments for first year (systematic/rational manner)</i>		

Year 1 Journal Entry

	Debit	Credit
Deferred inflow of resources	19,995	
Interest Receivable	290	
Lease Revenue		19,995
Interest Revenue		290
<i>To record systematic recognition of revenue; and accrued interest (6/30)</i>		



Lessor continues reporting the tangible asset and the recognition of depreciation.

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LESSOR - REMEASUREMENT

Remeasure the lease receivable and update the discount rate when one or more of the following occur and are expected to *significantly* affect the receivable amount:

There is a change in lease term

There is a change in the rate the lessor charges the lessee

A contingency is resolved making variable payments fixed

If remeasured, also remeasure for changes in an index/rate used to determine variable lease payments

If the discount rate is updated, the receivable should be adjusted using the revised rate

The deferred inflow of resources generally adjusted by the same amount as the lease receivable

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LEASE MODIFICATIONS

For LESSORS

Remeasure the lease receivable on the effective date of modification

- Assess the need for an updated discount rate

Adjust the deferred inflow of resources by the difference between the modified receivable and the receivable immediately before the modification

- However, to the extent any change relates to payments for the current period, recognize in current period flows statement (for example, revenue)

If change results from refunding related debt and passing savings on to the lessee, see remeasurement guidance in paragraph 76

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LEASE TERMINATIONS

For LESSORS

For partial/full lease terminations (other than sales), lessors reduce/remove the lease receivable and related deferred inflow of resources

Recognize the difference as a gain or loss

If the lessor sells the underlying asset, derecognize underlying asset

- Include in the calculation of any gain

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LESSOR – OFFICE SPACE EXAMPLE, EXPANDED

- During June 2022; State X, as a result of a shortfall in revenue, required state agencies to relocate any staff located outside of a state owned facility; provided space is available for relocation.
- The DPCU unit has been notified by State X that the state agency located in its office space will relocate for the next fiscal year and is exercising their option to terminate effective 7/1/2022. Based on the termination option agreement, since advance notice was provided, no payment will be required at 7/1.



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LESSOR – OFFICE SPACE EXAMPLE, EXPANDED (CONT.)



Year 2 Journal Entry	Debit	Credit
Deferred inflow of resources	86,895	
Lease Receivable		86,895
<i>To record termination of lease</i>		

91

CONSIDERATIONS FOR IMPLEMENTATION

92

MATERIALITY CONSIDERATIONS

Asset value and liability value

What if the underlying assets do not meet the government's capitalization threshold?

- IG question on this 7.9.8 – directing governments to capitalize the collective amount if material in total
 - Draft IG - Leases question

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IDENTIFYING THE RATE CHARGED

From the lessee perspective

From the lessor perspective



94

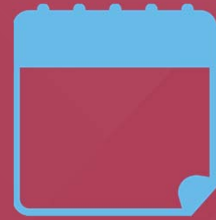
EFFECTIVE DATE & TRANSITION

Effective for periods beginning after December 15, 2019

- Earlier application encouraged

Transition

- Apply retroactively
 - Restate if practicable, cumulative effect if not
- Leases recognized and measured *using the facts and circumstances that exist at the beginning of the period of implementation (hindsight)*
- Lessors should not restate the assets underlying their existing sales-type or direct financing leases
 - Any residual assets for those leases would become the carrying values of the underlying assets



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IMPLEMENTATION IDEAS

Start reviewing existing leases as soon as possible

Implement IC to identify leases & lease modifications

Update accounting systems for new information needs

Consider impact on capitalization policy

Consider impact on reporting lease liabilities on:

- Debt limitations
- Bond covenants
- Grant agreements

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OTHER ACCOUNTING AND REPORTING PROVISIONS

Lease Incentives

Subleases

Sale-Leasebacks

Lease-Leasebacks

Intra—Entity Leases

Leases Between Related Parties

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LEASES IMPLEMENTATION GUIDE EXPOSURE DRAFT TOPICS

- 80 Questions, 3 - Illustrations
- Scope and Applicability
- Lease term
- Short-term leases
- Contracts that transfer ownership
- Lessee recognition and measurement (other than short-term leases and ownership transfers)
- Notes – lessees
- Lessor recognition and measurement (other than short-term leases and ownership transfers)

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LEASES IMPLEMENTATION GUIDE EXPOSURE DRAFT TOPICS

- Notes – lessors
- Incentives
- Multiple components
- Combinations
- Modifications and terminations
- Sale – leaseback transactions
- Lease – leaseback transactions
- Intra-entity leases
- Transition and effective date

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QUESTIONS?

YES I DO. LET ME GET THIS
STRAIGHT, I AM GOING TO HAVE
TO RECALCULATE AND RECLASSIFY
50, 100, 500, 1000 LEASES?

100

100

North Carolina Office of the State Controller

Preliminary Views on GASB's New Financial Reporting Model

June 5, 2019

Jerry E. Durham, CPA, CGFM, CFE

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We will consider:

- Project objective and background
- Governmental funds
 - Concerns with current reporting
 - Short-term financial resources measurement focus
 - Alternative views
 - Presentation
- Proprietary fund presentation
- Budgetary comparison reporting



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We will consider (cont'd)

- Major component unit information
- Schedule of government-wide expenses by natural classification
- Feedback and next steps



3

3

Project Objective and Background

- Reexamination of the effectiveness of the financial reporting model—Statements 34, 35, 37, 41, and 46, and Interpretation 6
- Pre-agenda research showed model generally effective, targeted improvements possible
- Invitation to Comment, *Financial Reporting Model Improvements—Governmental Funds*, issued December 2016
- Preliminary Views, *Financial Reporting Model Improvements*, issued September 2018

4

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Concerns with Governmental Funds Financial Statements

- Lack of effectiveness of governmental fund information
- Lack of conceptual consistency
- Lack of guidance for complex transactions
- Lack of consistency in applying the current financial resources measurement focus and modified accrual basis of accounting



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Financial Reporting Model

- ▶ **Financial Reporting Model Reexamination:**
 - **Governmental Fund F/S Measurement Focus (Near-Term Focus?)**
 - **Current Guidance**
 - Current financial resources measurement focus – modified accrual basis of accounting
 - **Question:**
 - Do we need a more consistent approach? Yes!
 - **Suggested solution:**
 - Near-term – Financial Resources Approach
 - Short-term (formerly Working Capital Approach)
 - Long-term (formerly Total Financial Resources Approach)

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The Candidates

- ▶ Near-Term Financial Resources Approach? 60 days?
- ▶ Short-term (Working-Capital Approach)? 1 year?
- ▶ Long-term (Total Financial Resources Approach)? No Capital Assets or Debt?

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Recognition in Governmental Funds

- Short-term financial resources measurement focus
- Elements from *short-term* transactions recognized as the underlying transaction *occurs*
- Elements from *long-term* transactions recognized when *payments are due*
- Financial assets: cash, assets that are available to be converted to cash, and assets that are consumable in lieu of cash



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Messages Conveyed by Short-Term Financial Resources Measurement Focus

- Consistency in the reporting of balance sheet elements and financial resource flows elements
- Period-end balances from short-term transactions
- Spending of the period
- Inflows of resources from short-term transactions as they occur and long-term transactions when payment are due
- Fund balance that is available for spending
- Results useful in evaluating budgetary information

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Recognition in Governmental Funds

Short-Term Transactions

- ▶ ***Normally*** are ***due*** to convert to or generate cash or require the use of cash within one year from the inception of the transaction

Long-Term Transactions

- ▶ ***Normally*** are ***due*** to convert to or require the use of cash beyond one year from the inception of the transaction

An entire class of transactions will either be short-term transactions or long-term transactions. Transactions within classes (for example, investments) are not treated differently.

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Recognition in Governmental Funds

Assets

- ▶ Assets include those from **short-term transactions** that are receivable at period-end, as well as cash and other financial assets that are available to be converted to cash, or expected to be consumed within the subsequent reporting period
- ▶ Assets arising from **long-term transactions** are recognized when payments are due

Liabilities

- ▶ Liabilities arising from **short-term transactions** that are payable at year end
- ▶ Liabilities arising from **long-term transactions** are recognized when payments become due

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Recognition in Governmental Funds

Outflows of Resources

- ▶ As **spending** occurs
- ▶ Spending from **short-term transactions** (such as use of goods and services and acquisition of capital assets) as the transactions occur
- ▶ Spending from **long-term transactions** as payments are due

Inflows of Resources

- ▶ Inflows of resources from **short-term transactions** (such as tax levies, grants, and changes in fair value of investments) as the transactions occur
- ▶ Inflows of resources arising from **long-term transactions** are recognized when payments become due

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Recognition in Governmental Funds

Deferred Outflows of Resources and Deferred Inflows of Resources

- Governed by concept of **available for spending in a future period**
- Outflows of resources that do not meet the definition of an asset and are inherently related to future spending
- Inflows of resources that do not meet the definition of a liability and can only be used for future spending
- Limited to circumstances identified by the GASB



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Recognition Example—Investments in Permanent Fund

Beginning of year balance: \$18,400,000
 No maturities or purchase of investments;
 Change in fair value of \$100,000;
 End of year balance: \$18,500,000

Recognition Approach	Balance Sheet	Resource Flows Statement
Current financial resources	Investments of \$18,500,000	Inflows of resources of \$100,000
Short-term financial resources	Investments of \$18,500,000	Inflows of resources of \$100,000

Normally Short-Term

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Recognition Example—Property Taxes Receivable

End of year balance: \$28,954,754
Property taxes levied before period end for the subsequent fiscal year;
property taxes are due 6 months after period-end

<u>Recognition Approach</u>	<u>Balance Sheet</u>	<u>Resource Flows Statement</u>
Current financial resources	Taxes receivable of \$28,954,754 and deferred inflow of resources of \$28,954,754	No inflows of resources
Short-term financial resources	Taxes receivable of \$28,954,754 and deferred inflow of resources of \$28,954,754	No inflows of resources

Normally Short-Term

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Recognition Example—Other Taxes Receivable

End of year balance: \$13,342,623
Other taxes are associated with the current year;
\$3,342,623 of other taxes are due 3 months after year-end,
\$10,000,000 are due 6 months after year-end

<u>Recognition Approach</u>	<u>Balance Sheet</u>	<u>Resource Flows Statement</u>
Current financial resources	Taxes receivable of \$13,342,623 and deferred inflow of resources of \$10,000,000	Inflows of resources of \$3,342,623
Short-term financial resources	Taxes receivable of \$13,342,623	Inflows of resources of \$13,342,623

Normally Short-Term

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Recognition Example—Prepaid Items

Beginning of year balance: \$5,800
Spending on prepaid items during year: \$60,000
End of year balance: \$13,800

Recognition Approach	Balance Sheet	Resource Flows Statement
Current financial resources	Prepaid item and nonspendable fund balance of \$13,800	Outflows of resources of \$52,000
Short-term financial resources	Prepaid item of \$13,800	Outflows of resources of \$52,000

Normally Short-Term

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Recognition Example—Inventory

Beginning of year balance: \$15,200
Spending on inventory during year: \$185,000
End of year balance: \$23,500

Recognition Approach	Balance Sheet	Resource Flows Statement
Current financial resources	Inventory of and nonspendable fund balance \$23,500 using consumption method	Outflows of resources of \$176,700
Short-term financial resources	Inventory of \$23,500	Outflows of resources of \$176,700

Normally Short-Term

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Recognition Example—Special Assessments

Beginning of year balance: \$123,851
 Collections during year: \$41,500
 End of year balance: \$82,351
 \$82,351 scheduled to be collected beyond 3 months after year-end

Recognition Approach	Balance Sheet	Resource Flows Statement
Current financial resources	Receivable and deferred inflow of resources of \$82,351	Inflow of resources of \$41,500
Short-term financial resources	No amounts recognized	Inflow of resources of \$41,500

Normally Long-Term

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Recognition Example—Notes Receivable Related to Lending

Beginning of year balance: \$4,387,776
 Collections during year: \$645,000
 End of year balance: \$3,742,776
 All scheduled to be collected beyond 3 months after period-end

Recognition Approach	Balance Sheet	Resource Flows Statement
Current financial resources	Notes receivable and nonspendable fund balance of \$3,742,776	No amounts recognized
Short-term financial resources	No amounts recognized	Inflow of resources of \$645,000

Normally Long-Term

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Recognition Example—Hedging Derivative Instrument

**Details of instrument: effective hedge, 9 years remaining in term, declining notional amount, associated with capital-related debt
Fair value at end of period: (\$532,882)**

<u>Recognition Approach</u>	<u>Balance Sheet</u>	<u>Resource Flows Statement</u>
Current financial resources	No amounts recognized	No amounts recognized
Short-term financial resources	No amounts recognized	No amounts recognized

Normally Long-Term

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Recognition Example—Compensated Absences

**Beginning of year balance: \$4,824,057
Earned in the current year: \$146,014 (LIFO flow assumption)
End of year balance: \$4,970,071
Additionally, \$25,000 is due to employees who have separated from service**

<u>Recognition Approach</u>	<u>Balance Sheet</u>	<u>Resource Flows Statement</u>
Current financial resources	Liability of \$25,000	Outflows of resources of \$25,000
Short-term financial resources	Liability of \$25,000	Outflows of resources of \$25,000

Normally Long-Term

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Recognition Example—Accrued Interest on Long-Term Debt

Beginning of year balance: \$899,750
 Accrued during in the current year: \$2,394,534
 Paid during the current year: \$2,448,950
 End of year balance: \$845,334

<u>Recognition Approach</u>	<u>Balance Sheet</u>	<u>Resource Flows Statement</u>
Current financial resources	No amounts recognized	Debt service expenditures of \$2,448,950
Short-term financial resources	Accrued interest payable of \$845,334	Outflows of resources of \$2,394,534

Normally Short-Term

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Recognition Example—Claims Payable

Beginning of year balance: \$1,300,000
 Claims incurred during in the current year: \$2,750,000
 Paid during the current year: \$1,500,000
 End of year balance: \$2,550,000

<u>Recognition Approach</u>	<u>Balance Sheet</u>	<u>Resource Flows Statement</u>
Current financial resources	No amounts recognized	Expenditures of \$1,500,000
Short-term financial resources	Claims payable of \$2,550,000	Outflows of resources of \$2,750,000

Normally Short-Term

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Recognition Example—Tax Anticipation Notes Payable

Beginning of year balance: \$4,000,000
 Repayments during in the current year: \$4,000,000*
 Borrowings during the current year: \$4,400,000*
 End of year balance: \$4,400,000

<u>Recognition Approach</u>	<u>Balance Sheet</u>	<u>Resource Flows Statement</u>
Current financial resources	Tax anticipation note payable of \$4,400,000	No amounts recognized.
Short-term financial resources	Tax anticipation note payable of \$4,400,000	No amounts recognized.

*Borrowings and repayments are disclosed.

Normally Short-Term

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Recognition Example—Leases Payable

Beginning of year balance: \$4,722,553
 Issuance of leases during in the current year: \$233,200
 Paid during the current year: \$1,273,469
 End of year balance: \$3,682,284

<u>Recognition Approach</u>	<u>Balance Sheet</u>	<u>Resource Flows Statement</u>
Current financial resources	No amounts recognized	Expenditures of \$233,200 for capital outlay, expenditures of \$1,273,469 for debt service, other financing sources of \$233,300
Short-term financial resources	No amounts recognized	Outflows of resources of \$1,273,469 for debt service

Normally Long-Term

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Recognition Example— Postemployment Benefits

**Pension plan is funded. Net pension liability is \$826,333 at period-end.
OPEB plan is pay-as-you-go. Net OPEB liability is \$42,785,037 at period-end.**

<u>Recognition Approach</u>	<u>Pension</u>	<u>OPEB</u>
Current financial resources	No liability. No amount normally expected to be liquidated with available expendable resources.	No liability. No amount normally expected to be liquidated with available expendable resources.
Short-term financial resources	No liability. No amounts due.	No liability. No amounts due.

Normally Long-Term

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Recognition Example—Bonds Payable

**Beginning of year balance: \$33,414,493, all capital-related
Principal paid during the current year: \$8,331,457
End of year balance: \$25,083,036**

<u>Recognition Approach</u>	<u>Balance Sheet</u>	<u>Resource Flows Statement</u>
Current financial resources	No amounts recognized	Expenditures of \$8,331,457
Short-term financial resources	No amounts recognized	Outflows of resources of \$8,331,457

Normally Long-Term

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Alternative Views

- **Modify short-term financial resources**
 - Recognize portion of long-term receivables due in the next reporting period (both as asset and inflows of resources)
 - Recognize portion of long-term liabilities due in the next reporting period (both as liability and outflows of resources) with exceptions:
 - Pensions and other postemployment benefits
 - Asset retirement obligations
- **Replace concept of *normally* with contractual maturities (or amounts otherwise expected to be paid in cash or other fund financial resources)**

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Alternative Views (Continued)

- **Examples**
 - General obligation bond that will be called shortly after period-end using existing resources – AV would report a liability and lower fund balance
 - Long-term debt payment due 1 month after period-end – AV would report liability and lower fund balance
 - Long-term debt payment due 11 months after period-end – AV would report liability and lower fund balance yet it is likely that the taxes that will be used to fund the payment have not yet been levied.
- **Government-wide statement of cash flows**



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Governmental Funds–Presentation

- Current and noncurrent format of resource flows statement
- Current includes all flows other than those that are noncurrent
- Noncurrent resource flows: those related to purchase and disposal of capital assets and issuance and repayment of long-term debt



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Governmental Funds–Specific Terminology

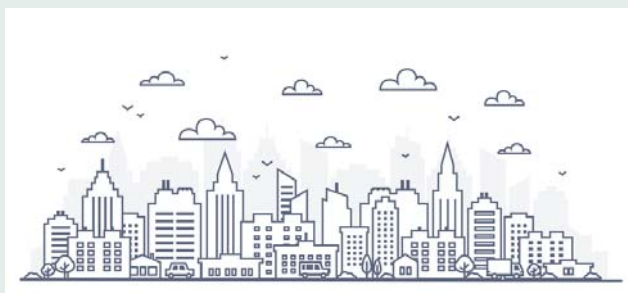
Titles	Elements
<ul style="list-style-type: none"> ▶ Short-Term Financial Resources Balance Sheet ▶ Short-Term Financial Resource Flows 	<ul style="list-style-type: none"> ▶ Short-term assets ▶ Short-term liabilities ▶ Deferred outflows of short-term financial resources ▶ Deferred inflows of short-term financial resources ▶ Short-term financial resources fund balances ▶ Inflows of short-term financial resources for current activities ▶ Outflows of short-term financial resources for current activities ▶ Net flows of short-term financial resources for noncurrent activity

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Governmental Funds—Specific Terminology

- “This financial statement presents a short-term view of governmental fund activities and reports items of a long-term nature differently from how they are reported in the government-wide financial statements.”



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Illustration 3: Short-Term Financial Resources Balance Sheet

ABC Government Short-Term Financial Resources Balance Sheet Governmental Funds June 30, 20XX				
This financial statement presents a short-term view of governmental fund activities and reports items of a long-term nature differently from how they are reported in the government-wide financial statements.				
	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
SHORT-TERM ASSETS				
Cash and cash equivalents	\$ 861,272	\$ 8,846,434	\$ 12,071,406	\$ 21,779,112
Investments	-	-	18,500,000	18,500,000
Taxes receivable	33,339,603	5,176,000	3,781,774	42,297,377
Intergovernmental receivables	662	607	83,736	85,005
Grants receivable	250,992	-	-	250,992
Other receivables	2,256,859	-	1,457,817	3,514,676
Interfund receivables	610,066	-	607,909	1,217,975
Prepaid item	-	-	13,800	13,800
Inventory	23,500	-	-	23,500
Total short-term assets	\$ 37,142,954	\$ 14,023,041	\$ 36,516,442	\$ 87,682,437
SHORT-TERM LIABILITIES, DEFERRED INFLOWS OF SHORT-TERM FINANCIAL RESOURCES, AND SHORT-TERM FINANCIAL RESOURCES FUND BALANCES				
Short-term liabilities:				
Accounts payable	\$ 904,666	\$ 493,212	\$ 1,642,560	\$ 3,040,438
Other payables	2,444	-	926	3,370
Accrued payroll	2,966,848	14,733	65,621	3,047,402
Compensated absences payable	25,000	-	-	25,000
Accrued interest payable	69,165	29,733	746,436	845,334
Interfund payable	51,606	227,099	15,195	293,900
Claims payable	2,550,000	-	-	2,550,000
Tax anticipation notes payable	4,403,000	-	-	4,403,000
Total short-term liabilities	10,969,729	764,777	2,470,938	14,205,444
Deferred inflows of short-term financial resources:				
Taxes receivable levied for the next year	21,625,730	5,176,000	2,153,024	28,954,754
Total deferred inflows of short-term financial resources	21,625,730	5,176,000	2,153,024	28,954,754
Short-term financial resources fund balances:				
Restricted	-	8,082,264	32,024,553	40,106,817
Assigned for library	685,630	-	-	685,630
Unassigned	3,861,865	-	(132,073)	3,729,792
Total short-term financial resources fund balances	4,547,495	8,082,264	31,892,480	44,522,239
Total short-term liabilities, deferred inflows of short-term financial resources, and short-term financial resources fund balances	\$ 37,142,954	\$ 14,023,041	\$ 36,516,442	\$ 87,682,437

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ABC Government Statement of Short-Term Financial Resource Flows Governmental Funds				
<small>Year Ending June 30, 2018</small>				
<small>This financial statement presents a short-term view of the governmental fund activities and reports items of a long-term nature differently from how they are reported in the government-wide financial statements.</small>				
	General Fund	Special Tax Fund	Governmental Funds	Total Governmental Funds
INFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES				
Taxes				
Property tax	\$ 20,322,167	\$ 5,311,156	\$ 2,015,047	\$ 27,648,370
Sales tax	45,034,789	-	4,430,774	49,465,563
Use tax	3,586,753	-	-	3,586,753
Motor fuel tax	-	-	2,889,647	2,889,647
Other taxes	3,975,895	-	2,698,909	6,674,804
Payments in lieu of taxes	2,721,420	-	-	2,721,420
Special assessments	-	-	41,500	41,500
Licenses and permits	1,303,889	-	-	1,303,889
Fees for services	7,052,692	-	202,273	7,254,965
Franchise fees	1,968,522	-	-	1,968,522
Fines and citations	1,476,364	-	-	1,476,364
Intergovernmental	14,595,019	-	6,192,493	20,787,512
Investment earnings	5,829	11,384	119,043	136,256
Transfers in	500,000	-	155,204	655,204
Miscellaneous	4,216,940	654,482	771,287	5,642,709
Total inflows of short-term financial resources for current activities	106,760,279	5,977,022	19,516,177	132,253,478
OUTFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES				
General government				
Public health and safety	14,053,444	6,961,201	2,213,691	23,228,336
Highway and streets	70,880,913	-	590,383	71,471,296
Culture and recreation	12,137,714	-	4,715,808	16,853,522
Economic development	3,581,583	335,659	1,808,065	5,725,307
Transfers out	496,141	-	3,374,045	3,870,186
	155,204	-	500,000	655,204
Total outflows of short-term financial resources for current activities	101,304,999	7,296,860	13,201,992	121,803,851
Net flows of short-term financial resources for current activities	5,455,280	(1,319,838)	6,314,185	10,449,627
NET FLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR NONCURRENT ACTIVITIES				
Transfers in				
Debt service	-	-	10,651,605	10,651,605
Capital outlay	(2,434,544)	(366,412)	(9,198,305)	(11,999,261)
Transfers out	(111,987)	(1,515)	(1,346,497)	(1,459,999)
	(7,680,875)	(6,445)	(2,420,900)	(10,108,220)
Total net flows of short-term financial resources for noncurrent activities	(10,227,406)	(374,372)	(2,314,297)	(12,916,075)
Net change in short-term financial resources fund balances	(4,772,126)	(1,694,210)	3,999,888	(2,466,448)
Short-term financial resources fund balances at beginning of year	9,319,621	9,776,474	27,892,592	46,988,687
Short-term financial resources fund balances at end of year	\$ 4,547,495	\$ 8,082,264	\$ 31,892,480	\$ 44,522,239

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Proprietary Fund Financial Statement Presentation

- Continue separate presentation of operating and nonoperating revenues and expenses
- Operating revenues and expenses are those other than nonoperating
- Nonoperating revenues and expenses include:
 - Subsidies received and provided
 - Revenues and expenses related to financing
 - Resources from the disposal of capital assets and inventory
 - Investment income and expenses

36

36

Proprietary Fund Financial Statement Presentation

- Subtotal for *operating income (loss) and noncapital subsidies*
- Subsidies are: resources provided by another party or fund to keep rates lower than otherwise would be necessary to support the level of goods and services to be provided



37

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ABC State University
Statement of Revenues, Expenses, and Changes in Net Position

	2016	2015
Operating revenues:		
Tuition and fees (net of discounts)	\$ 574,168	\$ 525,791
Grants and contracts	292,962	278,481
Sales and services	271,345	272,244
Other operating revenues	7,868	14,861
Total operating revenues	1,146,343	1,091,377
Operating expenses:		
(Net of non-functional expenses)		
Total operating expenses	1,681,544	1,596,059
Income (loss) generated by operations	(535,201)	(504,682)
Noncapital subsidies:		
Appropriations	407,702	394,767
Taxes	8,026	7,660
Grants	42,978	37,567
Gifts	99,395	90,063
Total noncapital subsidies	558,101	530,057
Operating income (loss) and noncapital subsidies	22,900	25,375
Financing and investing activities:		
Investment income	235,820	138,649
Interest expense	(12,412)	(12,853)
Loss from the disposition of capital assets	(2,385)	518
Total financing and investing activities	221,023	126,314
Income before other items	243,923	151,689
Other items:		
Capital contributions	23,231	74,830
Increase (decrease) in net position	267,154	226,519
Net position—beginning	3,061,111	2,834,592
Net position—ending	\$ 3,328,265	\$ 3,061,111

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Budgetary Comparison Information

- Presented in required supplementary information
 - Consistent with conceptual framework on methods of communication
- Required variance presentations
 - Final budget and actual amounts
 - Original and final budget



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Major Component Unit Information

- If feasible, present in separate columns on the reporting entity's government-wide financial statements
- If not feasible, present in as combining financial statements after the fund financial statements (included in basic financial statements)
- The existing alternative to present condensed major component unit financial statements in the notes to financial statements would be eliminated



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Government-Wide Expenses by Natural Classification

- Applicable to governments presenting a CAFR
- Presented as supplementary information
- Governmental activities by program or function (and natural classification)
- Business-type activities by different identifiable activity (and natural classification)
- No change to government-wide statement of activities

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City of ABC Schedule of Governmental Activities Expenses by Function and Natural Classification for the Year Ended June 30, 20XX							
Natural Classification	General Government	Public Health and Safety	Highway and Streets	Culture and Recreation	Economic Development	Interest	Total
Awards and grants	\$ XX,XXX	\$ XX,XXX	\$ XX,XXX	\$ XX,XXX	\$ XX,XXX	\$ -	\$ XXX,XXX
Contractual services	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	-	XXX,XXX
Other services and supplies	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	-	XXX,XXX
Personnel and benefits	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	-	XXX,XXX
Depreciation	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	-	XXX,XXX
Interest	-	-	-	-	-	XX,XXX	XX,XXX
Total	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX

City of ABC Schedule of Business-Type Activities Expenses by Different Identifiable Activity and Natural Classification for the Year Ended June 30, 20XX					
Natural Classification	Motor Vehicle				Total
	Water	Sewer	Parking	Cemetery	
Contractual services	\$ XX,XXX	\$ XX,XXX	XX,XXX	\$ XX,XXX	\$ XXX,XXX
Other services and supplies	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XXX,XXX
Personnel and benefits	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XXX,XXX
Depreciation and amortization	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XXX,XXX
Interest	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XXX,XXX
Total	\$ XXX,XXX	\$ XXX,XXX	XXX,XXX	\$ XXX,XXX	\$ XXX,XXX

You get to choose the Natural Classifications. This proposal appears to be on its way out!

42

42

Small Government Considerations

- Are there opportunities to offer practical considerations for small governments without undermining the fundamentals of the model?
 - Recognition in governmental funds
 - Presentation of governmental funds
 - Presentation of proprietary funds
 - Budgetary comparison information
 - Major component unit information
 - Schedule of government-wide expenses by natural classification
- Continue to consider in future

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Next Steps

- Additional issues for Exposure Draft
 - Extraordinary and special items
 - Management's discussion and analysis (MD&A)
 - Debt service funds
- Target issuance of Exposure Draft: June 2020



44

44

North Carolina State Controller's Office
June 5, 2019

Revenue and Expense Recognition

ITC

Jerry E. Durham, CPA, CGFM, CFE

1

1

Revenue and Expense Recognition

2

2

Revenue and Expense Recognition

What:

The Board is redeliberating stakeholder input on an Invitation to Comment as part of developing a comprehensive model for recognition of revenues and expenses

Why:

Guidance for exchange transactions is limited; guidance for nonexchange transactions could be improved and clarified

When:

Redeliberations began in June 2018

3

3

Project Scope

The project scope broadly encompasses revenue and expense recognition but *excludes* the following:

Topics with guidance developed considering the current conceptual framework	Topics related to financial instruments	Topics related to transactions arising from recognition of capital assets or certain liabilities
For example, pensions and other post-employment benefits	For example, investments, derivatives, leases, and insurance	For example, depreciation, asset retirement obligations, and pollution remediation obligations

4

4

Revenue and Expense Recognition Models

There are three components of a revenue and expense recognition model

Classification is the process of identifying the *type* of transaction (for example, is the transaction exchange or nonexchange?)

Recognition is the process of determining *what* element should be reported and *when* (for example, recognize revenue when earned)

Measurement is the process of determining the *amount* to report for the element (not addressed in the Invitation to Comment)

5

5

Revenue and Expense Recognition Models

There are four components of a revenue and expense recognition model

Classification is the process of identifying the *type* of transaction (for example, is the transaction exchange or nonexchange?)

Measurement is the process of determining what *amount* to report for the element.

Basis of Accounting is the process of identifying when an element should be reported - for example, recognize revenue when earned

Recognition is the process of determining *what* element should be reported and *when*, and then recording the transaction on the accounting records.

6

6

NonExchange

▶ GASB Statement No. 33 would be followed:

- Derived tax revenues
 - Income taxes & Sales Taxes
- Imposed nonexchange revenues
 - Property tax & Fines
- Government-mandated nonexchange revenues & expenses
 - Federal grants for programs local govt is required to perform/enabling
- Voluntary nonexchange revenues and expenses
 - Grants

7

Exchange/Nonexchange Model

Classification	Is the transaction an exchange?	
Recognition	YES	NO
	Earnings recognition approach: <ul style="list-style-type: none"> • Government controls a resource, or incurs an obligation to sacrifice a resource, <li style="text-align: center;">and • The change in net assets is not applicable to a future period 	Provisions of Statement 33: <ul style="list-style-type: none"> • Derived tax revenue • Imposed nonexchange revenue • Government-mandated nonexchange transaction • Voluntary nonexchange transaction
Measurement	Measurement was not addressed in the Invitation to Comment but is expected to be addressed in a later due process document.	

8

8

Performance Obligation/ No Performance Obligation Model

Classification Does the transaction contain a performance obligation?

	YES	NO
Recognition	<p>Performance recognition approach:</p> <ul style="list-style-type: none"> • Determine consideration • Allocate consideration to performance obligation(s) • Recognize revenue or expense as each performance obligation is satisfied (at a point in time or over time) and the transaction is applicable to the reporting period(s) 	<p>Provisions of Statement 33:</p> <ul style="list-style-type: none"> • Derived tax revenue • Imposed nonexchange revenue • Government-mandated nonexchange transaction • Voluntary nonexchange transaction

Measurement *Measurement is not addressed in the Invitation to Comment but is expected to be addressed in a later due process document.*

Project Timeline

Pre-Agenda Research Started	September 2015
Added to Current Technical Agenda	April 2016
Invitation to Comment Cleared	January 23, 2018
Redeliberations Began	June 2018
Preliminary Views Expected	2 nd Qtr. 2020

Exposure Draft Expected 4th Quarter 2021
Final Standard Expected 1st Quarter 2023

Questions

The Main Question I have is,
have you lost your mind GASB?



11

North Carolina
Office of the State Controller

The New and Improved
Yellow Book??

June 5, 2019

Jerry E. Durham, CPA, CGFM, CFE

1

The Opinions expressed during this presentation are my own. They do not necessarily represent the views of the Tennessee Comptroller of the Treasury, his representatives, or the Tennessee Department of Audit.

2

2

A Little History

3

Government Auditing Standards

- ▶ Why is the Yellow Book called the Yellow Book?
 - As one story goes, the original title of the Yellow Book was supposed to be “The Golden Rule of Government Auditing” and the cover was supposed to be Gold.
 - You will notice that this is not the title and the cover is not Gold. Again, as the story goes, the printing office did not have Gold cover paper, so they used Yellow. And the rest, as they say, is History.
 - So, since its first publishing date, it has been a rather bold Yellow Book.

4

Government Auditing Standards

- ▶ A slightly different story was told by Marcia Buchanan who was responsible for the Yellow Book development over a period of 22 years.
- ▶ "Well, the Yellow Book is Generally Accepted Government Auditing Standards. It is a publication that GAO's been producing since [redacted]. And the way the first Yellow Book happened was, the State Audit Community came to the Congress and said"
- ▶ "Gee, we need a set of standards that increase accountability and transparency for government money." The Congress turned to GAO and asked us to put together a set of auditing standards. Interesting enough, the Government Auditing Standards, known as the Yellow Book, is named the Yellow Book because the group that put it together in [redacted] thought that it oughtta have a gold cover on it, called it the "Golden Rules of Auditing."
- ▶ And the Comptroller General at the time, Elmer Staats, thought that was very presumptuous. And so it became, then, the Yellow Book. It got close to the gold but not completely. So the Yellow Book it became. And the only thing that will never change on the Yellow Book is the color of the cover.

5

5

Government Auditing Standards

- ▶ Why was the Yellow Book first published?
 - The Yellow Book was published for use by the Federal Government by the GAO.
 - The GAO is the Auditor for the Federal Government, and the Yellow Book was designed for use by Federal Auditors.
 - It was intended as set of Federal Audit "Standards" for Federal Government Auditors. State and Local governments could adopt the standard by law or other methods.
 - Although, the Yellow Book is a GAO document, it was created at the request of state and local governments and their professional associations including AGA.

6

Government Auditing Standards

- ▶ But something happened in 1984 that had a significant influence on the adoption of the Yellow Book by state and local governments. What was it?
 - GASB was established in 1984
 - The Single Audit Act was passed in 1984
 - GAO required all state and local governments to use the Yellow Book
 - AGA established a best practice document encouraging all state and local governments to use the Yellow Book

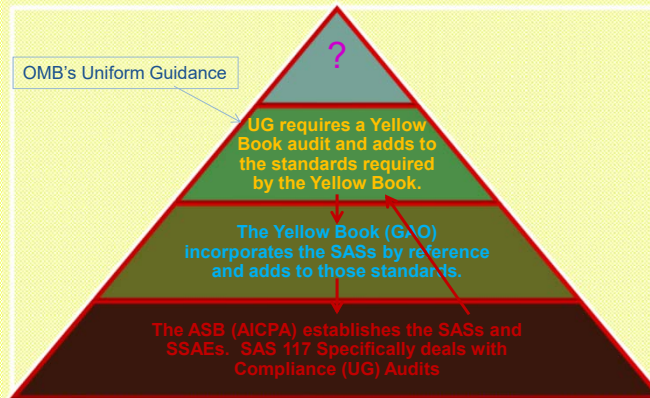
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Government Auditing Standards

- ▶ How many states have adopted the Yellow Book?
 - The Yellow Book has been adopted by all but 2 or 3 States. This usually means for local governments as well.
 - Tennessee uses the Yellow Book standards for audit for Financial, Attestation, and Performance Audits.
 - What about North Carolina?

8

Auditing Standards



9

Government Auditing Standards

- ▶ When was the first Yellow Book published?
 - 1972
 - 1974
 - 1981
 - 1984

10

Government Auditing Standards

- ▶ When was the first Yellow Book published?
 - 1972 - Standards for Audit of Governmental Organizations, Programs, Activities and Functions
 - 1974
 - 1981
 - 1988 - Government Auditing Standards
 - 1994
 - 1999 - Two Amendments, not full revision
 - 2003
 - 2007
 - 2011
 - 2018

11

Government Auditing Standards - 1972

54 Pages



12

Government Auditing Standards – 1972

<u>C o n t e n t s</u>		<u>P a g e</u>
PART		
I	INTRODUCTION	1
II	SUMMARY	6
III	GENERAL STANDARDS	10
Chapter 1	Scope of audit work	10
2	Qualifications	13
3	Independence	15
4	Due professional care	19
IV	EXAMINATION AND EVALUATION STANDARDS	21
Chapter 1	Planning	21
2	Supervision	26
3	Legal and regulatory requirements	28
4	Internal control	32
5	Evidence	35
V	REPORTING STANDARDS	39
Chapter 1	Form and distribution	39
2	Timeliness	41
3	Content	42
4	Financial reports	49
APPENDIX		
I	Qualifications of independent auditors engaged by governmental organizations	54

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Government Auditing Standards

- ▶ Who uses the Yellow Book?
 - Federal Inspectors General Auditors must use the Yellow Book
 - Auditors of most Federal Agencies must use the Yellow Book
 - Auditors of Federal Programs under OMB's Uniform Guidance must use the Yellow Book
 - Internal Auditors for Federal Agencies generally use the Yellow Book.
- What about the rest of us?

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Government Auditing Standards

- ▶ “Yellow Book” or
- ▶ GAS
- ▶ Generally Accepted Government Auditing Standards (“GAGAS”)
- ▶ 7 x 10 size

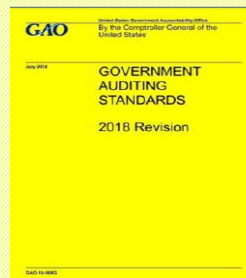


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Government Auditing Standards

- ▶ “Yellow Book” or
- ▶ GAS
- ▶ Generally Accepted Government Auditing Standards (“GAGAS”)
- ▶ Now 8 ½ by 11 size.



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GAO's *Government Auditing Standards*

- ▶ Exposure Draft issued April 5, 2017
 - First proposed changes since 2011
 - Public comments were due to GAO no later than July 6, 2017
 - Why Issued?
 - Represents a modernized version that takes into account developments in the accounting and auditing professions
 - Intended to reinforce principles of transparency and provide a framework for high quality government audits
 - GAO received 95 comment letters with over 1,700 individual comments on the exposure draft.

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GAO's *Government Auditing Standards*

- ▶ Final Version was issued July 17, 2018
 - Effective Date: **Financial Audits, Attestation Engagements, and Reviews of Financial Statements** = Periods ending on or after June 30, 2020.
 - Calendar Year 2020
 - Fiscal Years Ending on June 30, 2021
 - Effective Date: **Performance Audits** beginning on or after July 1, 2019
 - Early implementation is **not** permitted.

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2018 Yellow Book

- ▶ <http://www.gao.gov/yellowbook/overview>

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GAO's Government Auditing Standards

- ▶ Just a personal thought from me as we begin:
 - There are more and more standards that must be followed by auditors.
 - Sometimes the overload creates ethical dilemmas for auditors.
 - I don't have time. I will be over my time budget.
 - We've always audited this way and its been OK up until now.
 - Who will notice. Our quality control is not that great anyway.
 - It is unlikely peer review will pick this audit.
 - If I write this finding, I will probably lose this client.
 - Independence does not apply to my situation.

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GAO's Government Auditing Standards

- ▶ What I consider as the most important changes:
 1. New format and organization of GAGAS
 2. Independence threats related to preparing records and financial statements (Chapter 3)
 3. Documenting SKE (Chapter 3) (application guidance)
 4. Changes to Waste and Abuse (definition of waste, and reporting of waste and abuse) (Chapters 6, 7, 8, and 9)
 5. Quality Control Expanded Requirements (Chapter 5)

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GAO's Government Auditing Standards

- ▶ What I consider as the most important changes:
 6. Peer review requirements (Chapter 5)
 7. Internal control: financial audits, examination engagements, and **performance audits**. Should consider internal control when determining the cause of any finding. (2011 YB referred to Internal Controls 142 times, the 2018 YB refers to Internal Controls 202 times) (Chapters 8 and 9)
 8. Internal Control documentation and reporting for Performance Audit (Chapters 8 and 9)

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General Changes

- ▶ Overall Changes
 - From 235 to 224, but larger format
 - Chapters – From 7 to 9
 - Chapters – Reorganized and Realigned
 - All Chapters – Revised Format
 - Supplemental Appendix Guidance – Removed or Incorporated into Chapters

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Chapter Comparison

Old Yellow Book

1. Government Auditing: Foundation and Ethical Principles
2. Standards for Use and Application of GAGAS
3. General Standards
4. Standards for Financial Audits

New Yellow Book

1. Foundation and Principles for the Use and Application of Government Auditing Standards
2. General Requirements for Complying with Government Auditing Standards
3. Ethics, Independence, and Professional Judgment
4. Competence and Continuing Professional Education

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Chapter Comparison

Old Yellow Book	New Yellow Book
<ul style="list-style-type: none">5 Standards for Attestation Engagements6 Field Work Standards for Performance Audits7 Reporting Standards for Performance Audits	<ul style="list-style-type: none">5. Quality Control and Peer Review6. Standards for Financial Audits7. Standards for Attestation Engagements and Reviews of Financial Statements8. Fieldwork Standards for Performance Audits9. Reporting Standards for Performance Audits

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GAO's *Government Auditing Standards*

- ▶ **Application Guidance:**
 - **2.05** Auditors should have an understanding of the entire text of applicable chapters of GAGAS, including application guidance, and any amendments that GAO issued, to understand the intent of the requirements and to apply the requirements properly.
 - **2.07** GAGAS contains requirements together with related explanatory material in the form of application guidance. Not every paragraph of GAGAS carries a requirement. Rather, GAGAS identifies the requirements through use of specific language. GAGAS also contains introductory material that provides context relevant to a proper understanding of a GAGAS chapter or section. Having an understanding of the entire text of applicable GAGAS includes an understanding of any financial audit, attestation, and reviews of financial statement standards incorporated by reference.

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GAO's Government Auditing Standards

- ▶ **Application Guidance (Cont'd):**
 - **2.09** The application guidance provides further explanation of the requirements and guidance for applying them. In particular, it may explain more precisely what a requirement means or is intended to address or include examples of procedures that may be appropriate in the circumstances. Although such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. "May," "might," and "could" are used to describe these actions and procedures. The application guidance may also provide background information on matters addressed in GAGAS.

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Remember – this is not GASB

- The "Yellow Book" = GAGAS
- GAGAS = Generally Accepted *Government Auditing Standards*:
 - Overlay of Generally Accepted Auditing Standards (GAAS) issued by the Auditing Standards Board.
- GAGAS contains the framework for ensuring that auditors possess competence, integrity, objectivity, and independence in planning, conducting, and reporting on their work.
- GAGAS *is required* when audits of states, local governments, tribal nations and not-for-profits meet certain criteria in the Uniform Guidance (Title 2, Code of Federal Regulations, Part 200) (Uniform Guidance or UG):
 - Also required by State Law, Regulation, Outside Grantors, Lenders etc.
- Applying for federal grants *may* require GAGAS.

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Internal Audit in the Yellow Book

- ▶ The 2018 Yellow Book has **36** references to Internal Audit
 - Certain entities employ auditors to work for entity management. These auditors may be subject to administrative direction from persons involved in the entity management process. Such audit organizations are internal audit functions and are **encouraged** to use the **Institute of Internal Auditors' International Standards** for the Professional Practice of Internal Auditing, in conjunction with GAGAS. (3.57)
 - Most of those references relate to **Independence** in Chapter 3 and **Competence** in Chapter 4.
 - An internal audit organization that reports internally to management and those charged with governance should provide a copy of its **peer review** report to those charged with governance. (5.77)
 - External Auditors using the work of Internal Auditor. (Chapter 8)
 - Report Distribution in Chapter 9. (9.57)

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Chapter 1

- ▶ **Chapter 1 – Government Auditing: Foundation and Principles for the Use and Application of Generally Accepted Government Auditing Standards**
 - Examples of types of GAGAS users are addressed. (para. 1.12)
 - Integrated audit is added to the types of financial audits. (para. 1.17.b)
 - Descriptions of attestation engagements, reviews of financial statements, and performance audits are expanded. (paras. 1.18 through 1.26)
 - **Definitions of common terms** used in GAGAS are expanded. Definitions for terms such as engaging party, audited entity, responsible party, and specialist are added. (para. 1.27) **(Also a Glossary in the Back)**

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Chapter 2

▶ Chapter 2 – General Requirements for Complying with Government Auditing Standards

- Guidance is expanded to explain that for financial audits, attestation engagements, and reviews of financial statements, GAGAS does **not** incorporate the American Institute of Certified Public Accountants Code of Conduct by reference but recognizes that certain certified public accountants (CPA) may use or may be required to use the code in conjunction with GAGAS. (para. 2.14)

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Key Changes – Format

- New format, similar to *Codification* of GAAS
 - Requirements separated from application guidance and other explanations
 - Requirements are in boxes

Thinking Inside
the Box

Typical section of
requirements and
application guidance

Requirement: Appraisal, Valuation, and Actuarial Services

3.104 Auditors should conclude that independence is impaired if an audit organization provides appraisal, valuation, or actuarial services to an audited entity when (1) the services involve a significant degree of subjectivity and (2) the results of the service, individually or when combined with other valuation, appraisal, or actuarial services, are material to the audited entity's financial statements or other information on which the audit organization is reporting.

Application Guidance: Appraisal, Valuation, and Actuarial Services

3.105 A valuation comprises the making of assumptions with regard to future developments; the application of appropriate methodologies and techniques; and the combination of both to compute a certain value, or range of values, for an asset, a liability, or an entity as a whole.

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Auditors need to know the language – still the same under 2018 Yellow Book

- **Unconditional requirements** – ‘must’ – comply where relevant
- **Presumptively mandatory requirements** – ‘should’ – if the auditor departs from requirements, must document why
- **Application guidance** – ‘may’, ‘might’, ‘could’ – further explanations provided

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Key differences between the yellow book and the cpa’s code of conduct

- **Yellow Book:**
 - **Preparing financial statements in their entirety is always a significant threat**
 - **Documentation and evaluation of significance of threats for preparing accounting records and financial statements is required**
 - **Documentation of skills, knowledge and experience**
- **Similarities, but not quite aligned –**
 - Threats and safeguards approach used by both – but Yellow Book requires it on all circumstances that may result in threats to independence
 - Nonaudit services are permitted by AICPA unless there are significant threats
 - Nonaudit services are also allowed by Yellow Book but may require safeguards

Note: Impairments do not always = bans. Safeguards may be available

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Skills, Knowledge, or Experience (i.e. ske)

- Auditors required to determine that the audited entity has designated an individual who possesses suitable skills, knowledge **or** experience and that *understands* the services to be provided sufficiently to oversee them **before** auditors agree to perform nonaudit services and Ske should be documented at the beginning the audit. (3.73)
 - Management is not required to possess the expertise to perform or reperform services
- If SKE is not present, independence impaired and no safeguards can overcome a lack of SKE

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Skills, Knowledge, or Experience (i.e. ske)

- 3.79 (application guidance) “is not required to possess the expertise to perform or re-perform the services. However, **indicators** of management’s ability to effectively oversee the nonaudit service include management’s ability to determine the reasonableness of the results of the nonaudit services provided, and to recognize a material error, omission, or misstatement in the results of the nonaudit services provided.”
 - Think “**Examples**” as another word for “**indicators**.”
 - “Other things (examples) could be used” to demonstrate management’s SKE (Skills, Knowledge, or Experience)
 - What GAO is trying to achieve is “Not just blind acceptance”.
 - This is implementation guidance.
- The word “indicator” is used in other places in the standard (4.07 and following).

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Independence Threats Related to Preparing Financial Statements & Accounting Records

Nonaudit services performed by auditors related to financial statements and accounting records either:

Impair Independence

→ No change from 2011 Yellow Book (para. 3.87)

Are Significant Threats

→ The auditor prepares financial statements in their entirety (para. 3.88).

OR

→ The auditor determines that a service related to preparing financial statement or accounting records is a significant threat (para. 3.93).

→ Document the threats and safeguards applied to eliminate and reduce threats to an acceptable level (para. 3.33).

OR

→ Decline to perform the service (para. 3.88).

Are Threats

- Evaluate threat and document evaluation (para. 3.90).
- Typing, formatting, printing, binding: not likely significant (para. 3.95)

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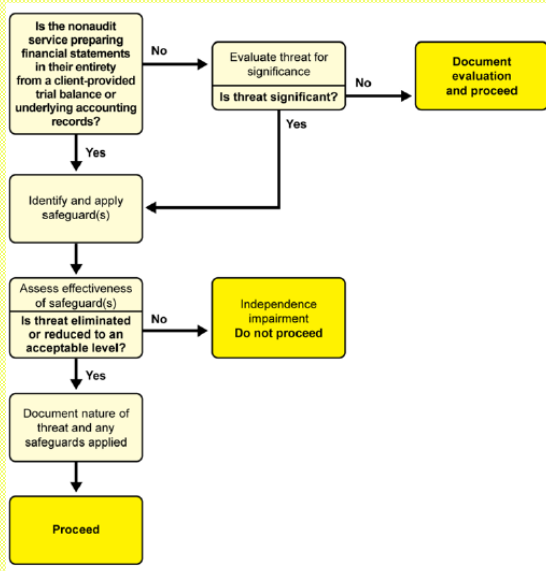
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Additional on preparing records and financial statements

- Any other services related to preparing accounting records (e.g. payroll) and financial statements create a **threat**
 - Auditors required to evaluate if it is significant and document
- Could occur when auditor
 - Records transactions for which *management* has determined or approved the appropriate account classification or posting the coded transactions to the GL
 - Prepares certain line items or sections of the financials based on trial balance
 - Posts entries after management approval
 - Prepares accounting reconciliations that identify reconciling items for management to evaluate and approve

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New GAO decision tree *just on financial statement preparation*



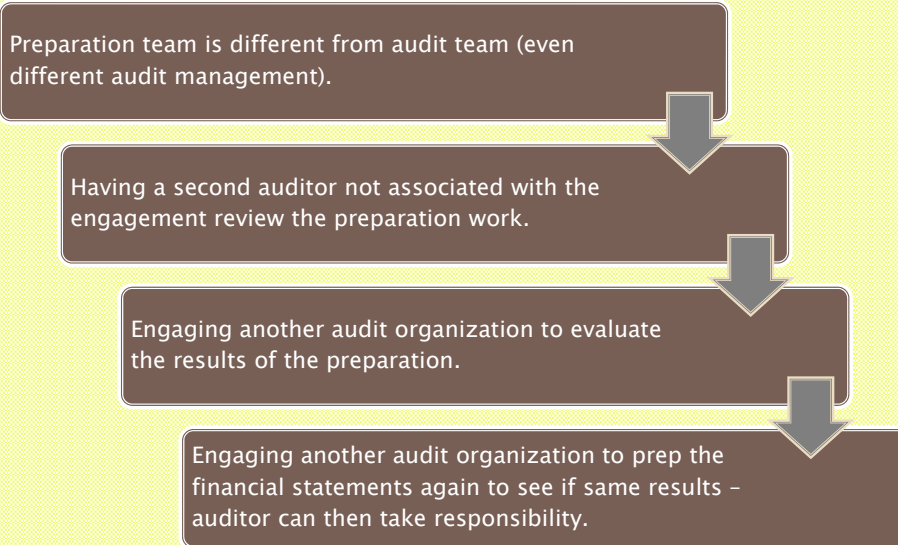
Binding, typing, formatting usually not significant to be an issue. But prepping without safeguards is.

Providing advice, responding to questions, training does not impair independence.

Preparing Audit Adjustments as part of the audit is not a nonaudit service.

Source: GAO. | GAO-18-558G

What are some of these safeguards?



What about government audit organizations?

- **Par. 3.72:** These activities **are not** going to create threats, if performed by a State audit organization providing:
 - Assistance and technical expertise to Legislative bodies
 - Assistance in reviewing budgets
 - Audit, investigative, oversight that does not involve a GAGAS engagement, including
 - **Fraud investigations**
 - Periodic follow ups to engagements and reports
- Otherwise, follow statute or constitution and then the framework

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To wrap it all up – framework for all independence issues



Includes all threats – not just financial statement preparation..

- **Self-Interest**
- **Self-Review**
- **Bias**
- **Familiarity**
- **Undue Influence**
- **Mgmt. Participation**
- **Structural Threat**

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Chapter 4 – CPE and Peer Review

- **Good news!** – 4 hour transition requirement as proposed not in final version!
- Good idea to obtain CPE specifically on GAGAS this year and next due to the revisions in the standards
 - Will assist you in maintaining competence necessary to conduct GAGAS audits (4.19)
- Audit organization still has responsibility for
 - Assigning competent auditors
 - Ensuring the collective competence of the team before beginning the engagement
 - Keeping documentation of CPE

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Chapter 4 – CPE

- Certain exceptions to CPE
 - Illness, sabbaticals, maternity / paternity and other leave, military service
 - Non-supervisory auditors (low-level roles) that charge less than 40 hours to audits, exempted from CPE
 - Specialists must be qualified and competent in their area of expertise – not required to take full GAGAS CPE
 - External specialists not subject to GAGAS CPE
 - Internal specialists who are not involved in the planning, directing, performing the audit – not required to take GAGAS CPE – but areas of specialization qualifies under 24 hour provisions
 - Documentation still required of all
- ▶ Key requirements for all others – 20 hours minimum each year

44

Chapter 4 CPE

CPE Hours	Subject Matter Categories of CPE
24 Hours	Subject matter directly related to government, government auditing, or specific, unique operating environment of entity
56 Hours	Subject matter that 'enhances professional expertise to conduct engagements'

45

CPE SUBJECTS – 24 hour requirement

GAGAS	GAAP (FASAB, GASB, FASB)	Audit standards, guides, (IT, forensics)	Statutory / regulatory	Performance auditing topics
AICPA Audit Standards	Green Book	IT auditing topics	Relevant subject matters to engagements	Ethics and independence
AICPA Attestation Standards	COSO	Fraud topics	Government operations, finance etc.	Public / private partnerships
PCAOB	Program audit requirements	Statutory requirements – specific to entity	Specialized audit techniques, statistical analysis, sampling	Legislative policies, procedures
			Compliance with laws and regulations	Fraud, waste, abuse, improper payments

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CPE SUBJECTS – 56 hour requirement

- All 24 hour subjects
- General ethics and independence
- Accounting, asset management, budgeting, cash management, data analysis, procurement and similar
- Communications – oral and written
- Managing time and resources
- Leadership
- Software applications in engagements
- Information technology
- Economics
- Human capital
- Social / political sciences

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CPE – WHAT QUALIFIES

- Internal training
- Educational and development – conferences, meetings etc.
- Training by audit organizations, foundations, associations
- Internet / e-learning
- Audio conferences
- College / university (credit and noncredit)
- Correspondence courses – self study
- Public speaking, panelists, discussion leaders
- Preparing review courses
- Publishing articles / books

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Chapter 5

- ▶ Several Changes that relate to quality control. **(Chapter 5)** that will likely require some changes to your firm's quality control polices and procedures.
 - Standard is modified to require that audit organizations at least annually obtain written affirmation of compliance with policies and procedures on independence from all audit organization personnel required to be independent. (para. 5.09)
 - The policies and procedures should require that experienced engagement team members review the work of less experienced engagement team members.

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49

Chapter 5

- ▶ Several Changes that relate to quality control. (Chapter 5) that will likely require some changes to your firm's quality control polices and procedures.
 - The audit organization should assign responsibility for each engagement to an engagement team partner or director with authority to assume that responsibility. (5.37)
 - The audit organization should establish policies and procedures requiring the audit organization to communicate the identity and role of the engagement partner or director to management and those charged with governance of the audited entity. (5.37)

50

50

Chapter 5

- ▶ Several Changes that relate to quality control. (Chapter 5) that will likely require some changes to your firm's quality control polices and procedures.
 - The audit organization should establish policies and procedures requiring the audit organization to clearly define the responsibilities of the engagement partner or director and communicate them to that individual. (5.37)

51

51

Chapter 5

- ▶ Standard is modified to require that audit organizations affiliated with a recognized organization comply with the respective organization's peer review requirements and additional GAGAS peer review requirements. **(para. 5.60–62)**
 - American Institute of Certified Public Accountants
 - Council of the Inspectors General on Integrity and Efficiency
 - Association of Local Government Auditors
 - International Organization of Supreme Audit Institutions
 - National State Auditors Association

52

Overview

- ▶ Definitions and Differences: Fraud, Waste, and Abuse
- ▶ Why Fraud, Waste, and Abuse in Government is Different than Fraud, Waste, and Abuse Elsewhere
- ▶ The Fraud, Waste, and Abuse Requirements in the New 2018 Yellow Book

53

Fraud or Was It?

An Illustrative Case Study

54

Waste, Abuse, or Fraud?

- Jeff Neely was GSA regional commissioner and oversaw a lavish \$822,751 training conference in Las Vegas in 2010 for approximately 300 GSA employees
 - \$136,504 for pre-conference travel, catering, vendors, and other hotel costs
 - \$686,247 for conference travel, catering, and vendors

Source: GSA OIG Report, 2 April 2012

55

Waste, Abuse, or Fraud?

- Expenditures included:
 - \$136,504 on 8 pre-conference scouting trips, including 6 to the Las Vegas hotel (5 to 31 GSA employees per trip)
 - \$146,000 for catered food
 - \$44 per person daily breakfasts
 - \$95 per person closing dinner including \$525 in bartender service fees
 - \$5,600 for semi-private catered in-room parties
 - \$6,325 on commemorative Recovery Act coins housed in velvet boxes
 - \$8,130 for attendee “yearbooks”
 - \$75,000 on a bicycle-building training exercise.

Source: GSA OIG Report, 2 April 2012

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Waste, Abuse, or Fraud?

CONCLUSION

The excessive pre-conference planning, catering, and other costs, as well as the luxury accommodations and overall approach, show that GSA's planning and expenditures for the 2010 WRC were incompatible with its obligation to be a responsible steward of the public's money. As the agency Congress has entrusted with developing the rules followed by other federal agencies for conferences, GSA has a special responsibility to set an example, and that did not occur here.

Source: GSA OIG Report, 2 April 2012

57

#1 The Scandal Over GSA's
Spending of Taxpayer Money
Video

[https://video.foxbusiness.com/v/
1569827371001/#sp=show-
clips](https://video.foxbusiness.com/v/1569827371001/#sp=show-clips)

#2 The Senate weighs in on
GSA's Spending of Taxpayer
Money Video

[https://www.bing.com/videos/se
arch?q=gsa+scandal+fox+busin
ess+video&view=detail&mid=F
AE8F3A207AEA478F23EFAE8
F3A207AEA478F23E&FORM=
VIRE](https://www.bing.com/videos/search?q=gsa+scandal+fox+business+video&view=detail&mid=FAE8F3A207AEA478F23E&FORM=VIRE)

58

Fraud or Was It?

59

Fraud

Involves obtaining something of value through willful misrepresentation.

Whether an act is, in fact, fraud is determined through the judicial or other adjudicative system and is beyond auditors' professional responsibility.

[2018 Yellow Book, page 214]

60

Waste

The act of using or expending resources carelessly, extravagantly, or to no purpose.

Waste can include activities that do not include abuse and does not necessarily involve a violation of law.

[2018 Yellow Book, pages 220-221]

61

Examples of Waste

- a. Making travel choices that are contrary to existing travel policies or are unnecessarily extravagant or expensive.
- b. Making procurement or vendor selections that are contrary to existing policies or are unnecessarily extravagant or expensive.

[GAGAS 6.22]

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Examples of Waste

- a. Making travel choices that are contrary to existing travel policies or are unnecessarily extravagant or expensive.
- b. Making procurement or vendor selections that are contrary to existing policies or are unnecessarily extravagant or expensive.

Interestingly, these were cited as examples of abuse in the 2011 Yellow Book.

63

Abuse

Behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances, but excludes fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements.

[2018 Yellow Book, page 211]

64

Examples of Abuse

- a. Creating unneeded overtime.
- b. Requesting staff to perform personal errands or work tasks for a supervisor or manager.
- c. Misusing the official's position for personal gain ...

These were cited as examples of abuse in the 2011 Yellow Book.

[GAGAS 6.24]

65

So was this Case about Fraud or Waste or Abuse based on the GAO definitions?

66

Waste, Abuse, or Fraud?

- Neely was indicted in September 2014 on five counts of falsely claiming reimbursement for pleasure trips or airplane tickets that he did not use
- Neely pleaded guilty to one count of fraud against the government in April 2015
- Neely was sentenced in June 2015 to 3 months in prison, 3 months under home confinement, and 3 years of probation
- Neely was ordered to pay \$8,000 in restitution, a \$2,000 fine, and a \$100 special assessment penalty

Source:  FEDERAL NEWS RADIO

67

Waste, Abuse, or Fraud?

- The \$822,000 spent on the training conference in Las Vegas was approximately ~ 0.000024% of the \$3,456,000,000,000 federal budget for 2010

68

GSA Scandal Fallout

Key Player	GSA Position	Outcome
Martha Johnson	Administrator	Resigned
Jeff Neely	Regional Commissioner	Convicted; sentenced
Robert Peck	Public Buildings Service Commissioner	Fired; working in private sector
Paul Prouty	Regional Commissioner	Fired, but reinstated by MSPB
Jim Weller	Regional Commissioner	Fired, but reinstated by MSPB
Robin Graf	Regional Commissioner	Retired
Stephen Leeds	Senior Counsel	Fired; working in private sector

69



Government made \$137 billion in improper payments in 2015, largest figure on record



By Jared Serbu | @jserbuWFED
February 26, 2016 5:36 am



Federal agencies issued an estimated \$136.7 billion in improper payments during fiscal year 2015, the largest annual tally since 2004 when agencies first began reporting data on the subject.

The figure, reported as part of the release of the government's [consolidated annual financial statements](#) Thursday afternoon, was \$12 billion higher than the Office of Management and Budget had previously projected for 2015 and raised the cumulative total of improper payments since 2004 [above \\$1 trillion for the first time](#). More precisely: \$1.137 trillion.

As in past years, the Medicare and Medicaid programs were responsible for the lion's share of the overall total. Increased error rates in Medicaid during 2015 were the main culprit in driving up the governmentwide improper payments figure.

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Improper payments are not necessarily fraudulent... but, they could be

“Improper payments” occur when:

- federal funds go to the wrong recipient,
- the recipient receives the incorrect amount of funds (either an underpayment or overpayment),
- documentation is not available to support a payment, or,
- the recipient uses federal funds in an improper manner.

Each component could include fraud, waste, or abuse

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Characteristics of Fraud in Government and Government Programs

- ✓ Blurred lines between fraud, waste, abuse, and mismanagement
- ✓ “Materiality” has a different meaning to taxpayers and taxpayers don’t really differentiate between fraud, waste, abuse, and mismanagement
- ✓ Virtually everything is in the public domain
- ✓ Governments have strong and visible audit and investigation capabilities (GAO, IGs, state auditors, etc.)
- ✓ VERY LARGE amounts of money are involved
- ✓ Program objectives are often in conflict with strong/strict accountability

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Program objectives not always consistent with strict accountability

Example

- The objective of disaster relieve programs is to alleviate the impact of disasters quickly
- Requiring checks, balances, thorough documentation (i.e., *prevention controls*) would interfere with achieving that objective
- Detective controls are more appropriate, but chasing fraudulent benefits paid is very difficult and expensive

73

Characteristics of Fraud in Government and Government Programs

- ✓ Governments do not always have the best accounting systems and capabilities
- ✓ Government accounting principles, laws, rules, and regulations create opportunities for fraud
- ✓ Power corrupts

- ✓ WHAT ELSE ???

74

The Fraud, Waste, and Abuse Requirements in the New 2018 Yellow Book

75

GAGAS Requirements Related to Fraud

Financial Audits:

- The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. [SAS 99; GAGAS 6.01]
- Auditors should include in their report on internal control or compliance the relevant information about noncompliance and fraud when auditors, based on sufficient, appropriate evidence, identify or suspect ... fraud that is material, either quantitatively or qualitatively, to the financial statements or other financial data significant to the audit objectives. [GAGAS 6.41]

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GAGAS Requirements Related to Fraud

Financial Audits:

- Auditors should communicate in writing to audited entity officials when ... the auditor has obtained evidence of identified or suspected instances of fraud that have an effect on the financial statements or other financial data significant to the audit objectives that are **less than material** but warrant the attention of those charged with governance. [GAGAS 6.44]

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GAGAS Requirements Related to Fraud

Performance Audits:

- Auditors should assess the risk of fraud occurring that is significant within the context of the **audit objectives**.
- Audit team members should discuss among the team fraud risks, including factors such as individuals' incentives or pressures to commit fraud, the opportunity for fraud to occur, and rationalizations or attitudes that could increase the risk of fraud.
- Auditors should gather and assess information to identify the risk of fraud that is significant within the scope of the audit objectives or that could affect the findings and conclusions. [GAGAS 8.71]

I.e., the "brainstorming" requirement in SAS 99

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GAGAS Requirements Related to Fraud

Performance Audits:

- Assessing the risk of fraud is an ongoing process throughout the audit. When information comes to the auditors' attention indicating that fraud, significant within the context of the audit objectives, may have occurred, auditors should extend the audit steps and procedures, as necessary, to (1) determine whether fraud has likely occurred and (2) if so, determine its effect on the audit findings. [GAGAS 8.72]

79

GAGAS Requirements Related to Fraud

Performance Audits:

- Auditors should report a matter as a finding when they conclude, based on sufficient, appropriate evidence, that fraud either has occurred or is likely to have occurred that is significant to the audit objectives. [GAGAS 9.40]
- Auditors should communicate findings in writing to audited entity officials when the auditors detect instances of fraud that are not significant within the context of the audit objectives but warrant the attention of those charged with governance. [GAGAS 9.41]

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GAGAS Requirements Related to Waste and Abuse

Financial Audits

- Because the determination of waste and abuse is subjective, auditors are **not** required to perform specific procedures to detect waste or abuse in financial audits.
- However, auditors may consider whether and how to communicate such matters if they become aware of them.
- Auditors may also discover that waste or abuse are indicative of fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements. [GAGAS 6.20]

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GAGAS Requirements Related to Waste and Abuse

Performance Audits

- Because the determination of waste and abuse is subjective, auditors are **not** required to perform specific procedures to detect waste or abuse in performance audits.
- However, auditors may consider whether and how to communicate such matters if they become aware of them.
- Auditors may also discover that waste or abuse are indicative of fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements. [GAGAS 8.119]

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2018 GAGAS Requirements Related to Fraud, Waste, and Abuse are Essentially the Same as the 2011 GAGAS Requirements

	2011 GAGAS	2018 GAGAS
The word "fraud" appears	117 times	95 times
The word "waste" appears	2 times	29 times
The word "abuse" appears	108 times	29 times
Total pages	241	232

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End Thoughts: Best Advice

- ▶ Fraud is a legal determination "beyond auditors' professional responsibility"
- ▶ The determination of waste, and abuse is subjective
- ▶ Waste and abuse are difficult to distinguish
- ▶ Auditors are better off avoiding the use of these terms
- ▶ Just stick to condition, criteria, effect

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Chapter 7

- ▶ **Standards for Attestation Engagements and Reviews of Financial Statements**
 - Chapter 7: Standards for Attestation Engagements and Reviews of Financial Statements Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification, is incorporated into this chapter by reference for auditors conducting attestation engagements in accordance with GAGAS. (para. 7.01)
 - Statement on Standards for Accounting and Review Services No. 21, section 90 (Review of Financial Statements) is incorporated into GAGAS for auditors conducting reviews of financial statements in accordance with GAGAS. (para. 7.01)

85

Chapters 8 and 9

- In many ways – fastest growing area of government engagement, even though been in practice since 1970's.
- Not meant to replace a financial audit – but:
 - May be easier to understand for Citizens and decision-makers.
- **Common performance audits:**
 - Is the government doing what it is supposed to do as effectively as possible?
 - Are our operational practices in line (or exceed) our peers?
 - Does the government's organization chart make sense?
 - Is a program staffed effectively?
 - Is the government managing its funds or investing prudently?
 - Is payroll and overtime reported transparently?
 - Is the payment cycle (procure to pay) as efficient as possible?
 - Is there a 'skills gap' at key positions?
 - And many others...
- New clarity in Yellow Book for receiving assertions, testing internal controls and reporting related to performance audits.
- Management assertions are not required for performance audits.

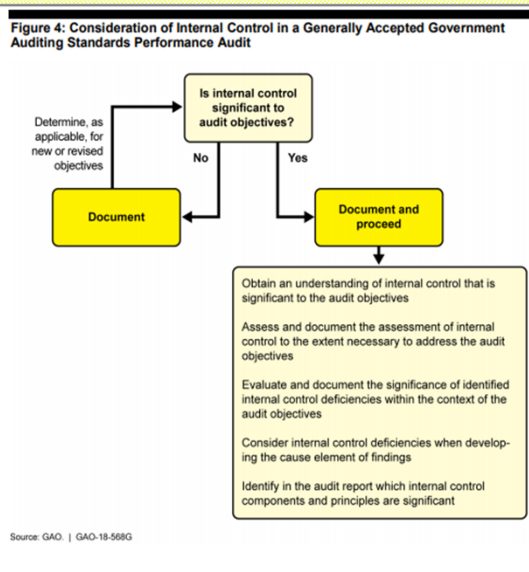
86

Chapter 8

Fieldwork Standards for Performance Audits

- Chapter 8: Fieldwork Standards for Performance Audits Guidance is revised to further explain that management assertions are not required when conducting a performance audit in accordance with GAGAS. (para. 8.14)
- Discussion of suitable criteria, including attributes and examples, is provided. (paras. 8.17 through 8.19) These criteria were in the Appendix to the 2011 Yellow Book.
- If internal control is determined to be significant to the audit objectives, auditors should assess and document their assessment of the design, implementation, and/or operating effectiveness of such internal control to the extent necessary to address the audit objectives. (8.49)
- Internal control requirements and guidance are updated to align with the revised Standards for Internal Control in the Federal Government and Internal Control – Integrated Framework. (paras. 8.38 through 8.67) (e.g. 8.130)
- Standard is expanded to require that auditors consider potential internal control deficiencies in their evaluation of identified findings when developing the cause element of the identified findings. (para. 8.38–8.67)

Chapter 8



Exposure Draft – Chapter 9

- ▶ Standard is expanded to require that auditors report findings of **waste** when they conclude based on sufficient, appropriate evidence that instances of waste have occurred that are material, either quantitatively or qualitatively, and are significant to the audit objectives. (para. 9.32)
- ▶ Standard is expanded to require that auditors communicate findings of **waste** in writing to audited entity officials when the auditors detect potential instances that are not significant within the context of the audit objectives but warrant the attention of those charged with governance. (para. 9.33)

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Chapter 9

- ▶ **Reporting Standards for Performance Audits**
 - Reporting Standards for Performance Audits Standard is revised to require that audit organizations that meet the independence requirements for internal auditors include in the GAGAS compliance statement, where applicable, **a statement that they are independent per the GAGAS requirements for internal auditors.** (para. 9.03)
 - Standard is expanded to require that when internal control is significant within the context of the audit objectives, auditors include in the audit report discussion of how the auditors considered the concept of accountability for use of public resources and government authority while assessing audit risk associated with internal control. (para. 9.29–31)
 - Standard is expanded to require that auditors **indicate in their report that the audit did not consider all internal control components** if internal control that is significant to the audit objectives does not include all internal control components and underlying principles. (para. 9.30)

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Questions?

- ▶ What, you too GAO.
- ▶ You get a penalty for piling on!!

**North Carolina
Office of the State Controller**

2019 ASB Update

June 5, 2019

Jerry E. Durham, CPA, CGFM, CFE

1

Auditing Standards

■ Standards Setters:

- **AICPA/ASB = Generally Accepted Auditing Standards = GAAS**
- **GAO = Government Auditing Standards = Yellow Book = GAGAS**
- **OMB = Single Audit Guidance = A-133/New Uniform Guidance**

2

Auditing Standards

■ Standards Setters (cont'd):

- IFAC/IAASB (International Auditing and Assurance Standards Board) = International Audit Standards = ISAs
- PCAOB/SEC = Standards for Publicly Traded Companies = AS
- States may prescribe additional standards.

3

SAS 132

The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern

4

SAS 132, *The Auditor's Consideration of the Entity's Ability to Continue as a Going Concern*

- Supersedes SAS 126 of the same title
 - **Effective for periods ending on or after December 15, 2017**
 - **Calendar Year, 2017 and Fiscal Year July 1, 2017 to June 30, 2018**
 - Revised, using IFAC ISA 570 as the base, to reflect FASB ASU 2014-15 and GASB No. 56. This impacted
 - Definition of *reasonable period of time*
 - Definition of *substantial doubt*
 - Interim financial statements
 - Disclosures & management's plan
- **Now codified at AU-C 570**

5

Going Concern – Differences between GAAP and GAAS

- **Period of time related to the going concern assessment**
 - **GAAS** – “reasonable period of time”: not to exceed one year from date of financial statements.
 - **FASB GAAP** – one year from date of issuance of financial statements
 - **GASB GAAP** – one year from date of financial statements (plus additional three months)

2009 January						
M	T	W	T	F	S	S
			3	4	5	6
4	5	6	7	10	11	12
11	12	13	14	17	18	19
18	19	20	21	24	25	26
25	26	27	28	31		

6

SAS 132, *Going Concern* - Changes

- FASB- Accounting Standards Codification (ASC) requires management to evaluate whether there are conditions and events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a **going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable)**
- GASB - Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards, **requires financial statement preparers to evaluate whether there is substantial doubt about a governmental entity's ability to continue as a going concern for 12 months beyond the date of the financial statements. GASB Statement No. 56 further requires that, if information is currently known to the governmental entity that may raise substantial doubt shortly thereafter (for example, within an additional three months), such information should also be considered.**

7

SAS 132, *Going Concern* - Changes

■ GAAS Reasonable Amount of Time:

- The period of time required by the applicable financial reporting framework **or**, if no such requirement exists, within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). (Ref: par. .A6)

8

SAS 132, *Going Concern* - Changes

■ Auditor's objectives and related conclusions:

- To obtain sufficient appropriate audit evidence regarding, and to conclude on, the appropriateness of management's use of the going concern basis of accounting, when relevant, in the preparation of the financial statements
- To conclude, based on the audit evidence obtained, whether substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time exists
- To evaluate the possible financial statement effects, including the adequacy of disclosure regarding the entity's ability to continue as a going concern for a reasonable period of time
- To report in accordance with this section

9

SAS 132, *Going Concern* - Changes

■ Evaluation:

- Consider the results of risk assessment procedures (Understanding the Entity, its Environment and the Risk of Material Misstatements).
- Consider management's assessment of conditions that would raise substantial doubt and management's plans to address conditions that raise substantial doubt.
- If management has not made an assessment, inquire as to management's basis for using a "going concern basis of accounting." Inquire of management about the existence of conditions or events that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time.

10

SAS 132, *Going Concern* - Changes

■ Evaluation (cont'd):

- The auditor should remain alert throughout the audit for audit evidence of conditions or events that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time. (Ref: par. .A17)
- The auditor should inquire of management regarding its knowledge of conditions or events beyond the period of management's evaluation that may have an effect on the entity's ability to continue as a going concern. (Ref: par. .A23, .A25–.A27)

11

SAS 132, *Going Concern* - Changes

■ Evaluation when Events or Conditions are Identified:

- Request management to make an evaluation if management has not
- Evaluate whether management's plans can be effectively implemented and whether those plans will mitigate the substantial doubt
- If management has prepared a cash forecast that is a significant factor in its plan, determine whether the underlying assumptions and data support the analysis
- Consider any additional available evidence subsequent to the date management prepared its plan

12

SAS 132, *Going Concern* - Changes

■ Evaluation when Events or Conditions are Identified (cont'd):

- If a third party is willing to provide necessary financial support as part of the plan:
 - Determine in writing the intent of the third party. Failure to do so constitutes a lack of sufficient appropriate audit evidence.
 - Determine the ability of the third party to provide the necessary financial support.

13

SAS 132, *Going Concern* - Changes

■ Evaluation when Events or Conditions are Identified (cont'd):

- Obtain Representations:
 - A description of management's plans that are intended to mitigate the adverse effects of conditions or events that indicate there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time and the probability that those plans can be effectively implemented
 - That the financial statements disclose all the matters of which management is aware that are relevant to the entity's ability to continue as a going concern for a reasonable period of time, including principal conditions or events and management's plans

14

SAS 132, *Going Concern* - Changes

■ **Auditor Conclusions:**

- Use of going concern basis of accounting is appropriate
- Based on audit evidence obtained, conclude whether there are conditions or events that create substantial doubt
- Evaluate management's disclosures

15

SAS 132, *Going Concern* - Changes

■ **Auditor Conclusions about the Adequacy of Disclosures:**

- The auditor should evaluate the adequacy of the financial statement disclosures as required by the applicable financial reporting framework. (Ref: par. .A41–.A44)
 - Adequacy of Disclosure When Conditions or Events Have Been Identified and Substantial Doubt Has Not Been Alleviated
 - Adequacy of Disclosures When Conditions or Events Have Been Identified But Substantial Doubt Has Been Alleviated by Management's Plans

16

SAS 132, *Going Concern* - Changes

■ Implications for the Auditor's Report :

- Use of Going Concern Basis of Accounting Is Inappropriate = **Adverse Opinion**
- Use of the Going Concern Basis of Accounting Is Appropriate But Conditions and Events Have Been Identified = **Emphasis of a Matter Paragraph**
- Adequate Disclosure About an Entity's Ability to Continue as a Going Concern Is Not Made in the Financial Statements = **Qualified Opinion**
- Management Unwilling to Perform or Extend Its Evaluation = **Consider the Implications**
- Eliminating a Going Concern Emphasis-of-Matter Paragraph From a Previously Issued Report = **Additional Audit Evidence Necessary, perform additional evaluations**
- Significant Delay in the Issuance of Financial Statements = **Perform additional evaluation**

17

SAS 132, *Going Concern* - Changes

■ Communications with Those Charged with Governance should include the following:

- Whether the conditions or events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time constitute substantial doubt
- The auditor's consideration of management's plans
- Whether management's use of the going concern basis of accounting, when relevant, is appropriate in the preparation of the financial statements
- The adequacy of related disclosures in the financial statements
- The implications for the auditor's report

18

SAS 132, *Going Concern* - Changes

■ Auditor's Documentation if Substantial Doubt Exists :

- The conditions or events that led the auditor to believe there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.
- The elements of management's plans that the auditor considered to be particularly significant to overcoming the conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern, if applicable.
- The audit procedures performed to evaluate the significant elements of management's plans and evidence obtained, if applicable.

19

SAS 132, *Going Concern* - Changes

■ Auditor's Documentation if Substantial Doubt Exists (cont'd) :

- The auditor's conclusion regarding whether substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time remains or is alleviated.
 - If substantial doubt remains, the auditor should also document the possible effects of the conditions or events on the financial statements and the adequacy of the related disclosures.
 - If substantial doubt is alleviated, the auditor should also document the auditor's conclusion regarding the need for, and, if applicable, the adequacy of, disclosure of the principal conditions or events that initially caused the auditor to believe there was substantial doubt and management's plans that alleviated the substantial doubt.
- The auditor's conclusion with respect to the effects on the auditor's report.

20

SAS 132, *Going Concern* - Changes

- The auditor cannot predict the future. Accordingly, the absence of any reference to substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in an auditor's report cannot be viewed as a guarantee of the entity's ability to continue as a going concern for a reasonable period of time.

21

SAS 132, *Going Concern* - Changes

- **AU-C 800, Financial statements prepared in accordance with a special-purpose framework**
 - Going concern basis may not be relevant to the applicable reporting framework, but
 - Need to consider if substantial doubt exists

22

SAS 132, *Going Concern* - Changes

■ **AU-C 930, *Interim Financial Information*, amended**

- Required procedures for when the applicable financial reporting framework does, or does not, require management to evaluate going concern for interim periods
- Emphasis-of-matter paragraphs required under specified circumstances

23

SAS 133

■ **AUDITOR INVOLVEMENT WITH EXEMPT OFFERING DOCUMENTS**

24

SAS 133, Auditor Involvement with Exempt Offering Documents

- Issued July 2017, effective for exempt offering documents that are initially distributed, circulated, or submitted **on or after June 15, 2018**
- **Calendar Year 2018 and Fiscal Year July 1, 2018 to June 30, 2019**
- Requirements when auditor is involved with exempt offering document
 - Subsequent events
 - Other information
- Involvement determined by two benchmarks
 - Inclusion of auditor report in exempt offering document
 - Auditor meets one or more "trigger" activities

25

Auditor Involvement – Exempt Offerings

■ Triggers for Involvement - Current:

- Assisting the entity in preparing information included in the offering document
- Reading a draft of the offering document at the entity's request
- Issuing a comfort or similar letter in accordance with AU-C section 920, *Letters for Underwriters and Certain Other Requesting Parties*, or an attestation engagement report in lieu of a comfort or similar letter on information included in the offering document
- Participating in due diligence discussions with underwriters, placement agents, broker-dealers, or other financial intermediaries in connection with an offering document
- Issuing an attestation report on information relating to the offering
- Providing written agreement (for example, an inclusion letter) for the use of the auditor's report in the offering document
- Updating, Signing a copy of the auditor's report for inclusion in the offering document

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Auditor Involvement – Exempt Offerings

■ Exempt Offerings:

- Securities exempt from registration under the Securities Act of 1933, as amended or
- Franchise offerings regulated by the Federal Trade Commission.

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Our Engagement Letter/Representation Letter

- Management is responsible for exempt debt offering documents. The provision of audit services under this Engagement Letter of Understanding does not constitute involvement with any exempt debt offering. The inclusion of our audit report in any exempt offering document does not constitute auditor involvement with the exempt offering. The Division of Local Government Audit will not provide services in conjunction with our audit that constitute involvement with any exempt offering as defined by auditing standards generally accepted in the United States of America.

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SAS 134

- Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements

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SAS 134, Auditor Reporting and Amendments

- SAS No. 134 significantly changes the form and content of the auditor's report issued after auditing a set of financial statements. The SAS also addresses the auditor's responsibility to form an opinion on the financial statements. The auditor reporting suite of standards will benefit users of audited financial statements throughout the U.S. by placing the auditor's opinion at the front of the report for added visibility and providing necessary transparency into the basis for the auditor's opinion and the responsibilities of both entity management and auditors.

30

SAS 134, Auditor Reporting and Amendments

- SAS No. 134 is a suite of auditor reporting standards that includes a new AU-C section 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, and replaces the following AU-C sections in AICPA Professional Standards:
- Section 700, *Forming an Opinion and Reporting on Financial Statements*
- Section 705, *Modifications to the Opinion in the Independent Auditor's Report*
- Section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*

31

SAS 134, Auditor Reporting and Amendments

- **Effective date:**
- Effective for audits of financial statements for periods ending on or after December 15, 2020.
- Early implementation is not permitted.
- **Calendar Year, 2021 or Fiscal Year July 1, 2021 to June 30, 2022.**

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SAS 134, Auditor Reporting and Amendments

- “The auditor reporting suite of standards will benefit users of audited financial statements throughout the U.S. by placing the auditor’s opinion at the front of the report for added visibility and providing necessary transparency into the basis for the auditor’s opinion and the responsibilities of both entity management and auditors,” Bob Dohrer, CPA, CGMA, the AICPA’s chief auditor, said in a news release.
- In the past five years, the PCAOB and the IAASB have issued auditor reporting standards that are designed to assist practitioners in satisfying users’ needs for more information. The PCAOB standard requires reporting of “critical audit matters” that are discovered during the audit, while the IAASB standard instructs practitioners on the reporting of “key audit matters.”

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SAS 134, Auditor Reporting and Amendments

- SAS No. 134 does not require reporting of key audit matters in an engagement but provides reporting requirements for communication of key audit matters in the auditor’s report when the auditor is engaged to do so.
- SAS No. 134 addresses the auditor’s responsibility to form an opinion on the financial statements and provides new guidance for the form and content of the auditor’s report. The standard also contains requirements for when the auditor concludes that a modification to the auditor’s opinion on the financial statements is necessary, and when additional communications are necessary in the auditor’s report.

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SAS 134, Auditor Reporting and Amendments

- This suite of auditor reporting standards includes a new AU-C Section 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, and replaces the following AU-C sections in AICPA Professional Standards:
- Section 700, *Forming an Opinion and Reporting on Financial Statements*.
- Section 705, *Modifications to the Opinion in the Independent Auditor's Report*.
- Section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*

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SAS 134, Auditor Reporting and Amendments

- **Establishing 'Basis for Opinion'**
- SAS No. 134 requires that the "Opinion" section precede the "Basis for Opinion" section in the auditor's report. SAS No. 134 also describes the contents of the "Basis for Opinion" section, which is now required for all reports, not just those with modified opinions. The "Basis for Opinion" section will set users' expectations for the auditor's report and will:
- State that the audit was conducted in accordance with GAAS and identify the United States as the country of origin of those standards.
- Refer to the section of the auditor's report that describes the auditor's responsibilities under GAAS.
- Include a statement that the auditor is required to be independent of the entity and to meet other ethical responsibility requirements.
- State whether the auditor believes the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

36

SAS 134, Auditor Reporting and Amendments

- New requirements for going concern also are included in the new standard. If the financial statements do not include adequate disclosure about an entity's ability to continue as a going concern for a reasonable period, new requirements for the auditor include stating in the "Basis for Qualified (Adverse) Opinion" section that:
 - Substantial doubt exists about the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter; or
 - Substantial doubt exists about the entity's ability to continue as a going concern has been alleviated by management's plans but the financial statements do not adequately disclose this matter.

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Auditor Reporting

- **GOAL:**
 - Enhancing the communicative value and relevance of the auditor's report
- **IAASB Auditor Reporting Project**
 - **New section:**
 - *ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report*
 - **Amendments to other auditor reporting sections:**
 - ISA 700
 - ISA 705
 - ISA 706
 - ISA 260
 - ISA 570

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IAASB Auditor Reporting Standards

- **Opinion section mandated first**
- **New sections:**
 - **Key Audit Matters**
 - **Applicable to audits of listed entities**
 - **“What keeps the auditor up at night”**
 - **Going Concern**
 - **Other Information**
 - **When presented with the audited financial statements**
 - **Separate project to revise ISA 720**
- **Other proposed improvements to enhance transparency and clarify responsibilities**

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Illustration 3: An Auditor’s Report on Financial Statements for a Single Year Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

■ **Circumstances include the following:**

- Audit of a complete set of general purpose financial statements (single year).
- The audit is not a group audit.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in AU-C section 210, Terms of Engagement.
- The auditor has concluded that an unmodified (that is, “clean”) opinion is appropriate based on the audit evidence obtained.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570, The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern.
- The auditor has not been engaged to communicate key audit matters.

40

Opinion Paragraph Presented First

Independent Auditor's Report

- [Appropriate Addressee]
- Report on the Audit of the Financial Statements¹
- **Opinion**
- We have audited the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20X1, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.
- In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Followed by the Basis for Opinion

- **Basis for Opinion**
- We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. **We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.** We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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New Responsibilities for Management

- **Responsibilities of Management for the Financial Statements**
- Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for [insert the time period set by the applicable financial reporting framework].

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New Auditor's Responsibilities

- **Auditor's Responsibilities for the Audit of the Financial Statements**
- Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

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New Auditor Responsibilities (cont'd)

- **In performing an audit in accordance with GAAS, we:**
 - **Exercise professional judgment and maintain professional skepticism throughout the audit.**
 - **Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.**
 - **Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed.**
 - **Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.**
 - **Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.**

45

New Auditor Responsibilities (cont'd)

- **We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.**

46

Modified Opinions are based on Pervasiveness

<i>Nature of Matter Giving Rise to the Modification</i>	<i>Auditor's Professional Judgment About the Pervasiveness of the Effects or Possible Effects on the Financial Statements</i>	
	<i>Material but Not Pervasive</i>	<i>Material and Pervasive</i>
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

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Definitions – Emphasis of a Matter and Other Matter

■ Emphasis of a Matter:

- Draws users' attention to a matter or matters **presented or disclosed in the financial statements** that are of such importance that they are fundamental to users' understanding of the financial statements (emphasis-of-matter paragraph)

■ Other Matter:

- Draws users' attention to **any matters other than those presented or disclosed in the financial statements** that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report (other-matter paragraph).

48

Communication with Those Charged with Governance

- If the auditor expects to include an emphasis-of-matter or other-matter paragraph in the auditor's report, the auditor should communicate with those charged with governance regarding this expectation and the wording of the paragraph. (Ref: par. .A16)

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Definitions – Key Audit Matter

■ Key Audit Matter:

- Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.
- Auditors are not required to include Key Audit Matters in the Independent Auditor's Report.

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AU-C Section 706

- **Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report**
- **Illustration 2: An Auditor's Report That Includes a Key Audit Matters Section, an Emphasis-of-Matter Paragraph, and an Other-Matter Paragraph**

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Emphasis of a Matter - Illustration

- **Emphasis of Matter**
 - As discussed in Note X to the financial statements, subsequent to the date of the financial statements, there was a fire in ABC Company's production facilities. Our opinion is not modified with respect to this matter.
- As noted in paragraph .A14, an emphasis-of-matter paragraph may be presented either directly **before or after** the "Key Audit Matters" section, based on the auditor's judgment about the relative significance of the information included in the emphasis-of-matter paragraph.

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Key Audit Matters - Illustration

■ Key Audit Matters

- Key audit matters are those matters that were communicated with those charged with governance and, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. [Description of each key audit matter in accordance with section 701, Communicating Key Audit Matters in the Independent Auditor's Report, of this SAS.]

53

Other Matters - Illustration

■ Other Matter

- The financial statements of ABC Company for the year ended December 31, 20X0, were audited by another auditor, who expressed an unmodified opinion on those statements on March 31, 20X1.

54

Emphasis of a Matter Issues

- An uncertainty relating to the future outcome of unusually important litigation or regulatory action
- A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report
- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position or results of operations
- Significant transactions with related parties
- Would not be disclosed as a "Key Audit Matter"
- Should indicate that the auditor's opinion is not modified with respect to the matter emphasized.

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Emphasis of a Matter Requirements:

- Paragraph .16c of section 560, Subsequent Events and Subsequently Discovered Facts
- Paragraphs .08–.09 and .11–.13 of section 708, Consistency of Financial Statements
- Paragraphs .19 and .21 of section 800, Special Considerations — Audits of Financial
- Statements Prepared in Accordance With Special Purpose Frameworks

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Other Matter Requirements

- Paragraph .16c of section 560, Subsequent Events and Subsequently Discovered Facts
- Paragraphs .55–.56 and .58–.59 of section 700, Forming an Opinion and Reporting on Financial Statements, of this SAS
- Paragraphs 53, 92–93, 95–96, 121, and 133 of SAS Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*
- Paragraph .09 of section 725, Supplementary Information in Relation to the Financial Statements as a Whole
- Paragraph .07 of section 730, Required Supplementary Information

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Other Matter Requirements (cont'd)

- Paragraph .20 of section 800, Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks
- Paragraph .13 of section 806, Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements
- Paragraph .07 of section 905, Alert That Restricts the Use of the Auditor's Written Communication

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SAS 135

- Omnibus Statement on Auditing Standards—2019

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SAS 135, Omnibus Statement

- Increased communication with those charged with governance.
- More audit inquiries and audit evidence concerning related party transactions.
- Communications with the predecessor auditor about related party transactions.
- “Significant unusual transactions” replaces “transactions that are outside the normal course of transactions for the entity or that otherwise appear to be unusual.”
- The relationship between significant unusual transactions and fraud.
- Additional subsequent event inquiries about related parties and unusual transactions.
- Increased representations concerning related parties.

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Professional Ethics Executive Committee (PEEC)

Proposed Interpretation ED, *State and Local Government
Client Affiliates* (formerly *Entities Included in State and
Local Government Financial Statements*)

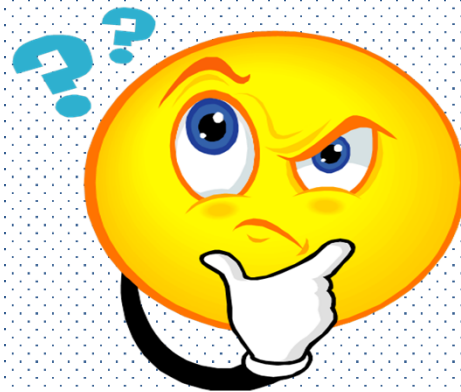
Issued January 2019

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Questions

Jerry E. Durham, CPA, CGFM, CFE



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**2019 Governmental
Accounting/Auditing Update
June 5, 2019**

Attendees by Last Name (338)

Alisha Adams-DHHS
Jennifer Addison-UNC Pembroke
Daisy Allen-UNC-Chapel Hill
Sheila Allen-DPS
Carolyn Alley-Blue Ridge CC
Shelly Alman-Gaston College
Nirav Amin-NC Education Lottery
Lewis Andrews-State Treasurer
Lamees Asad-UNC-Chapel Hill
Cynthia Autenrieth-UNC Charlotte
Kristina Autio-Retired
Tyler Badgett-OSA
Debra D Bailey-ECU
Jarrett Bailey-UNC School of the Arts
John Baird-OSA
Jesse Baker-UNC-Chapel Hill
Matthew Banko-Alamance CC
Latrice Barner-DEQ
Alicia Bartosch-UNC Charlotte
Kim Battle-OSC
DeAhn Baucom-UNC-Chapel Hill
Anthony Bechtel-ECU
Jeannie Betts-DHHS
Jeff Birdsong-UNC-Chapel Hill
Justin Bishop-UNC Greensboro
Michelle Blackwelder-DHHS
Jennifer Blair-UNC-Chapel Hill
Leslie Blankenship-Isothermal CC
Judy Blount-DPI
Sandra Boozer-Agriculture
Floyd Bowen Jr-DHHS
Desiree Bowling-ECU
Jessica Boyce-Central Piedmont CC

Kevin Brackett-DHHS
Jennifer Brady-NCSU
Bryan Brannon-DOA
Gil Brazel-DOT
Kevin Brodie-NC Housing and Finance
Sharon Brooks-NCSU
Barry Brown-OSC
Carol Brown-DHHS
Joshua Brown-Randolph CC
Tonia Brown-Commerce
Leon Browning-UNC System Office
Ryan Brummeyer-DHHS
Helen Buck-Agriculture
Heath Bullock-DHHS
Anita Bunch-DOR
Mike Bundy-DOI
Katherine Burckley-Agriculture
Heather Burgos-DHHS
James Burke-State Treasurer
George Burnette-UNC School of the Arts
Dottie Burns-DHHS
Mary Ellen Burns-Commerce
Joannie Burtoft-OSC
Carolyn Butler-UNC-Chapel Hill
Timothy Byrd-UNC Hospitals
Edith Cannady-OSC
Clay Carroll-OSA
Wynona Cash-OSC
Mark Causey-UNC Hospitals
Angelika Chafalovitch-DOA
Susan Charlton-DPS
Dan Chen-UNC-Chapel Hill
Jesse Chroman-OSA
Jeff Clark-ASU
Elizabeth Colcord-OSC
Lorie Coley-DOT
Cindy Collie-Alamance CC

Jennifer Coltrane-NCSU
Adrienne Covington-Nash CC
Margaret Craig-NC State Ports Authority
Sharon Cullipher-ECU
Terry Dail-NC State Ports Authority
Joy Darden-OSC
Ross Davidson-NC Education Lottery
Angela Davis-UNC-Chapel Hill
Cheryl Davis-Commerce
Diane Davis-Agriculture
Robin Davis-OSA
Steven Davis-DPS
Jason Dearman-DOI
Robin Deaver-Fayetteville Technical CC
Deborah DeBourg-Brown-DHHS
Joseph DeBragga-DNCR
John Del Greco-DPS
Irene Deng-UNC-Chapel Hill
Garrett Dimond-General Assembly
Michelle Donegain-UNC Pembroke
Gandy Dorsainvil-EDP of NC
Debbie Dryer-UNC System Office
Bessie DSouza-OSBM
Dana Dupree-UNC School of the Arts
Arielle Edgerton-DPI
Felicia Edwards-DEQ
Gay Edwards-Beaufort County CC
Bivian Ejimakor-Agriculture
Leah Englebright-NC SSM
Michael Euliss-OSC
Laresia Everett-DOI
Bonaventure Ezewuzie-DPI
Vincent Falvo-ECU
Lynn Feasel-Commerce
Joanne Ferguson-UNC Wilmington
Elisa Fernbach-Forsyth Technical CC
Cliff Flood-UNC System Office

Joyce Flowers-OSA
Susan Flowers-DNCR
AJ Fluker-DHHS
Anthony Fogleman-OSA
Craig Forsythe-DIT
Tammy Forsythe-DPS
Rebecca Fouts-EDP of NC
Carrie Freeman-NC Housing and Finance
Tyler Fry-OSA
Samiel Fuller-DPI
Victor Gardner-OSA
Linda Garr-UNC Hospitals
Ryan Garrison-McDowell Technical CC
Derek Gee-DNCR
Tami George-Robeson CC
Bonnie Godwin-Agriculture
Jacob Green-UNC-Chapel Hill
Christina Greene-Cape Fear CC
Laura Greenwood-DOI
Larna Griffin-State Education AA
Paul Grosswald-UNC-Chapel Hill
Sean Gutowski-OSC
Michelle Hall-Fayetteville Technical CC
Jennifer Hamm-Catawba Valley CC
Keith Hammonds-State Treasurer
Jennifer Harkness-EDP of NC
Dana Harris-UNC Wilmington
Elizabeth Haynes-USS NC Battleship Commission
Joy Height-DHHS
Jeff Henderson-FSU
Freda Hilburn-Commerce
Shannon Hobby-Commerce
Simuel Hodges-NC Housing and Finance
Milburn Holbrook-NCSU
David Holman-Caldwell CC & Tech Inst
Daniel Honeycutt-NC Education Lottery
Tereasa Hopkins-ECU

Jim Horne-General Assembly	Laura Lee-OSC	Pattie Moore-Boyette-UNC Hospitals	Monica Reid-State Treasurer
Heather Horton-Commerce	Susan Lee-OSA	Chris Morea-OSA	Joanne Rich-UNC Hospitals
William Hosterman-UNC Hospitals	Linda Lejnar-Wake Technical CC	April Morris-State Treasurer	Kathi Riffe-Guilford Technical CC
John House-Centennial Authority	Tracey Lemming-UNC-Chapel Hill	Tim Morris-ECU	Ellen Rockefeller-OSC
Gloria Howell-DHHS	John Lengyel-OSA	Barbara Moses-NCSU	Wayne Rogers-DOT
Tammy Hubbell-DOR	Cathy Lively-DIT	Dannie Moss-ECU	Timothy Romocki-State Treasurer
Scott Hummel-Agriculture	Quita Loflin-UNC Greensboro	Clayton Murphy-NCSU	Barbara Roper-DPI
Frances Hunt-UNC Pembroke	Christopher Long-DOR	Stephanie Musco-ECU	Wilbourne Rusere-WSSU
Chrissy Hurst-Craven CC	Frank Lord-WSSU	Lettie Navarrete-Robeson CC	Camilla Sandlin-NC Education Lottery
Jessica Hwang-Strickland-UNC-Chapel Hill	Becky Luce-Clark-DHHS	Debra Neal-DHHS	Joanie Saucier-OSC
Heather Iannucci-UNC Wilmington	Harriet Lunsfrod-OSA	Lisa Neal-Bladen CC	Susan Schena-UNC Hospitals
Sani Ibrahim-DHHS	Rory Mackin-DHHS	Tiffiney Newton-DHHS	Troy Scoggins-OSC
Ibreta Jackson-Robeson CC	Arun Malik-UNC-Chapel Hill	Hans Norland-DPS	Kimberly Seamans-UNC Charlotte
Lacie Jacobs-Bladen CC	Mary Massey-DPS	Gwen Norwood-UNC-Chapel Hill	Kathryn Shadron-Fayetteville Technical CC
Shivani Jani-OSC	John Mathewson-DHHS	Amechi Nwosu-NC Central University	Dilip Shah-NC Housing and Finance
Bud Jennings-AOC	Mark Mazzone-OSA	Todd Oldenburg-OSA	Peta-Gaye Shaw-Commerce
Brad Johnson-OSC	Tabitha Mbaka-DHHS	Michelle Overby-DOT	Teresa Shingleton-OSC
Corby Johnson-UNC Wilmington	Beth McAndrew-UNC-Chapel Hill	Jennifer Pacheco-OSC	Rashmi Shivaraj-UNC Hospitals
Mary Johnson-DHHS	Susan McCullen-State Treasurer	Kim Padfield-DOT	Britt Sholar-ECU
Wayne Jones-UNC Greensboro	Antonio McDaniel-NC Central University	Paul Palermo-State Treasurer	Brock Simonds-UNC Hospitals
Tamara Joyner-Central Carolina CC	Johnathan McEachin-DHHS	Supriya Parpard-Guilford Technical CC	Jaya Singh-North Carolina State Bar
Christine Jumalon-Cumberland County PS	Biff McGilvray-Surry CC	Bridget Paschal-Commerce	DP Singla-UNC System Office
Jean Kaseke-UNC Hospitals	Kimberly McGlamery-OSA	Tracy Patty-NCSU	Vanessa Singletary-Robeson CC
Sue Kearney-Agriculture	Ben McLawhorn-OSC	Amy Penson-Isothermal CC	Virginia Sisson-OSC
Phacharawalai Kidking-OSC	Jessica McMahan-Lenoir CC	Carolyn Perkins-UNC Hospitals	Betty Smith-Fayetteville Technical CC
Rob Kindsvatter-DHHS	David McNally-OSA	Malinda Peters-State Treasurer	Charles Smith-Fayetteville Technical CC
David King-DHHS	John Meese-UNC System Office	Stephanie Pflum-UNC Greensboro	Jonathan Smith-WSSU
Bliss Kite-Commerce	Joel Mercer-DHHS	Tina Pickett-DHHS	Laurie Smith-DOT
Andrew Kleitsch-Durham Technical CC	Erwin Mialkowski-NC Education Lottery	Greg Plemmons-WCU	Randy Smith-OSC
Laura Klem-OSC	Courtney Michelle-OSC	Orace Pollard-DHHS	Shawn Smith-NCSU
Jim Knight-Wildlife	Laketha Miller-DHHS	Lynn Powell-DOT	Kenny Spayd-FSU
Ariana Kudlats-NC Housing and Finance	Mark Miller-UNC Hospitals	Lisa Pratt-DHHS	Carlton Spellman-FSU
Karin Langbehn-Pecaut-UNC-Chapel Hill	Marvin Miller-Piedmont CC	Jan Prevo-OSC	Tabatha Springer-WCU
Darlene Langston-DPS	Matt Miller-NCSU	David Price-NCSU	Jay Stanley-Bladen CC
Kevin Lanzikos-OSA	Claire Mills-North Carolina State Bar	Phillip Price-Central Carolina CC	Faye Steele-ECU
Rachel Leaptrout-DHHS	Firoza Mistry-UNC Hospitals	Brady Proffitt-WCU	Jeffrey Stevens-UNC Hospitals
Judy LeDoux-UNC-Chapel Hill	LaTasha Moore-James Sprunt CC	Chandrika Rao-UNC-Chapel Hill	Justin Stiles-UNC-Chapel Hill

Mark Stohlman-State Treasurer	Joe Wilson-DOT
John Storment-UNC Hospitals	Richard Wilson-UNC Hospitals
Amy Strange-State Board of Elections	Rita Wortham-OSA
Mike Suggs-NC Education Lottery	Michelle Yeager-ECU
Hannah Sullivan-DHHS	David Yokley-DOR
Shirley Swanson-Catawba Valley CC	Michael Zanchelli-DHHS
Jacob Taitague-OSA	Fenge Zhang-Commerce
Dawei Tang-UNC-Chapel Hill	Ling Zhu-DOA
Marla Tart-Wake Technical CC	Fang Zuo-UNC Charlotte
Wesley Taylor-General Assembly	
Elizabeth Thomas-Sandhills CC	
Kim Thomas-NC Education Lottery	
William Thomas-UNC Pembroke	
Roy Thompson-Bladen CC	
Stephanie Throneburg-McDowell Technical CC	
Kathleen Tolbert-OSC	
Christopher Trevathan-NCSU	
Shirley Trollinger-DEQ	
Craig Umstead-DHHS	
Roshmi Valiyapurayil-UNC Hospitals	
Kim Van Metre-DEQ	
Prabhavathi Vijayaraghavan-OAH	
Karen Visnosky-NCSU	
Helen Vozzo-NCSU	
Pamela Wade-OSA	
Hunter Wagstaff-UNC Hospitals	
Candace Walker-NCSU	
Rebecca Wall-Davidson County CC	
Megan Wallace-UNC System Office	
Yiwen Wang-UNC-Chapel Hill	
Gary Ward-NC Central University	
Brett Warner-NC Housing and Finance	
Krissie Warren-DHHS	
Adam Watts-OSA	
Keith Westcott-UNC Wilmington	
Rex Whaley-DEQ	
Nias White-NC Biotech Center	

**2019 Governmental
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Attendees by Agency (338)

Sandra Boozer-Agriculture	Bliss Kite-Commerce	Laketha Miller-DHHS	Samiel Fuller-DPI
Helen Buck-Agriculture	Bridget Paschal-Commerce	Debra Neal-DHHS	Barbara Roper-DPI
Katherine Burckley-Agriculture	Peta-Gaye Shaw-Commerce	Tiffiney Newton-DHHS	Sheila Allen-DPS
Diane Davis-Agriculture	Fenge Zhang-Commerce	Tina Pickett-DHHS	Susan Charlton-DPS
Bivian Ejimakor-Agriculture	Chrissy Hurst-Craven CC	Orace Pollard-DHHS	Steven Davis-DPS
Bonnie Godwin-Agriculture	Christine Jumalon-Cumberland County PSS	Lisa Pratt-DHHS	John Del Greco-DPS
Scott Hummel-Agriculture	Rebecca Wall-Davidson County CC	Hannah Sullivan-DHHS	Tammy Forsythe-DPS
Sue Kearney-Agriculture	Latrice Barner-DEQ	Craig Umstead-DHHS	Darlene Langston-DPS
Matthew Banko-Alamance CC	Felicia Edwards-DEQ	Krissie Warren-DHHS	Mary Massey-DPS
Cindy Collie-Alamance CC	Shirley Trollinger-DEQ	Michael Zanchelli-DHHS	Hans Norland-DPS
Bud Jennings-AOC	Kim Van Metre-DEQ	Craig Forsythe-DIT	Andrew Kleitsch-Durham Technical CC
Jeff Clark-ASU	Rex Whaley-DEQ	Cathy Lively-DIT	Debra D Bailey-ECU
Gay Edwards-Beaufort County CC	Alisha Adams-DHHS	Joseph DeBragga-DNCR	Anthony Bechtel-ECU
Lacie Jacobs-Bladen CC	Jeannie Betts-DHHS	Susan Flowers-DNCR	Desiree Bowling-ECU
Lisa Neal-Bladen CC	Michelle Blackwelder-DHHS	Derek Gee-DNCR	Sharon Cullipher-ECU
Jay Stanley-Bladen CC	Floyd Bowen Jr-DHHS	Bryan Brannon-DOA	Vincent Falvo-ECU
Roy Thompson-Bladen CC	Kevin Brackett-DHHS	Angelika Chafalovitch-DOA	Tereasa Hopkins-ECU
Carolyn Alley-Blue Ridge CC	Carol Brown-DHHS	Ling Zhu-DOA	Tim Morris-ECU
David Holman-Caldwell CC & Tech Inst	Ryan Brummeyer-DHHS	Mike Bundy-DOI	Dannie Moss-ECU
Christina Greene-Cape Fear CC	Heath Bullock-DHHS	Jason Dearman-DOI	Stephanie Musco-ECU
Jennifer Hamm-Catawba Valley CC	Heather Burgos-DHHS	Laresia Everett-DOI	Britt Sholar-ECU
Shirley Swanson-Catawba Valley CC	Dottie Burns-DHHS	Laura Greenwood-DOI	Faye Steele-ECU
John House-Centennial Authority	Deborah DeBourg-Brown-DHHS	Anita Bunch-DOR	Michelle Yeager-ECU
Tamara Joyner-Central Carolina CC	AJ Fluker-DHHS	Tammy Hubbell-DOR	Gandy Dorsainvil-EDP of NC
Phillip Price-Central Carolina CC	Joy Height-DHHS	Christopher Long-DOR	Rebecca Fouts-EDP of NC
Jessica Boyce-Central Piedmont CC	Gloria Howell-DHHS	David Yokley-DOR	Jennifer Harkness-EDP of NC
Tonia Brown-Commerce	Sani Ibrahim-DHHS	Gil Brazel-DOT	Robin Deaver-Fayetteville Technical CC
Mary Ellen Burns-Commerce	Mary Johnson-DHHS	Lorie Coley-DOT	Michelle Hall-Fayetteville Technical CC
Cheryl Davis-Commerce	Rob Kindsvatter-DHHS	Michelle Overby-DOT	Kathryn Shadron-Fayetteville Technical CC
Lynn Feasel-Commerce	David King-DHHS	Kim Padfield-DOT	Betty Smith-Fayetteville Technical CC
Freda Hilburn-Commerce	Rachel Leaptrot-DHHS	Lynn Powell-DOT	Charles Smith-Fayetteville Technical CC
Shannon Hobby-Commerce	Becky Luce-Clark-DHHS	Wayne Rogers-DOT	Elisa Fernbach-Forsyth Technical CC
Heather Horton-Commerce	Rory Mackin-DHHS	Laurie Smith-DOT	Jeff Henderson-FSU
	John Mathewson-DHHS	Joe Wilson-DOT	Kenny Spayd-FSU
	Tabitha Mbaka-DHHS	Judy Blount-DPI	Carlton Spellman-FSU
	Johnathan McEachin-DHHS	Arielle Edgerton-DPI	Shelly Alman-Gaston College
	Joel Mercer-DHHS	Bonaventure Ezewuzie-DPI	Garrett Dimond-General Assembly

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Camilla Sandlin-NC Education Lottery	Victor Gardner-OSA	Virginia Sisson-OSC	Mark Miller-UNC Hospitals
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Margaret Craig-NC State Ports Authority	Jacob Taitague-OSA	Elizabeth Thomas-Sandhills CC	Roshmi Valiyapurayil-UNC Hospitals
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Chandrika Rao-UNC-Chapel Hill	
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