

Disclaimer

The opinions and views expressed in this presentation are our own and do not necessarily represent the opinions or views of the TN Comptroller of the Treasury, his representatives, or the TN Department of Audit. Official positions are determined only after due process and deliberation.





2

CMFO and CCFO Comptroller's Training Conference Local Government Update A moment about your presenter... "I understand." John M. Troyer, CPA Administrator of Standards Research and Compliance Division of Local Government Audit John.Troyer@cot.tn.gov









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8



Management Rep. Letter

- "What are WE signing?"
- What are YOU signing?



10

Management Rep. Letter

"... should be signed by current management, normally including the chief executive and chief financial officers;





11

Management Rep. Letter

- The "Rep Letter" is audit evidence that management understands their responsibilities and has performed their responsibilities.
 - understands



has performed





Management Rep. Letter

 "We confirm, to the best of our knowledge and belief, as of [Date of Auditor's Report], the following representations made to you during your audit."



13

Management Rep. Letter

 "... Our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP...."



14

Management Rep. Letter

 "We acknowledge our responsibility for the design, implementation, and maintenance of the internal control to prevent and detect fraud."



Management Rep. Letter

 "Adjustments or disclosures have been made for <u>all events</u>, including instances of noncompliance . . . "



16

Management Rep. Letter

Auditor's responsibilities include, "We will:

- · conduct our audit in accordance GAAS
- · exercise professional skepticism
- · obtain an understanding of the government
- inform mgmt. of material errors that came to our attention
- conclude based on the audit evidence



17

Management Rep. Letter

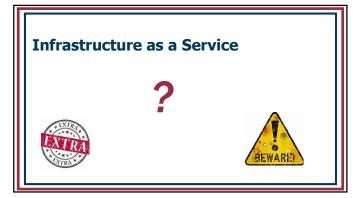
Our audit will be conducted on the basis that

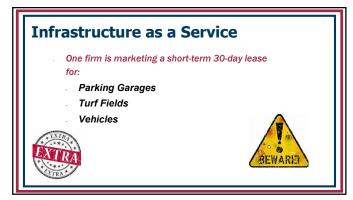
you acknowledge . . . your responsibility for . . .

• design, implement and *maintain internal controls*









Infrastructure as a Service

- Does anyone remember the phrase:
- "Substance over form?"





22

Infrastructure as a Service

"Financial Statement preparers should exercise caution when assessing the lease term as it is possible for a lease that does not qualify as a short-term lease to nonetheless have a lease term of twelve months or less."

Governmental Accounting, Auditing, and Financial Reporting (GAAFR) 26-4





23

Infrastructure as a Service

Lease term is:

- 1. Non-cancelable period; +
- 2. Period Either party or both have option

(if it is expected the option will be exercised);

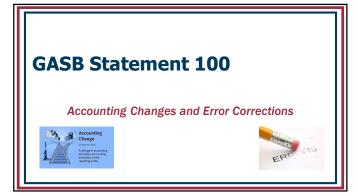
3. Any period either party can terminate if reasonably certain it will not be exercised.



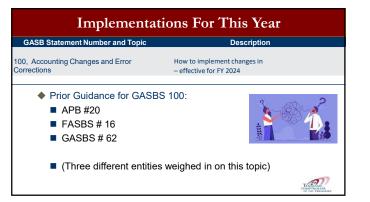
Session Objectives Discuss GASB Statement issues: GASBS 100 (Accounting Changes) GASBS 101 (Compensated Absences) GASBS 102 (Risk Disclosures) GASBS 103 (Financial Reporting) GASBS 104 (Intangible Asset Classifications)

25

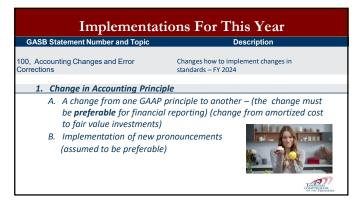
G/SB



26

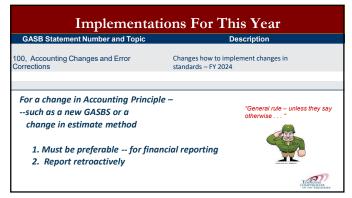




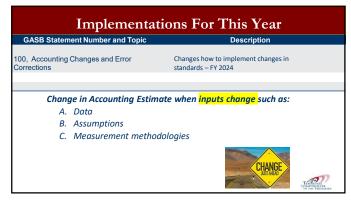


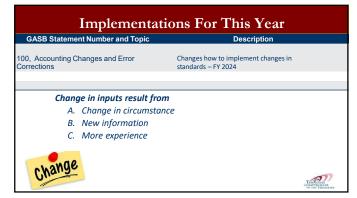




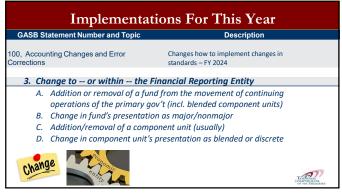


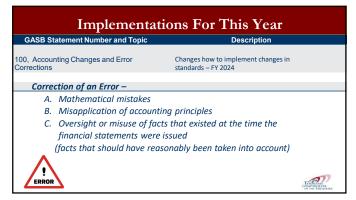




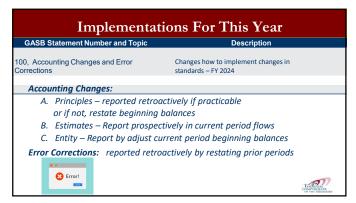


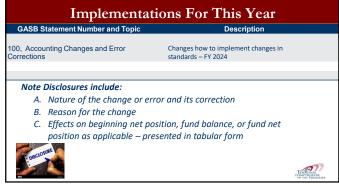






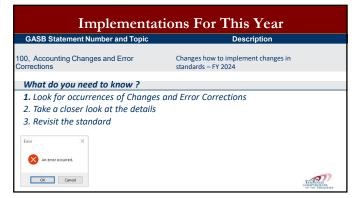
GASB Statement Number and Topic	Description
100, Accounting Changes and Error Corrections	Changes how to implement changes in standards – FY 2024
2. Correction of an Error – A. Report retroactively (rest B. Inconvenient does NOT m C. For RSI (including MD&A)	







	Implementations For This Year		
GASB S	Statement Number and Topic	Descriptio	n
100, Accor	unting Changes and Error	Changes how to implement charstandards – FY 2024	anges in
RSI ai	nd SI:		
Α.	Changes Periods earlier	than presented should NOT	be restated
В.	Error Corrections – Period financials should be restat	s earlier than those presente red, if practicable	ed in basic
	uired Supplementary Information - plementary Information – includes		THE PROJECT OF THE PR



vent	Description Implementing a new GASB or preferable one.	Accounting	Disclosure	RSI & SI
Change in Accounting Principle	implementing a new GASB or preferable one.	cumulative effect for all period covered.	reconcile previously reported	Make the same restatements for the years included in the financial statements. Do not restate earlier years.
Change in Accounting Estimate	A change in inputs or methodology to ar estimate.	Report prospectively in the period the change occurs.	Nature of the change, affected line items and the reason for the change.	
hange to or within Reporting Entity	 Add or remove a component unit or func- from continuing operations 2. Change between blended and discrete presentation 3. Change between major and nonmajor fund. 	beginning balances as if the chang occurred at the start of the period.		
Error Correction	Resolving math errors, oversight or misuse of facts, mistakes in application of accounting principles.		Affected line items and periods, the effects on beginning balances	













Details?

GASB 101

What about Governmental Fund Statements?

GASB Interpretation 6 still applies – recognize liabilities and expenditures as they mature each period.



52

Details?

GASB 101

Critical tests:

- 1. Does the leave accumulate?
- 2. Does the leave arise from services already rendered?
- 3. Is it more likely than not to be paid or settled?

General Rule: Accrue on Government-wide statements



53

Details?

GASB 101

How should you measure the liabilities?

Salary – measured at pay rates as of the date of the financial statements – unless paid out at a different rate (i.e. sick pay paid at 30%)



JT0 John Troyer, 2024-07-18T18:09:22.219

Details?

GASB 101

How should you measure the liabilities?

Salary – measured at pay rates as of the date of the financial statements – unless paid out at a different rate (i.e. sick pay paid at 30%)

This keep it simple:

- > No projections are needed for future pay increases.
- > No projections are needed for when leave is taken.
- > No present value calculations are needed.



55

Details?

GASB 101

Should we include benefits?

Yes. The statement calls for "salary related payments" that are directly related to salary – like FICA and payments which are based on pay.



56

Details?

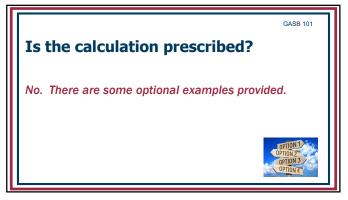
GASB 101

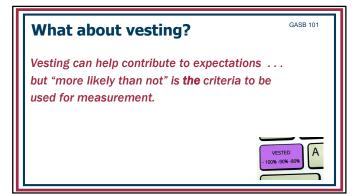
Liability = Salary + Salary Related Payments

Based on policies, experience, historical information -

"more likely than not" ... (> 50% likelihood)







What about sick leave pools?

If leave is "more likely than not" expected to be used . . .

Yes, accrue.

What about converting or crediting to defined benefit postemployment benefits (pensions or OPEB)?

If leave is "more likely than not," expected to be converted to defined postemployment benefits, (either pension or OPEB) . . .

Don't double count.

61

How about a sample calculation?

Sure. GAAFR (the Blue Book) presents two optional methods in Chapter 28. (Days paid or Dollars paid approaches)

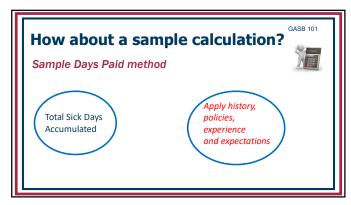
You are NOT required to use either method.

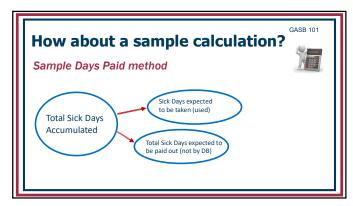
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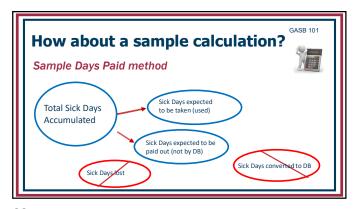
How about a sample calculation?

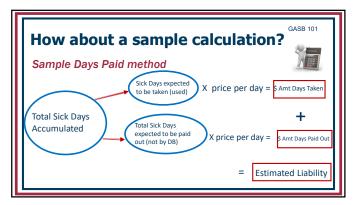
Sample Days Paid method



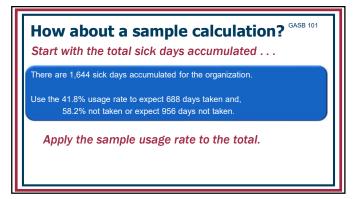












How about a sample calculation? GASB 101	
Average pay at year end is \$37.36/hr or \$298.88/ day	
Use the sample average pay at year end.	

How about a sample calculation? GASB 101

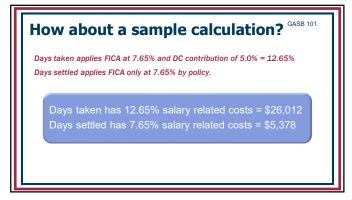
For days expected to be taken (used)

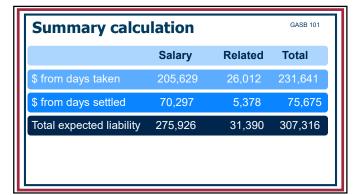
688 days x \$298.88/day = \$205,629

Apply average pay rate per day times expected days paid.

71

How about a sample calculation? A sample of former employees gave us an 82% expected settlement rate. Settlements are limited to 30% by policy (18% forfeited or not eligible for settlement). 82% of the 956 days expected to be settled = 784 days. 784 days x 298.88 per day x 30% limit = \$70,297

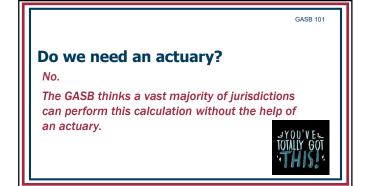




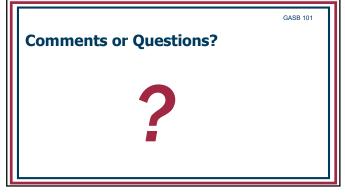




If a raise is granted after year-end, should we update the calculation? No, the standard says to use the pay rate at year-end. The Board - opted to keep it simple.



	GASB 101
Now what?	
The Accounting Department, Payroll and HR probably have components of this calculation	
Determine who will provide what – in order to perform this calculation. Follow GASBS #101 for disclosures	



80

GASB Statement 102

Certain Risk Disclosures

Future State	Future Statement Implementations	
GASB Statement Number and Topic	Description	
102, Certain Risk Disclosures	Tell us more! FY 2025	
Governments should report	some concentrations and constraints.	

Certain Risk Disclosures GASBS 102

- 1. Concentration or constraint is known prior to financial statements.
- 2. The concentration or constraint makes the government vulnerable to the risk of substantial impact.
 - 3. An ${\it event}$ that ${\it could}$ ${\it cause}$ a substantial impact:
 - a. has occurred
 - b. has begun to occur
 - c. is more likely than not to occur within 12 months of the date of the financial statements.



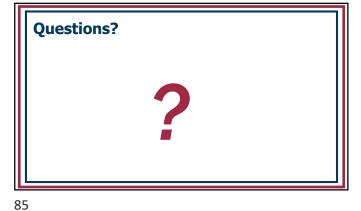
83

Certain Risk Disclosures GASBS 102

Disclosures should include:

- 1. The concentration or constraint
- 2. Each event that could cause a substantial impact
- 3. Actions taken by the government to mitigate risk (prior to the issuance of the financial statements)





GASB 103

GASB Statement 103

Financial Reporting Model Improvements

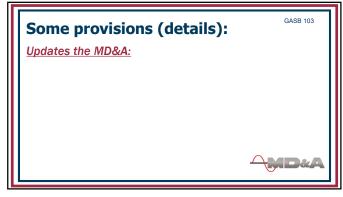


86

What?

GASB 103

- Updates the MD&A
- > Defines Unusual OR Infrequent items
- Standardizes Proprietary Fund Statements
- Provides Major Component Unit Information
- Presents Comparable Budgetary Information
- > Standardizes Financial Trends in the Statistical Section



Some provisions (details): Limits the MD&A to five sections: 1. Overview of the Financial Statements 2. Financial Summary 3. Detailed Analysis 4. Significant Capital Asset and LT Financing 5. Currently known facts, decisions or conditions

89

Some provisions (details): MD&A should be: Description Based on currently known facts, decisions, or conditions.

Some provisions (details): Financial Managers should be Knowledgeable about: > Transactions and Events in the report > Fiscal Policies to govern operations and decision-making > Conditions that may affect financial position or operations

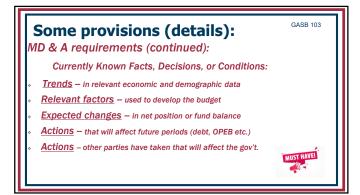
91

Some provisions (details): MD & A provides opportunities to present: Short and long-term analysis Offer explanations and to aid understanding Written in a manner for users who may not have detailed knowledge of governmental accounting & financial reporting

92

Some provisions (details): MD & A should be fact-based and discuss: Significant positive Or negative impact activities Explanations and interpretations Charts and graphs Assist users understanding Why there were changes rather presenting what changed



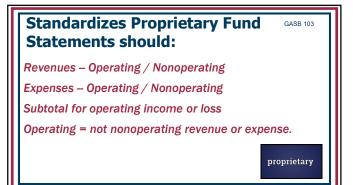












Standardizes Proprietary Fund Statements should distinguish:

GASB 103

Nonoperating revenue or expense includes:

- 1) Subsidies received or provided
- 2) Contributions to endowments
- 3) Financing transactions
- 4) Disposals of inventory or capital assets
- 5) Investment income and expenses

proprietary

101

Standardizes	Bangle City Combining Statement Ofliveruses, Expenses, and Changes in Fund Net Position Internal Provice Funds for the Year Ended June 30,2005 (amounts expressed in thousands)			
Proprietary		Employee Insurance	Facilities and Equipment Management	Total (See Exhibit 8)
1000	OPERATING REVENUES			
	Charges for services	\$ 26,174	\$ 16,349	\$ 42,523
Fund	Mscellaneous	12	66	78_
i unu	Total operating revenues	26,186	16,415	42,601
_	OPERATING EXPENSES			
Statements	Personnel services	146	5.640	5,786
Statements	Contractual services	394	3,723	4,117
	Insurance claims and expenses	26,368		26,388
	Depreciation	25	390	415
	Other		7,834	7,834
	Total operating expenses	26,953	17,587	44,540
	Operating (loss)	(767)	(1,172)	(1,939)
	NONCAPITAL SUBSIDIES			
	Intergovernmental revenue	881	(4)	881
	Transfers in	-	300	300
	Total noncapital subsidies	881	300	1,181
	Operating income (loss) and			
	noncapital subsidies	114	(872)	(758)
	OTHER NONOPERATING REVENUES			
	Interest earnings	443	3	446
	Gain from sale of capital assets		3	3
	Transfers in-restricted for capital assets	-	1,215	1,215
	Total other nonoperating revenues increase in fund net opation	443	1,221	1,664
	increase in fund net position	557	349	906
	Fund net position—beginning of period	5,846	6,541	12,387
	Fund net position-end of period	\$ 6,403	\$ 6,890	\$ 13,293



Some provisions (details):

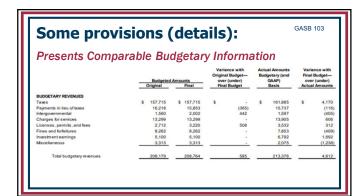
GASB 103

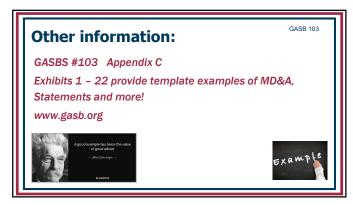
Presents Comparable Budgetary Information

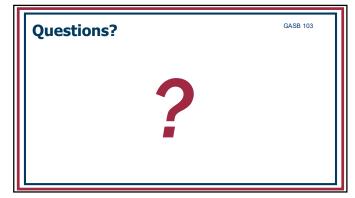


- 1. Original Budget, Final Budget and variances
- 2. Final budget, Actual and variances
- 3. Explanation of significant variations in the notes to the RSI emphasis on "why" instead of "what"

104









Future GASB projects

Going Concern Uncertainties

What do we think of when we hear "Going Concern?"

Going? ... Concerned?"

109

Future GASB projects

Going Concern Uncertainties

Going Concern: the entity has the *ability and willingness to continue* to operate for the foreseeable future and provides an accounting basis as opposed to liquidation basis

110

Severe Financial Stress

What do you think of when you think of severe financial stress for a government?

Annual budget battles?; Political brinksmanship?

Some well-known jurisdictions in trouble?









Recent activities? Tentative decisions made: Going Concern Uncertainty – defined as "substantial doubt about whether a governmental entity will continue to exist as the same legally separate entity, regardless of financial condition"

113

Recent activities? Tentative decisions made GASB should develop a two-step process – Guidance for Going Concern Uncertainties, then Guidance for Severe Financial Stress

Possible Outcomes:

Future GASB projects

- > Government closes down
- > Government merges with another government
- > Curtailing of services provided
- > Dissolution without replacement
- > Services are absorbed into another government



115

Recent activities?

GASB should include:

Scenarios of Severe Financial Stress:

- Not to the point of Going Concern Uncertainties
- To the point of Going Concern Uncertainties



116

Recent activities?

Governments should be <u>required</u> to assess whether they meet the Severe Financial Stress condition as of the statement date.

For Tennessee governments this is June 30th.



Recent activities?

Some examples of "Indicators"

- Need to restructure debt
- Need to dispose of assets
- Recurring periods of spending exceeding revenues
- · Defaults on bonds or obligations
- Need to reduce services
- · Adverse legal proceedings or legislation
- · Increased short-term borrowings for operations
- Consistent working capital deficiencies
- · Recurring structural budgetary imbalances

I am sure you can add to the list . . .

118

Recent activities?

Guidance should be issued when considering the examples of indicators related to the

Timing



Relationship



Severity



For the Board to consider . .

Key Financial Indicators

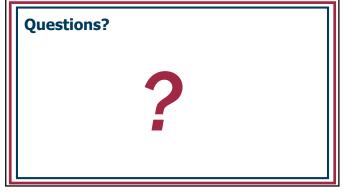
119

Recent activities?

The concepts of insolvency should NOT apply to reporting units less than a legally separate entity such as a fund.



Recent Severe Stress / Going Concern: The assessment should be for the primary government AND each blended component unit separately. GASB will NOT explicitly require or prohibit discretely presented component units.





Subsequent Events:

Recognized event – suppose a major customer declares bankruptcy after June 30th – the allowance for uncollectible may need an adjustment – or a lawsuit was settled for an amount different than what was accrued – may also require an adjustment.



124

Subsequent Events:

<u>Nonrecognized event</u> – suppose a fire or flood happens after the financial statement date. It does not change June 30th amounts; however, the event may need to be disclosed in the notes.



125

Recent activities?

Nonrecognized events (continued)

- 1. One of the following:
 - a) Debt-related transaction
 - b) Government combination or disposal
 - c) Change to entities w/i the reporting entity
 - d) New tax rate in a subsequent period OR;
- 2. Event or transaction essential to making decisions or assessing accountability





GAAP Structure

Hierarchy of GAAP for state and local governments.



128

Quick review:

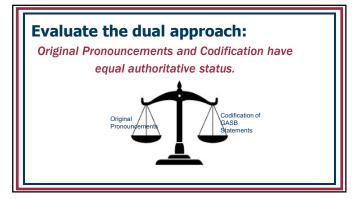
GASBS #76

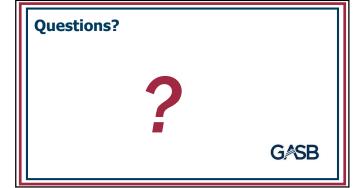
Category A – GASB Statements & Codification
Category B

GASB Technical Bulletins
GASB Implementation Guides



Literature of the AICPA cleared by GASB





131

Classification of Nonfinancial Assets

Board has just voted in a Final Statement GASBS # 104

Capital assets Intangible assets – leases, SBITAs & more Assets Held for Sale

Infrastructure Assets

Board Developing a Preliminary Views (PV) Document
To update GASBS #34

133



134

Revenue and Expense Recognition Redeliberating Feedback on PV Document Objective: Develop a principles-based model for categorizing, recognizing, and measuring revenue and expense transactions.



