



GASB & AUDIT UPDATE NOVEMBER 2018

NEWLY ELECTED OFFICIALS TRAINING

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.





Agenda

- ▶ Upcoming Standards Changes
- ▶ Audit Update
- ▶ Budgeting Considerations

Upcoming Standards Changes



Upcoming Standards Changes

- ▶ *GASB 75 Accounting and Financial Reporting for OPEB*
- ▶ *GASB 83 Asset Retirement Obligations*
- ▶ *GASB 87 Leases*

GASB 75 - OPEB

GASB Statement No.75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*

- For defined benefit OPEB, the statement identifies methods and assumptions that would be used to project benefit payments, discount the projected payments to the actuarial present value and attribute that present value to periods of employee service
- Net OPEB liability is the actuarial present value of projected benefit payments attributed to past periods less fiduciary net position
- Mirrors the requirements of GASB 68 for employer reporting of pension liabilities, expense and deferred inflows/outflows, including same amortization periods
- Effective date: Years ending June 30, 2018

GASB 83 - ARO

GASB Statement No. 83, *Certain Asset Retirement Obligations*

- Applies to facilities other than landfills, such as
 - ✓ Nuclear power plants
 - ✓ Sewage treatment facilities
 - ✓ Coal-fired power plants
 - ✓ Removal and disposal of wind turbines
 - ✓ Removal and disposal of x-ray machines
- Governments with legal obligations to perform future asset retirement activities related to its tangible capital assets would be required to recognize a liability
- Liability and corresponding deferred outflow is recorded when liability is both incurred and reasonably estimable
- Liability is based on best estimate of current value of outlays expected to be incurred

GASB 83 - ARO

GASB Statement No. 83, *Certain Asset Retirement Obligations*

- Must have both an external and an internal obligating event
 - ✓ External obligating event (e.g. court judgment, creation of legally binding contract or approval of federal, state or local laws or regulations)
 - ✓ Internal obligating event (contamination, use, retirement, abandonment)
- Exception for minority owner (<50%)
- Annual remeasurement required, adjusting for the effects of inflation or deflation
- Recognition in financial statements using modified accrual- recognize to the extent normally expected to be liquidated with expendable financial resources
- Effective date: Years ending June 30, 2019

GASB 87 - Leases

GASB Statement No. 87, *Leases*

- New definition of a lease - a **contract** that conveys the **right to use** another entity's **nonfinancial asset** for a period of time in an exchange or exchange-like transaction
- Examples include buildings, land, vehicles and equipment
- Excludes leases that transfer ownership (bargain purchase option) and service concession arrangements covered by GASB Statement No. 60
- Other exclusions- leases for inventory, underlying asset is financed by conduit debt, biological assets
- Government has the right to use an asset if both of the following are true:
 - ✓ The right to obtain present service capacity as specified in the contract
 - ✓ The right to determine the nature and manner of use as specified in the contract
- A lessee would be required to recognize a lease liability and an intangible right-to-use lease asset
- A lessor would be required to recognize a lease receivable and a deferred inflow of resources

GASB 87 - Leases

GASB Statement No. 87, *Leases*

- Lease term is defined as the period during which lessee has noncancellable right to use the asset and includes:
 - ✓ Periods covered by lessee's option to extend the lease if probable, based on all relevant factors that lessee will exercise that option
 - ✓ Periods covered by lessee's option to terminate if probable that the lessee will not exercise that option
- Lessees would recognize a liability and intangible asset at beginning of lease, unless it is a short-term lease
 - ✓ Liability is equal to the present value of lease payments to be made
 - ✓ Asset is equal to the value of lease liability plus any prepayments and certain initial direct costs
 - ✓ Recognize interest expense on the liability and amortization expense on the asset
- Lessor would recognize a lease receivable and deferred inflow of resources at beginning of lease
 - ✓ Receivable is equal to present value of lease payments to be received
 - ✓ Deferred inflow is equal to value of receivable plus any payments received at beginning of lease that relate to future periods
 - ✓ Recognize interest revenue on the receivable and lease revenue from the deferred inflow
 - ✓ Lessor would not derecognize the underlying asset

GASB 87 - Leases

GASB Statement No. 87, *Leases*

- Short term lease has a maximum possible term, including options to extend, of 12 months or less
- Contracts that contain both lease and service components generally should be separated
- Subleases should be accounted for as transactions separate from the original lease
- Additional disclosures will be required
- GASB is working on an Implementation Guide
- **Effective date:** Years ending December 31, 2020

Audit Update



Audit Update

- ▶ Uniform Guidance
- ▶ State Single Audit
- ▶ Audit Data Analytics

Uniform Guidance / State Single Audit

Federal

- ▶ Threshold now \$750,000
- ▶ Type A threshold is \$750,000 if under \$25mil in total expenditures
- ▶ Only required to have 40% coverage if high risk, 20% if low risk

State

- ▶ Threshold now \$750,000
- ▶ No smaller than font size of 9-point

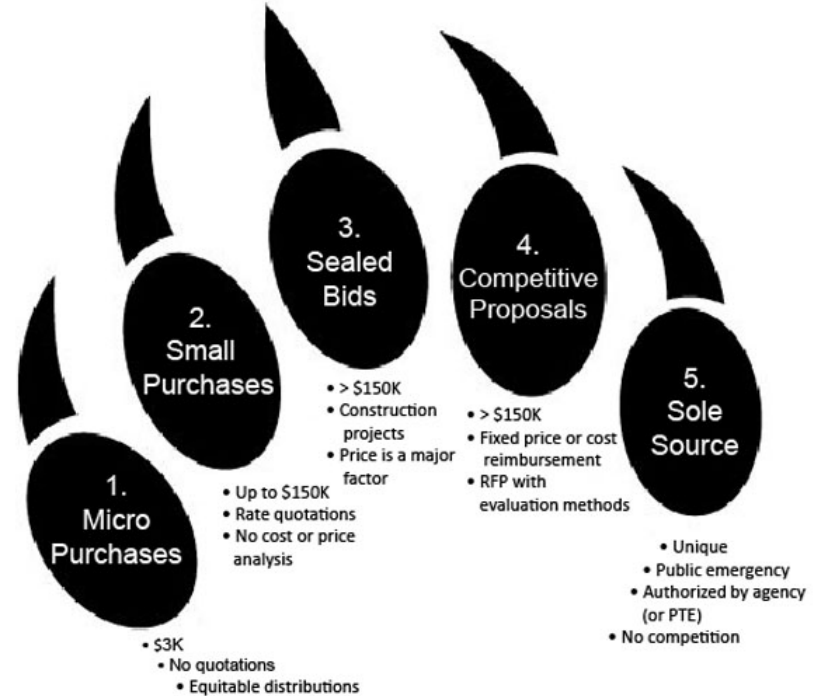
If the Total Adjusted Expenditures for <u>All</u> State Financial Assistance is:	The Major Program threshold is:
Less than \$1 million	\$ 75,000
\$ 1 to \$ 5 million	\$150,000
\$ 5 to \$20 million	\$200,000
Greater than \$20 million	\$500,000

Uniform Guidance

Procurement

- ▶ Micropurchase - raised to \$10,000
- ▶ Simplified acquisitions - raised to \$250,000
- ▶ Should have a formal policy
- ▶ Only applies to federal funds
- ▶ Must follow your policy, even if it is more restrictive

Procurement “Claw” (Section 200.320)



The Profession is Changing

Regulatory Perspective



Audit Data Analytics & The Profession

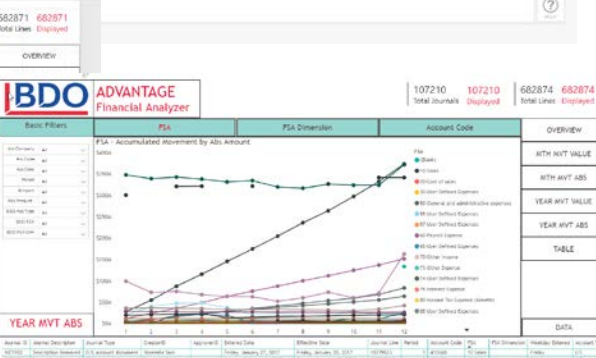
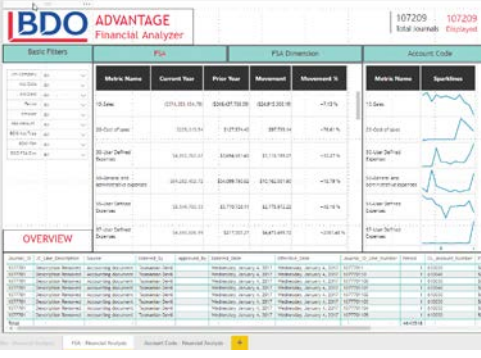
Audit Data Analytics

"...the science and art of discovering and analyzing patterns, identifying anomalies, and extracting other useful information in data underlying or related to the subject matter of an audit through analysis, modeling, and visualization for the purpose of planning or performing the audit."

- [AICPA Guide to Audit Data Analytics](#), December 2017



Visualization



Data Analytics - Client Impact

ADA APPROACH

INSTEAD - NOT MORE!

- ▶ Will rely on reports and data that we may not traditionally obtain
- ▶ Involvement of IT personnel
- ▶ At least 2 years of data (or more)
- ▶ Fewer tests of transactions
- ▶ Identification of the 'real' risk areas
- ▶ Can fully replace many traditional audit procedures

Budgeting Considerations

Budgeting Considerations

- ▶ Impact of Pension Liabilities
- ▶ Use of committed and assigned fund balances