



# Hotter Topics: GASB Updates and More

*Presented By:*



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# Hotter Topics

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GASB Update

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Common GFOA Findings

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Common Audit Findings and  
Adjustments

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Update to Auditing Standards  
SAS 134



# Upcoming GASB Statements

Overview of upcoming GASBs

Statement #	Title	Fiscal Year Effective (9/30 YE)
GASB 87	Leases	* 9/30/2022
GASB 96	Subscription-Based Information Technology Arrangements	9/30/2023
GASB 89	Construction Interest	* 9/30/2022
GASB 93	LIBOR	*9/30/2021/2022
GASB 91	Conduit Debt Obligations	*9/30/2023
GASB 94	Public-Private & Public-Public Partnerships and Availability Arrangements	9/30/2023
GASB 97	Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans	9/30/2022
GASB 98	The Annual Comprehensive Financial Report	9/30/2022
GASB 99	Omnibus 2022	various
GASB 100	Accounting Changes and Error Corrections	9/30/2024
GASB 101	Compensated Absences	9/30/2025

\*Original Effective Dates Postponed by GASB 95



# GASB 87

- **Overview of GASB 87, Leases**
  - Short Term
  - Lessee and Lessor Example
  - Popular Questions and Answers from Implementation Guides

# GASB 87, Leases



# Short-Term Leases

## Definition-

A short-term lease is a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised.

# Short-Term Leases

## Lessees

- A lessee should recognize short-term lease payments as outflows of resources (for example, expense) based on the payment provisions of the lease contract. The lessee should recognize an asset if payments are made in advance or a liability for rent due if payments are to be made subsequent to the reporting period. The lessee should not recognize an outflow of resources during any rent holiday period (for example, one or more months free).

## Lessors

- A lessor should recognize short-term lease payments as inflows of resources (for example, revenue) based on the payment provisions of the lease contract. The lessor should recognize a liability if payments are received in advance or an asset for rent due if payments are to be received subsequent to the reporting period. The lessor should not recognize an inflow of resources during any rent holiday period (for example, one or more months free).



# Sample #2 Gov Lessee (Equipment)

Fiscal Year – 9/30-10/1/20XX

- Lease Inception: 10/1/2021
- Up-Front Payment: \$1,000
- Lease Term: 5 years\*
- Payments: \$2,400 annually in arrears beginning 9/30/2022
- Annual Escalation: 2.5%
- Discount Rate: 5% annually

\*Right of lessor to cancel after 3 years, but costs of cancellation are prohibitive and no history of early termination of leases.

\*PV function in Excel: =PV(5%,PER,0,-CASH,0)

Step 1: Calculate PV\*\*

<u>Period</u>	<u>Cash</u>	<u>Present Value</u>
0	1,000.00	\$1,000.00
1	2,400.00	\$2,285.71
2	2,460.00	\$2,231.29
3	2,521.50	\$2,178.17
4	2,584.54	\$2,126.31
5	2,649.15	\$2,075.68
	TOTAL	\$11,897.16

# Sample - Gov Lessee (Equipment)

## Journal Entries – Initial Recognition

### Fund-Level

Capital Outlay	\$11,897.16	
Cash		\$1,000.00
Other Financing Source: Lease Financing		10,897.16

### Entity-Wide

Lease Right-of-Use Asset	\$11,897.16	
Other Financing Source: Lease Financing	10,897.16	
Capital Outlay		\$11,897.16
Lease Liability		10,897.16



# Sample- Gov Lessee (Equipment)

## Journal Entries – Payment 1

### Fund-Level

Interest Expense	\$544.86	
Lease Principal Expense	1,855.14	
Cash		\$2,400.00

### Entity-Wide

Lease Liability (Principal Amt)	\$1,855.14	
Amortization Expense (SL – Lease Term)	2,379.43	
Lease Principal Expense		\$1,855.14
Accumulated Amortization: Right-to-Use-Asset		2,379.43



# Sample- Gov Lessee (Equipment)

## Disclosures

- General Description of Leases:
  - Basis, terms, and variable payment considerations, if applicable
  - Residual value guarantees by lessee (existence, terms, and conditions)

Illustrative County is leasing a commercial mower for 5 years, starting October 1, 2021. Payments of \$2,400 are due annually in arrears beginning September 30, 2022. The interest rate of the lease is stated as 5% annually, and annual payments due are subject to a 2.5% escalation annually applied on October 1<sup>st</sup> of each year. This lease contains no guarantee of residual value on the part of the lessee.

# Sample - Gov Lessee (Equipment)

## Disclosures (Con't)

- Amount (\$) of Assets Recorded Under Leases:
  - Disclose separately from other capital assets; include accumulated amortization
- Lease Assets by Major Underlying Asset Class:
  - Disclose separately from other capital assets

<b>Capital Assets</b>	<b><u>Beginning</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>Ending</u></b>
<b>FYE 9/30/2022</b>				
Non-Depreciable				
Land	100,000	15,000	-	115,000
Total Non-Depreciable Capital Assets	100,000	15,000	-	115,000
Depreciable/Amortizable				
Building	50,000	15,000	30,000	35,000
Vehicles	40,000	20,000	8,000	52,000
<b>Leased Equipment</b>	-	11,897	-	11,897
Total Depreciable Capital Assets	90,000	46,897	38,000	98,897
Less: Accumulated Depreciation				
Building	20,000	5,000	8,000	17,000
Vehicles	15,000	7,000	3,000	19,000
Less: Accumulated Amortization				
<b>Leased Equipment</b>	-	2,179	-	2,179
Total Depreciation and Amortization	35,000	14,179	11,000	38,179
Net Depreciable/Amortizable Capital Assets	55,000	32,718	27,000	60,718
Total Net Capital Assets	155,000	47,718	27,000	175,718

# Sample- Gov Lessee (Equipment)

## Disclosures (Con't)

- Variable Lease Payments:
  - Those recognized during the current period, only if not included in original lease liability
  - Also disclose any other payments (such as penalties, residual value guarantees, etc.) during the period not included in the original lease liability.

Lease expense for the fiscal year ended September 30, 2022, includes \$1,350 in variable lease payments related to copier usage.\*

\*No variable payments on sample lease-included for illustrative purposes only.

# Sample- Gov Lessee (Equipment)

## Disclosures (Con't)

- Maturity analysis of all future lease payments
  - Separately show principal and interest payments for each of the first 5 years and 5-year increments thereafter

Future Minimum Lease Payments		
FYE September 30,	<u>Principal</u>	<u>Interest</u>
2023	\$ 2,008	\$ 452
2024	2,170	352
2025	2,341	243
2026	2,523	126
Total	\$ 9,042	\$ 1,173



# Sample- Gov Lessee (Equipment)

## Disclosures (Con't)

- Lease Commitments Where Term Has Not Yet Begun
  - Exclude short-term leases
- Components of Net Impairment Loss, If Applicable
  - Calculated as gross impairment loss less change in lease liability

# Sample - Governmental Fund - Lessor (Pole Attachment)

Fiscal Year – 9/30-10/1/20XX

- Lease Inception: 10/1/2021
- Up-Front Receipt: \$500
- Lease Term: 2 years (non-cancelable)
- Receipts: \$300 quarterly in arrears beginning 12/31/21
- Annual Escalation: 3%
- Discount Rate: 6% annually\*

\*Not stated in lease-incremental borrowing rate

\*\*PV function in Excel: =PV(6%/4,PER,0,CASH,0)

Step 1: Calculate PV\*\*

Period	Cash	Present value
0	500.00	\$500.00
1	300.00	\$295.57
2	300.00	\$291.20
3	300.00	\$286.90
4	300.00	\$282.66
5	309.00	\$286.83
6	309.00	\$282.59
7	309.00	\$278.42
8	309.00	\$274.30
TOTAL		\$2,778.46



# Sample #1 Gov Lessor (Pole Attachment)

## Journal Entries – Initial Recognition at Inception

Lease Receivable (PV less Up-front Pmt)	\$2,278.46	
Cash (Up-front Pmt. Received)	500.00	
Deferred Inflow – Lease Receivable		\$2,278.46
Lease Revenue (Period=0, no int. component)		500.00

# Sample #1 Gov Lessor (Pole Attachment)

## Journal Entries – Payment 1

Cash	\$300.00	
Deferred Inflow – Lease Receivable*	284.78	
Lease Revenue (**)		\$284.78
Interest Revenue (L/R*0.06/4)		34.18
Lease Receivable (Cash pmt. less interest)		265.82

\*Amortization of DI = Lease Revenue recognized

\*\*Revenue recognized straight-line over shorter of asset useful life or **lease term**, so periodic recognition will be DI / 8 payments.



# *GASB 87- Q&A- Phone Tower or Antenna*

## **4.8 from Leases Implementation 2019-3**

- Q—Are cell phone tower or antenna placement agreements leases?
- A—If the agreements meet the definition of a lease in paragraph 4 of Statement 87, including the control criterion, then such agreements are leases. The control criterion generally is met if a cell phone tower or antenna placement agreement conveys control of the right to use the land on which the tower is placed or the connection point to which the antenna is affixed

# *GASB 87- Q&A- Phone Tower or Antenna*

## **4.7 from Leases Implementation 2020-1**

- Q—An electric utility enters into a contract with a nongovernmental telecommunications company that allows the telecommunications company to install an antenna on one of the electric utility's transmission poles. The electric utility will determine the location of the antenna on the pole and retains the right to move the antenna to another location on the pole. Does this contract convey control of the right to use the underlying asset?
- A—Yes. In this example, the electric utility conveys the right to use a connection point on the pole. As discussed in Question 4.9 in Implementation Guide No. 2019-3, Leases, a right of substitution does not affect the determination of whether a contract conveys control of the right to use an underlying asset. Even though the electric utility can change the specific connection point, the telecommunications company maintains the same right to obtain the present service capacity from use of a connection point.

# ***GASB 87- Q&A- Substitution of Asset***

## **4.9 from Leases Implementation 2019-3**

- Q—A contract allows the vendor to replace the underlying asset with an essentially identical asset. Does that substantive right of substitution affect the evaluation of whether the contract conveys control of the right to use the asset?
- A—No. A lease conveys control of the right to use another entity's asset. That right is distinct from the underlying asset. That is, the right-to-use asset relates to the service capacity associated with an underlying asset, rather than the underlying asset itself. Substitution with an essentially identical asset allows the lessee to maintain control of the right to use the service capacity of another entity's underlying asset and is consistent with the definition of a lease in paragraph 4 of Statement 87.








# *GASB 87- Q&A- Unilaterally Terminate*

## 4.15 from Leases Implementation 2019-3

- Q—A lease contract allows either party to unilaterally terminate the lease at any time but also provides for cancellation penalties. The cancellation penalties are so great that it is reasonably certain that neither party will terminate the lease. Should the cancellable periods be excluded from the lease term?
- A—Yes. Paragraph 12 of Statement 87 requires that periods for which both the lessee and the lessor have an option to terminate the lease without permission from the other party be excluded from the lease term as cancellable periods. The presence of cancellation penalties does not affect that conclusion. Even if, as in this example, both parties are reasonably certain that the lease will not be terminated, the cancellable periods should be excluded from the lease term.



# GASB 87 Potential Issues

-  Contracts with embedded leases.
-  Applicable leases, may not mention “Lease” in the contract.
-  Selecting a Discount Rate.
-  Lease Documentation and Record Keeping.
-  Don't wait till year-end to start.
-  Spreadsheet vs Software.
-  Retain Support Determinations/Considerations.

# GASB 96- Subscription-Based Information Technology Arrangements

- This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement
  - (1) defines a SBITA
  - (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability
  - (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA
  - 4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

# GASB 96- Subscription-Based Information Technology Arrangements

## Purpose

Over the last several years there are been more and more arrangements related to the use of software without a perpetual license or title to software, due in large part to cloud based software.

Due to the increase in the subscription-based information technology arrangements the GASB deemed it necessary to address the accounting treatment for these agreements, which very much follows GASB 87.

# GASB 96- Subscription-Based Information Technology Arrangements

- Similar Elements to GASB 87, Leases
- Short-term treatment similar (12 months or less)
  - Recognize intangible subscription asset
  - Recognize present value of subscription payments as liability
  - Amortize asset and record interest expense
- Disclosure and entries are very similar with a right-to-use subscription asset and a corresponding subscription liability.

# GASB 96- Subscription-Based Information Technology Arrangements

- **SBITA Definition:**

A contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. (GASB 96:5)

# GASB 96- Subscription-Based Information Technology Arrangements

- Sample
- Details:
  - Start date 10/1/22
  - End 9/30/25
  - Payment \$5,000 annually on 10/1
  - Discount 2%
  - Initial cost \$2,000

# GASB 96- Subscription- Based Information Technology Arrangements

## Present Value Calculation

### New Lease-SBITA

Compounding Period: Monthly  
Nominal Annual Rate: 2.000%

### Cash Flow Data - Leases and Lease Payments

Event	Date	Amount	Number	Period	End Date
1 Lease	10/01/2022	14,705.19	1		
2 Lease Payment	10/01/2022	5,000.00	3	Annual	10/01/2024

### TValue Amortization Schedule - Normal, 365 Day Year

Date	Lease	Interest	Principal	Balance
Lease 10/01/2022				14,705.19
1 10/01/2022	5,000.00	0.00	5,000.00	9,705.19
<b>2022 Totals</b>	<b>5,000.00</b>	<b>0.00</b>	<b>5,000.00</b>	
2 10/01/2023	5,000.00	195.89	4,804.11	4,901.08
<b>2023 Totals</b>	<b>5,000.00</b>	<b>195.89</b>	<b>4,804.11</b>	
3 10/01/2024	5,000.00	98.92	4,901.08	0.00
<b>2024 Totals</b>	<b>5,000.00</b>	<b>98.92</b>	<b>4,901.08</b>	
<b>Grand Totals</b>	<b>15,000.00</b>	<b>294.81</b>	<b>14,705.19</b>	

Last interest amount decreased by 0.01 due to rounding.

# GASB 96- Subscription- Based Information Technology Arrangements

## Amortize asset

PV Lease	14,708.00
Initial Setup Cost	2,000.00
<b>TOTAL</b>	<b>16,708.00</b>

Event	Date	Amount	Period
1 Lease	10/01/2022	16,708.00	
2 Amortization Exp	10/01/2022	464.11	Monthly

	Date	Amortization	Net
Lease	10/01/2022		16,708.00
1	10/01/2022	464.11	16,243.89
2	11/01/2022	464.11	15,779.78
3	12/01/2022	464.11	15,315.67
<b>2022 Totals</b>		<b>1,392.33</b>	
4	01/01/2023	464.11	14,851.56
5	02/01/2023	464.11	14,387.45
6	03/01/2023	464.11	13,923.34
7	04/01/2023	464.11	13,459.23
8	05/01/2023	464.11	12,995.12
9	06/01/2023	464.11	12,531.01
10	07/01/2023	464.11	12,066.90
11	08/01/2023	464.11	11,602.79
12	09/01/2023	464.11	11,138.68
13	10/01/2023	464.11	10,674.57
14	11/01/2023	464.11	10,210.46
15	12/01/2023	464.11	9,746.35
<b>2023 Totals</b>		<b>5,569.32</b>	
16	01/01/2024	464.11	9,282.24
17	02/01/2024	464.11	8,818.13
18	03/01/2024	464.11	8,354.02
19	04/01/2024	464.11	7,889.91
20	05/01/2024	464.11	7,425.80
21	06/01/2024	464.11	6,961.69
22	07/01/2024	464.11	6,497.58
23	08/01/2024	464.11	6,033.47
24	09/01/2024	464.11	5,569.36
25	10/01/2024	464.11	5,105.25
26	11/01/2024	464.11	4,641.14
27	12/01/2024	464.11	4,177.03
<b>2024 Totals</b>		<b>5,569.32</b>	
28	01/01/2025	464.11	3,712.92
29	02/01/2025	464.11	3,248.81
30	03/01/2025	464.11	2,784.70
31	04/01/2025	464.11	2,320.59
32	05/01/2025	464.11	1,856.48
33	06/01/2025	464.11	1,392.37
34	07/01/2025	464.11	928.26
35	08/01/2025	464.11	464.15
36	09/01/2025	464.15	0.00
<b>2025 Totals</b>		<b>4,177.03</b>	
<b>Grand Totals</b>		<b>16,708.00</b>	



# GASB 96- Subscription- Based Information Technology Arrangements

## Journal Entries

### To record asset and liability

Account	Debit	Credit
Subscription Asset	16,708	
Subscription Liability		14,708
Cash		2,000

### Monthly entry to record payment and amortization expense

Account	Debit	Credit
Amortization Expense	464	
Subscription Liability	5,000	
Accumulated Amortization		464
Cash		5,000

### Following months entry

Account	Debit	Credit
Amortization Expense	464	
Interest Expense	16	
Accrued Interest Expense		16
Accumulated Amortization		464

\*\$195.89 first year interest divided by 12 roughly \$16.32 rounded

# GASB 89- Construction Interest

- **TIMELINE:**
- Standard was issued in June 2018
- Effective for reporting periods beginning after December 15, 2020
- Early application is encouraged
- Requirements of this standard should be applied prospectively
- “For construction in-progress, interest cost incurred **AFTER** the beginning of the first reporting period to which this Statement is applied should **NOT** be capitalized”

# GASB 89- Construction Interest

- **OBJECTIVES:**
  - 1) Enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and
  - 2) To simplify accounting for interest cost incurred before the end of a construction period.
- The requirements apply to financial statements of ALL state and local governments

# GASB 91- Conduit Debt Obligations

## Purpose

- The initial standard that addressed conduit debt was over 20 years old and general improvements to update the treatment was needed

## Summary

- Provides a single reporting method for government issuers for conduit debt obligations

## Main Effects

- Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer

## Effective

- For years beginning after 12/15/21

# GASB 93- LIBOR

- **TIMELINE:**
  - Standard issued March 2020
  - “Removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021”
  - “All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020”
- Early application is encouraged
- **OBJECTIVE:** “...to address those and other accounting and financial reporting implications that result from the replacement of an IBOR.”

# GASB 94- Public-Private & Public-Public Partnerships and Availability Payment Arrangements

## Summary

- Improve financial reporting by addressing issues related to public-private and public-public partnership arrangements

## Purpose

- Supersedes GASB Statement 60, *Accounting and Financial Reporting for Service Concession Arrangements*. Clarifies accounting and reporting pertaining to such arrangements

## Effective

- For years beginning after June 15, 2022

# GASB 94- Public-Private & Public-Public Partnerships and Availability Payment Arrangements

- PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.
- Applies similar recognition, measurement, and remeasurements requirements similar to GASB 87.
  - Right-of-use asset recognized
  - DIR recognized for consideration received or to be received, and revenue recognized over the term of the PPP

# GASB 94- Public-Private & Public-Public Partnerships and Availability Payment Arrangements

- **Illustration 1: Public-Public Partnership Arrangement for an Existing Tollway That Meets the Definition of a Service Concession Arrangement** Facts and Assumptions: A State, through its State Department of Transportation (SDOT), the transferor, enters into an arrangement with the Metropolitan Tollway Authority (MTA), an operator, involving the Pelton Tollway, a capital asset currently being reported by the State in the Tollway Authority enterprise fund at a carrying amount of \$1 billion. The SDOT receives an up-front payment of \$3 billion from the MTA, in return for which the MTA receives the right to operate the tollway and receive and retain toll revenues for a period of 75 years. Upon receipt, SDOT transferred the up-front payment from the Tollway Authority enterprise fund to the State's general fund. The arrangement meets all criteria in paragraph 6 of this Statement to qualify as a service concession arrangement. The MTA is not a component unit in the State's financial reporting entity. (From GASB 94 appendix C)



# GASB 94- Public-Private & Public-Public Partnerships and Availability Payment Arrangements

- Accounting at commencement of the PPP term:
  - The State should continue to report the tollway as a capital asset.
  - The State should recognize a deferred inflow of resources and a transfer-out in the Tollway Authority enterprise fund in the amount of \$3 billion for the up-front payment received from the MTA.
  - The MTA should recognize an intangible right-to-use asset in the amount of \$3 billion, the amount paid to the SDOT for access to the tollway.
- Disclosure Made pertaining to the arrangement

# **GASB 97- Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans**

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<b>Summary</b>	<b>Clarifies requirements for IRC Section 457 Plans for reporting</b>
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<b>Purpose</b>	<b>Questions about 457 plans arose from GASB 67/68 and whether if these plans should be concluded as component units.</b>
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<b>Effective</b>	<b>For years ending after 12/15/21</b>
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# GASB 98- The Annual Comprehensive Financial Report

- Summary
  - Comprehensive Annual Financial report now known as the Annual Comprehensive Financial Report
- Purpose
  - Abbreviation of previous term was potentially offensive terminology, so change was made
- Effective
  - For years ending after 12/15/21

# GASB 99- Omnibus 2022

## Summary

- Guidance to address various previous statements primarily
  - Recognition of exchange and exchange like financial guarantees
  - Derivative Instruments neither investments nor hedging derivative instruments
  - Update to the Replacement of the London Interbank offering rates
  - GASB Updates to Leases, Public-Private and Public-Public Partnerships, and SBITAs (87, 94 & 96)

## Purpose

- Omnibus projects are used to address various issues in previous pronouncements

## Effective

- Varies

# GASB 100- Accounting Changes and Error Corrections

- **TIMELINE**
  - Standard issued June 2022
  - Effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023 and all reporting periods thereafter
- Early application is encouraged
- **OBJECTIVE:** “Primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.”

# GASB 100- Accounting Changes and Error Corrections

- **Accounting Changes**

- Change in accounting principles- Change from one GAAP to another because a new GASB Pronouncement, like when GASB 68 was implemented.
  - Restate prior periods, or if not practical, restate beginning balances
- Change in accounting estimate- Change due to inputs changing because new information or methodologies.
  - Recognize change in the current period, not retroactive
- Change to or within the financial reporting entity- Addition or removal or movement of operations within the reporting entity.
  - Adjustment in current period

# GASB 100- Accounting Changes and Error Corrections

- **Correction of an Error**
  - Errors caused by mistakes including calculations, or applicable of accounting principles or oversight of information that existed as of the financial statement date that was misused or not properly considered/reviewed.
  - The facts leading to this error existed at the time of the issuance of the financial statements that could have been reasonable expected to be obtained and considered during for the financial presentation.
  - Restatement of prior periods

# GASB 101- Compensated Absences

- **TIMELINE**
  - Standard issued June 2022
  - Effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter
- Early application is encouraged
- **OBJECTIVE:** “...to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences.”



# GASB 101- Compensated Absences

## Compensated Absences

- Leave that has not been used
- Leave that has been used but not yet paid in cash or settled through noncash means.

**A liability should be recognized for leave that has not been used if:**

- The leave is attributable to services already rendered
- The leave accumulates
- The leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means.

**Leave is attributable to services already rendered when an employee has performed the services required to earn the leave.**

# GASB 101- Compensated Absences

- Statement Establishes Guidance for Measuring Compensated Absences Balances
- No longer requires governments to disclosure increases and decreased but can disclose only the net change in the liability (as long as it's identified as a net change)
- Statement makes it no longer required to disclose which governmental funds typically have been used to liquate the liability for compensated absences

# GASB 101- Compensated Absences

(Governmental Accounting, Auditing, and Financial Reporting  
Appendix D: Illustrative Annual Comprehensive Financial Report)

## Changes in long-term liabilities

Changes in the NAME OF GOVERNMENT's long-term liabilities for the year ended June 30, 2027, are as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Amount Due Within one Year
Governmental Activities					
Bonds payable					
General obligation bonds	\$ 77,491,180	\$ 5,810,000	\$ 10,948,317	\$ 72,352,863	\$ 3,886,166
Special assessment bonds	-	4,700,000	-	4,700,000	470,000
Premium	503,327	249,914	83,226	670,015	-
Discount	-	(10,000)	(1,000)	(9,000)	-
Total bonds payable	77,994,507	10,749,914	11,030,543	77,713,878	4,356,166
Private Placement Notes	-	2,000,000	-	2,000,000	200,000
Pension related debt	5,437,453	-	697,896	4,739,557	693,113
Leases	-	57,517	7,930	49,587	10,657
Compensated absences	4,864,074	1,398,215	973,610	5,288,679	2,629,620
Claims	3,869,829	1,761,680	2,070,720	3,560,789	2,174,256
Net pension liability - actuarially funded	38,218,629	9,712,955	10,538,301	37,393,283	-
Total pension liability - non-funded plan	9,720,993	3,063,757	1,282,116	11,502,634	-
Net OPEB liability	40,149,157	24,142,568	25,537,670	38,754,055	-
Total governmental activities	\$ 180,254,642	\$ 52,886,606	\$ 52,138,786	\$ 181,002,462	\$ 10,063,812

The liability for pension-related debt is fully liquidated by the general fund. The private placement note will be liquidated from the general fund. For compensated absences, the general fund normally liquidates 60%, and the library, housing grants, and garage funds normally liquidate 15%, 10%, and 10%, respectively. The remaining 5% is liquidated by other governmental funds and the internal service fund. The entire claims liability is reported in the risk management internal service fund and will be liquidated by that fund. The net and total pension liabilities and the OPEB liability will be liquidated primarily from the general fund, approximately 80%, with the remaining amounts from the library, garage, and internal service funds.

# Common GFOA Findings

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MD&A

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Major Funds Proper Presentation

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Refunding Entries and Disclosure

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Pensions Disclosures and RSI

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Statistical Section

# Common GFOA Findings- MD&A

## Sample Comments

MD&A should include variances between final budget and actual for General Fund and a discussion of the difference between actual revenues and accrual expenditures. GASB 34:11; GAAFR pg 570

Discuss underlying reasons for changes in Fund balance of the General Fund and changes in major revenue sources. GASB 34:11; GAAFR pg 569

# Common GFOA Findings- MD&A

## Sample Comment

The MD&A should include all applicable financial statement elements such as assets, DIR , DOR and liabilities. GASB 34:1; GAAFR pg 229

MD&A should direct readers designing more information to notes such as capital asset acidity relevant to disclosures in the notes to the financial statements GASB 31:11 and GAAFR 570

## Common GFOA Findings- Major Funds Proper Presentation

- **10%/5% Test**

Major funds are required to be reported as major funds if they meet the criteria for total assets, plus DOR or Total Liabilities, plus DIR or expenditures/expenses, which are at least 10% of the corresponding element in the fund and 5% of the corresponding element for all governmental and enterprise funds combined.





# Common GFOA Findings- Major Funds Proper Presentation

		<u>Assets and Deferred Outflows of Resources</u>	<u>Liabilities and Deferred Inflows of Resources</u>	<u>Revenues</u>	<u>Expend./Expense</u>	<u>Major/ Nonmajor</u>
GF		20,000,000	6,000,000	29,000,000	40,000,000	Major
	10% Test	52.52%	79.13%	74.75%	88.99%	
	5% Test	11.83%	21.74%	58.83%	69.50%	
Debt Service		2,700,000	1,500,000	8,037,892	250,000	Major
	10% Test	7.09%	19.78%	20.72%	0.56%	
	5% Test	1.60%	5.43%	16.30%	0.43%	
CRA		380,000	2,000.00	900,000	300,000	Nonmajor
	10% Test	1.00%	0.03%	2.32%	0.67%	
	5% Test	0.22%	0.01%	1.83%	0.52%	
Capital Projects		15,000,000	80,000	860,000	4,400,000	Major
	10% Test	39.39%	1.06%	2.22%	9.79%	
	5% Test	8.87%	0.29%	1.74%	7.65%	
<b>All Governmental Funds</b>		<b>38,080,000</b>	<b>7,582,000</b>	<b>38,797,892</b>	<b>44,950,000</b>	
<b>Enterprise Funds</b>						
Utility Fund		130,000,000	20,000,000	10,000,000	12,000,000	Major
	10% Test	99.24%	99.90%	95.24%	95.24%	
	5% Test	76.89%	72.46%	20.28%	20.85%	
Golf		1,000,000	20,000	500,000	600,000	Nonmajor
	10% Test	0.76%	0.10%	4.76%	4.76%	
	5% Test	0.59%	0.07%	1.01%	1.04%	
<b>All Enterprise Funds</b>		<b>131,000,000</b>	<b>20,020,000</b>	<b>10,500,000</b>	<b>12,600,000</b>	
<b>Total Governmental and Enterprise Funds</b>		<b>169,080,000</b>	<b>27,602,000</b>	<b>49,297,892</b>	<b>57,550,000</b>	



# Common GFOA Findings- Major Funds Proper Presentation

Issues can arise if there were large audit adjustments or smaller adjustments to balances that were close to being major/nonmajor.

## Sample Comment

Each major fund should be reported in a separate column on the statement of fund net position/balance sheet when meeting the major fund determining criteria, while nonmajor funds should be aggregated and displayed in a single column. GASB 34:96 GAAFR pages 230-231

# Common GFOA Findings- Refunding Entries and Disclosure

## Sample Comments

- 1) Premiums and discounts should be reported as a separate other financing source or use. GASB 34:88; GAAFR Ch 11
- 2) When refunding transactions results in either the defeasance or redemption of the refunded debt, the notes should disclose the economic gain or loss on the transaction. GASB 7: AND GASB 23:6 GAAFR Ch 30

# Common GFOA Findings- Pensions/OPEB Disclosures and RSI

## Sample Comments

- 1) Contributions made after the measurement date for net pension/OPEB should be recognized as a reduction in net pension/OPEB liability in the subsequent period not current fiscal year (aka make sure the year's referenced are correct) GASB 75:56; GAAFR 30
- 2) The notes should disclose the measurement date of the net pension/OPEB liability and the date of the actuary valuation. GASB 68:45A/80A ; GASB 75:56; GAAFR 30



# Common GFOA Findings- Statistical Section

- Sample Comment
  - Amounts presenting debt capacity should be the same amounts reported in the basic Financial Statements.

## **Common Audit Findings and Adjustments by Areas**

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Cash

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Inventory and Other Assets

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Revenues/Accounts Receivable

---

Expenses/Accounts Payable

---

Payroll and Related Liabilities

---

Debt

---

Fixed Assets

---

Self-Insurance

---

## Common Audit Adjustments by Areas

Material Weakness

Significant Deficiency

Material Noncompliance

Written Management Letter

Verbal recommendations

# Types of Findings



# *Finding Audit Findings Early*

- Common Audit Procedure that Finds Many Adjustment Early on in the Audit Process
  - Analytics



# Common Audit Findings- Cash

## Timely Bank Reconciliations

- Recon not performed timely

## Segregation of Duties

- One Individual
- Documented Review

## Unusual Reconciling Items

- Items not O/S Checks or DIT
- O/S checks over 1 year
- DIT Dates



How many potential issues  
do you see?

## Sample Cash Reconciliation

### Main Account January 2021 Reconciliation

\$ 100,000.00 Bank Balance

(5,750.00) Outstanding Check Balance

(100.00) Deposit in Transit

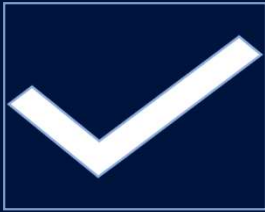
100.00 Deposit in bank, not recorded in ledger

94,250.00 Ledger Balance- 001-101-000

Reconciled By: Jane Doe 5/17/2021

Reviewed By: Jane Doe 5/17/2021

# Common Audit Findings- Inventory and Other Assets



## Inventory

No Documented Procedures Over Inventory Counts

Additional variances found by auditor during test counts

Significant Adjustments Without Support or Secondary Review

Inventory at Cost that is Obsolete or Impaired



## Prepaid Balances

Items Not Paid Prior to Year-end in Prepaid

Period Passed For Recognition, But Not Expensed From Prepays

# Common Audit Findings- Revenues and Accounts Receivable

## Recording Revenue Received Outside Availability Period

- Governmental Revenue Recorded outside period of availability. (typically established as 60 days). The period should be disclosed in the notes for significant accounting policies.
- Unearned Revenue vs Deferred Inflow
  - Deferred Inflow of Resources (Unavailable)
  - Unearned Revenue- Received Funds in Advanced

# Common Audit Findings- Revenues and Accounts Receivable

## Too Many or Few Monthly or Quarterly Revenues



13 or 11 Months of  
Revenue Recorded for  
Revenue Earned Monthly



3 or 5 Quarters Recorded  
for Revenue Earned  
Quarterly

Review subsequent receipts after year-end to ensure amounts recorded in receivables at year-end are received within the availability period established in your accounting policies for governmental funds. Any receivable not received within period should be reviewed to ensure its properly recorded.

# Common Audit Findings- Expenses and Accounts Payable

## Expenses Not Properly Accrued For

Missing  
Accrual

Improperly  
Accrued

# Common Audit Findings- Payroll and Related Liabilities



**Issues in Payroll typically related to Control Related Findings**

Timecard Approval



**More Issues Are Found Related to Related Liabilities**

Compensated Absences

Payroll Accruals

# Common Audit Findings- Debt



Refunding- Record the receipt and payment of the refunded debt and not netting to two together.



New Debt- Properly recording the balances.

# Common Audit Findings- Capital Assets

- Deletions for Accumulated Depreciation being larger than the capital assets within the same category
- Accumulated depreciation exceeding the capital asset value in the same category
- Reconciling Capital Outlay to asset additions for Governmental Activities.



	Beginning Balance	Increases	(Decreases)	Ending Balance
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 1,200,000	\$ 10,000	\$ -	\$ 1,210,000
Construction in Progress	4,500,000	2,500,000	(6,000,000)	1,000,000
Total Capital Assets Not Being Depreciated	5,700,000	2,510,000	(6,000,000)	2,210,000
Capital Assets Being Depreciated:				
Buildings and Improvements	75,000,000	1,500,000	(260,000)	76,240,000
Equipment	29,000,000	150,000	(114,000)	29,036,000
Infrastructure (Roads and Streets)	91,000,000	750,000	-	91,750,000
Total Capital Assets Being Depreciated	195,000,000	2,400,000	(374,000)	197,026,000
Less Accumulated Depreciation:				
Buildings and Improvements	(49,000,000)	(4,000,000)	150,000	(52,850,000)
Equipment	(22,000,000)	(2,000,000)	124,000	(23,876,000)
Infrastructure (Roads and Streets)	(88,000,000)	(3,800,000)	-	(91,800,000)
Total Accumulated Depreciation	(159,000,000)	(9,800,000)	274,000	(168,526,000)
Total Capital Assets Being Depreciated, Net	36,000,000	(7,400,000)	(100,000)	28,500,000
<b>Governmental Activities Capital Depreciated, Net</b>	<u>\$ 41,700,000</u>	<u>\$ (4,890,000)</u>	<u>\$ (6,100,000)</u>	<u>\$ 30,710,000</u>
	Deletion from CIP is typically smaller than additions into capital assets, unless a large portion previously capitalized was expensed, which is uncommon and could mean potential issues in previous reporting			
	Deletion of equipment accumulated depreciation (124,000) than the deletion of capital assets being removed for equipment (114,000).			
	Accumulated Depreciated for infrastructure exceeds capital asset value for infrastructure			

# Common Audit Findings- Self- Insurance

Review of TPA's Service  
Organization Control Reports

Specialist or Actuary Calculations  
for IBNR

IBNR not being adjusted from  
previous year

Fund with a deficit

# Updates to Auditing Standards SAS 134

- In 2019 the Auditing Standards Board (ASB) of the AICPA issued SAS No. 134, Auditor Reporting and Amendments including Amendments Addressing Disclosure in the Audit of Financial Statements.
- Effective for periods ending on or after December 15, 2021.

# Updates to Auditing Standards SAS 134- Communication

- Main change to Required Communication during Planning
  - Communication of Significant Risk identified by the Auditor to those charged with governance
    - This may be in the engagement letter,
    - Or separate communication letter during planning of the audit.

# Updates to Auditing Standards SAS 134- Communication

- A significant risk for audit purposes is those that require special audit consideration because of the nature of the risk or the likelihood and potential magnitude (including quantitative and qualitative considerations) of related misstatements.

Such as:

- Developments requiring special attention
- Complex Transactions
- Related Party Transactions
- Estimates with high degree of uncertainty
- Unusual Transactions

# Updates to Auditing Standards SAS 134- Auditor's Report

- Changes to the Audit Report
- To enhance the communicative value and relevance of the auditor's report to users of the financial statements
  - Provide transparency into the audit and related auditor's reports
  - Provide more information addressing the auditor's responsibility
  - Provides new guidance to the form and content of the auditor's report

# Updates to Auditing Standards SAS 134- Auditor's Report

- Layout-  
The  
Opinion

## Independent Auditor's Report

*[Appropriate Addressee]*

### **Report on the Audit of the Financial Statements<sup>1</sup>**

#### ***Opinion***

We have audited the financial statements of ABC Company, which comprise the balance sheets as of December 31, 20X1 and 20X0, and the related statements of income, changes in stockholders' equity, and cash flows for the years 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 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

# Updates to Auditing Standards SAS 134- Auditor's Report

- Disclosure of Key Auditor Matters (KAMS)

## *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]*

## *Responsibilities of Management for the Financial Statements*



# Updates to Auditing Standards SAS 134- Auditor's Report

- Going Concern

## *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].

# Updates to Auditing Standards SAS 134- Auditor's Report

- **Expanded Statements**

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.<sup>2</sup>
- 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.

# Resources

- Various GASB Statements and Summaries
- Implementation Guide 2019-3, 2021-1
- “Lessee accounting for governments: An in-depth look - Journal of Accountancy”  
(<https://www.journalofaccountancy.com/issues/2019/aug/lease-accounting-for-governments-gasb-87.html>)
- “GASB 87 Explained with a Full Example of the New Governmental Lease Accounting Standard”  
(<https://leasequery.com/blog/gasb-87-explained-example-new-lease-accounting/>)
- “GASB 96 (SBITAs) Explained: Definition, Calculation, Example, & More”  
(<https://leasequery.com/blog/gasb-96-sbita-accounting-explained/>)

# Thank You



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