

Governmental Accounting and Audit Update

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Financial Pressures on Government

- Employees\Unions
- Revenue declines
- Legislation
- Media
- Mandates (Pension, Healthcare Act, Tax regulation, SEC)
- Accounting Standards
- Voids in Leadership

Voids in Leadership



Contents

- GASB's 60-70
- New Audit Standards
 - AICPA
 - Government Audit Standards
 - Grants Management and Single Audits

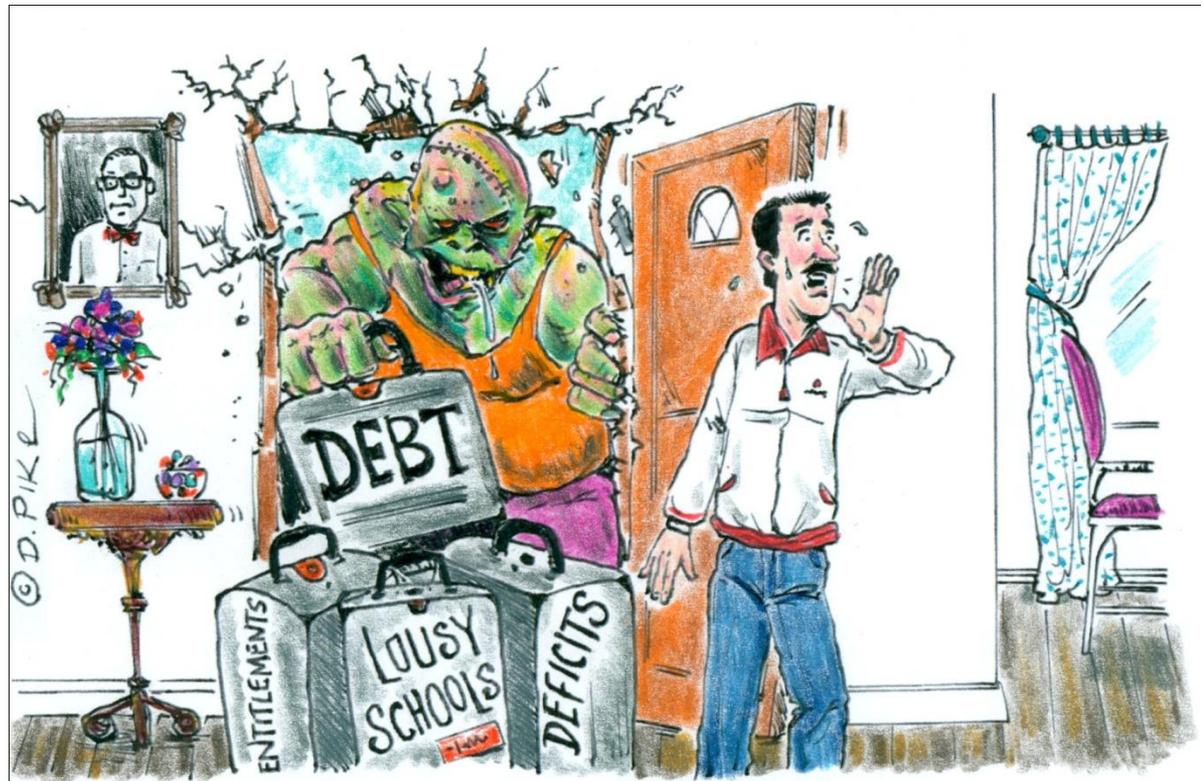
Standards

○ Accounting

- Governmental Accounting Standards Board (GASB)
- AICPA SOP's and practice bulletins if cleared by GASB

○ Auditing

- AICPA's Generally Accepted Auditing Standards (GAAS)
- Government Auditing Standards (GAO)
- Office of Management and Budget (OMB)



Honey, the long-run is here!

GASB 60

Accounting and Financial Reporting for Service Concession Arrangements

Periods beginning after December 15, 2011

GASB Statement 60

- Government (transferor) transfers right to use in exchange for up-front payment
- Transferee receives right to collect fees from third party
- Transferor is entitled to the capital asset at the end of the agreement
- Transferor determines or can modify or approve:
 - Services to be provided
 - Rates to be charged



Common Applications

- Student Housing
- Toll Roads and Bridges
- Municipal Golf Courses

Transferor

- Existing facility
 - Dr - cash
 - Cr - deferred inflow
- Facility constructed or purchased by operator –
 - Dr – Capital asset at fair value
 - Cr – deferred inflow
- Depreciate over life
- Amortize deferred inflow over term
- **No applicability to Governmental Funds!!!!**

Transferee (Gov't)

- Dr - Right to use (intangible asset)
- Cr – Cash

Amortize over life of agreement

GASB 61

*The Financial Reporting Entity: Omnibus –
an amendment of GASB Statements No. 14
and No. 34*

*Periods beginning after June 15, 2012
(Early permitted)*

GASB Statement 14

- Statement 14 required inclusion if:
 - Financially accountable (appoint board and financial benefit or burden)
 - Fiscally dependent (approve budget, set tax, approve debt)

GASB 61

- Adds to fiscal dependency criterion:
 - Financial benefit
 - Financial burden
- Other significant changes:
 - Condensed FS of Blended Component Units of an Enterprise Fund must be disclosed in footnotes
 - Heightens standards for blending CU's

GASB 62

Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

Periods beginning after December 15, 2011

GASB 62

- Capitalization of Interest Cost
- Accounting changes
- Related Parties
- Accounting changes and error corrections
- Contingencies
- Leases
- Inventory

GASB 63

*Financial Reporting of Deferred Outflow
of Resources, Deferred Inflows of
Resources, and Net Position*

Effective for periods beginning after December 15, 2011

GASB 63

Statement of Net Position will include:

- Assets
- Deferred Outflows
- Liabilities
- Deferred inflows
- Net Position

GASB 63

- **Deferred outflows of resources** – A consumption of net assets by the government that is applicable to a future reporting period
- **Deferred inflow of resources** – An acquisition of net assets that is applicable to future reporting periods
- **Net Position** – The residual of all elements presented in the statement of financial position

GASB 63

- **Concepts statement 4 says to let GASB determine deferred outflow and inflow**

GASB 65

*Items Previously Reported as
Assets and Liabilities*

Periods beginning after December 15, 2012

GASB 65

○ Deferred Outflows

- Losses on fair value of derivatives
- Losses on debt refundings

○ Deferred Inflows

- Unavailable revenue – modified accrual
- Gains on fair value of derivatives
- Payments received under SCA's

GASB 65

- Expenses (previously assets)
 - Bond issuance costs
- Revenues (previously liabilities)
 - Loan origination fees

GASB 65

- Deferred outflows and inflows are **not**:
 - Prepaid expenses
 - Unearned revenue
 - Grants received prior to meeting eligibility requirements, other than time requirements
 - Other items in Appendix B
- **Use of the term deferred limited to deferred outflows and inflows**

GASB 68

Accounting and Financial Reporting for Pensions

(an amendment of GASB 27)

Periods beginning after June 15, 2014

Types of Pension Plans

- Single Employer
- Cost Sharing Multi- Employer
- GASB 25 applied to pension plans;
GASB 27 applied to participating
employers

GASB 27

Single Employer Plans

- Focus was on budgeting, the ARC was a funding benchmark
- Net pension obligation =
 - + Beginning NPO
 - + Interest
 - + Annual Required Contribution (ARC) with adjustments
 - Contributions made

AAL, Assets and UAAL reported as RSI and in footnotes notes

GASB 27

○ Cost Sharing Plans

- No liability recorded or disclosed in either notes or RSI
- Disclosure of contributions for three years and contact information for plan

GASB 68

- Net Pension Liability
 - AAL – Net position of Plan Assets
 - Different than UAAL; no smoothing
- Single employer plans – 100%
- Cost Sharing plans – proportionate share

GASB 68

- Actuarial methods and assumptions
 - One method
 - Lesser latitude on assumptions
- Discount rate
 - Takes into account ability to achieve the long term strategy for all payments – **lower rate**
- **Higher AAL!!!!**

What's your net position?

○ Large School District

• TRSL UAAL =	\$10,955,671,000
• % employees	<u>4%</u>
• Share of UAAL	438,226,840
• 2012 Net Position	<u>29,000,000</u>
• 2012 Net POS.(pro-forma)	(409,190,105)

What's your net position?

○ Large City

• System UAAL =	\$ 395,000,000
• % employees	<u>63%</u>
• Share of UAAL	249,000,000
• 2012 Net Position	<u>637,585,000</u>
• 2012 Net POS.(pro-forma)	388,585,000

Example Pension Disclosures

- Summary of Significant Accounting Policies
- General Information about the Plan
- Net Pension Liability
- Long-term Expected Rate of Return
 - Discount Rate
 - Sensitivity to Changes in Discount Rate
- Deferred Outflows and Inflows
- Payable
- Statistical Tables

GASB 69

*Government Combinations and
Disposal of Government
Operations,*

years beginning after December 15, 2013

GASB 69

○ Three types of combinations

- Merger – no consideration
- Acquisition – significant consideration
- Transfer of Operations – Less than full entity

GASB 70

*Accounting and Financial
Reporting for Non-exchange
Financial Guarantees,*

years beginning after June 15, 2013



AICPA Audit Standards

○ Clarity

- **Changes to audit reports**
- Clearer description of purpose and objectives
- Purpose alert vs. restriction for GAGAS and Single Audit
- Reference to management letter not required
- Group Audit Standards



Government Audit Standards

- 2011 Yellow Book
- Independence – Non Audit Services
- Principals vs rules based

Non-Audit Services

- Services that are considered nonaudit services include:
 - Financial Statement Preparation
 - Bookkeeping services
 - Cash to accrual conversions (a form of bookkeeping)
 - Other services not directly related to audit

Conceptual Framework

1. Identify nonaudit services
2. Determine if a prohibited service
3. Management responsibilities (preconditions)
4. Evaluate and document SKE
5. Assess whether threats are significant
6. Identify and apply safeguards

SKE!!!!



Grants Management

- Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards
 - Consolidates OMB Circulars
 - Changes audit requirements

Single Audit Changes

- Threshold - \$750,000 in federal assistance
- Minimum Type A\B - \$500,000
- Findings – questioned costs >\$25,000

Single Audit Changes

- Compliance areas for testing (6):
 - Allowable costs\activities
 - Cash management
 - Eligibility
 - Reporting
 - Subrecipient monitoring
 - Special test and provisions

Hot Topics

- Municipal Securities
 - Investigations
 - Auditor involvement
 - Continuing disclosures
- Pensions

Questions?

