

GASB and Uniform Guidance Updates

Jeff Staley, CPA, Principal and Brendan Baker, CPA, Manager



GASB 103



GASB 104



Uniform Guidance Updates

Agenda

GASB 103, Financial Reporting Model

Background

GASB Statement No. 103, Financial Reporting Model

Effective date

Fiscal years beginning after June 15, 2025
(Fiscal years ending June 30, 2026, and thereafter. Early adoption is encouraged.)



Objective:

- Improve upon the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability
- Avoid unnecessary duplication

Background

Improves upon original framework established by GASB Statement No. 34

Standard setting project began in 2015

Measurement focus remains current financial resources for Governmental funds



Transitioning to 103

When transitioning, changes adopted should be reported as a change in accounting principle under GASB Statement No. 100

MD&A Updates:

Information presented should be limited to the related topics:

1. Overview of the Financial Statements
2. Financial Summary
3. Detailed Analysis
4. Significant Capital Asset and Long-term Financing Activity
5. Currently known Facts, Decisions, or Conditions

- MD&A should discuss CY balances in comparison with the PY, with an emphasis on the CY
- Focus on the why of changes rather than simply presenting amounts or percentages

MD&A Users

May not necessarily have a financial background

May not have a background in governmental accounting

MD&A Topics

1) *Overview of the Financial Statements* – describe how the basic financial statements work and their relationship with each other

2) *Financial Summary* – condensed financial information derived from the GW financial statements comparing the CY to the PY for governmental activities and business-type activities

3) *Detailed Analysis* – summarize significant changes and, if applicable, should refer to the analysis of significant capital asset and long-term financing activity.

MD&A Topics

4) *Significant Capital Asset and Long-Term Financing Activity* – describe how the basic financial statements work and their relationship with each other

- **Capital Assets**

- Discussion of significant additions/disposals
- Significant policy changes and relevant economic factors

- **Long-term Financing Activity**

- The description should include a discussion of such agreements entered into, changes in credit ratings, and changes to debt limitations that may affect the financing of planned facilities or services, if any

MD&A Topics

5) *Currently Known Facts, Decisions, or Conditions* – include descriptions if expected to have a significant effect on financial position or that are expected to produce significant differences from current-period results

- **Examples:**

- Trends in relevant economic and demographic data (population change)
- Relevant factors used to develop the subsequent year's budget (i.e. millage rate change)
- New legislation or state budget changes
- Etc.

Example

General fund

The fund balance of the District's general fund increased by 11 percent. Excluding the effects of the flood damage, the general fund's fund balance would have been \$7.5 million greater. This increase in fund balance is attributable to the \$442 increase in foundation allowance from the State of Michigan as well as the district saw a 6% increase in the taxable value of their tax base which led to an increase in property tax revenues.

Other Changes

- 1) Currently known facts are information known to management as of the date the financial statements are issued
 - a) Previously was determined as of the date of the auditor's report
- 2) Budgetary analysis moved to RSI

Preparing for Implementation

Will general readers of the financial statements be able to understand what is presented in the MD&A?

Explain why balances change

Replace repetitive explanations and use references instead

Auditors and Management should begin working on MD&A earlier rather than later

Unusual or Infrequent Items:

Description

Transactions and other events that are either unusual in nature or infrequent in occurrence



Required to show the inflows and outflows related to unusual or infrequent items separately as the last presented flows of resources prior to the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements

Replace '*special item, or extraordinary item*' with '*unusual or infrequent item*'

Notes to the financial statements



Governments should disclose in notes to financial statements the program, function, or identifiable activity to which an unusual or infrequent item is related, if applicable, and whether that item is within the control of management

Example

OTHER FINANCING SOURCES (USES)	
Long-term debt issued	-
Premium on debt issued	-
Payment to bond refunding escrow agent	-
Proceeds from the sale of capital assets	275
Transfers in	2,630
Transfers out	<u>(862)</u>
Total other financing sources (uses)	<u>2,243</u>
UNUSUAL OR INFREQUENT ITEM—FLOOD DAMAGE	
Grant revenues	2,500
Cleanup	<u>(10,000)</u>
Total unusual or infrequent item	<u>(7,500)</u>
Net change in fund balances	11,983
Fund balances—beginning of period	<u>55,009</u>
Fund balances—end of period	<u>\$ 66,992</u>

Presentation of Proprietary Funds:

Distinguish

Between operating and nonoperating revenues and expenses

Separately

Report noncapital subsidies

- The most common example of this would be a general fund transfer into an internal service fund

Presentation Order

Operating revenues (detailed)

Total operating revenues

Operating expenses (detailed)

Total operating expenses

Operating income (loss)

Noncapital subsidies (detailed)

Total noncapital subsidies

Operating income (loss) and noncapital subsidies

Other nonoperating revenues and expenses (detailed)

Total other nonoperating revenues and expenses

Income (loss) before unusual or infrequent items

Unusual or infrequent items (detailed)

Increase (decrease) in fund net position

Fund net position—beginning of period

Fund net position—end of period

Definition of Operating vs. Nonoperating

Operating — revenues and expenses other than nonoperating revenues and expenses

Nonoperating:

- a) Subsidies received and provided
- b) Contributions to permanent and term endowments
- c) Financing related revenues and expenses
- d) Resources from disposal of capital assets and inventory
- e) Investment income and expenses

Definition of Subsidies

Subsidies:

- a) Resources received from another party or fund which the proprietary fund did not provide goods and services for and that keep current and future fees and charges lower than they otherwise would be
- b) Resources provided to another party or fund which the other party or fund does not provide goods and services for and that are recoverable through current or future pricing policies
- c) All other transfers

Basically — resources provided or received by the proprietary fund for which commensurate reciprocity is not achieved

Budgetary Comparison:

Required Supplementary Information

Budgetary comparison information

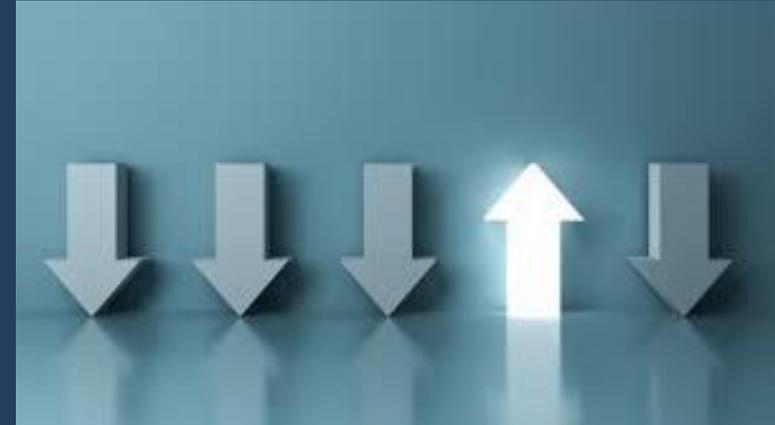
Now required to present variances between 1) original and final budgets, and 2) final budgets and actual results

Notes to RSI

Provide explanation of *significant* variances

Significant variances

Auditors Use scope to determine significance



	Budgeted Amounts		Variance with Original Budget—over (under) Final Budget	Actual Amounts Budgetary (and GAAP) Basis	Variance with Final Budget—over (under) Actual Amounts
	Original	Final			
BUDGETARY REVENUES					
Taxes	\$ 157,715	\$ 157,715	\$ -	\$ 161,885	\$ 4,170
Payments in lieu of taxes	16,218	15,853	(365)	15,737	(116)
Intergovernmental	1,560	2,002	442	1,597	(405)
Charges for services	13,299	13,299	-	13,905	606
Licenses, permits, and fees	2,712	3,220	508	3,532	312
Fines and forfeitures	8,262	8,262	-	7,853	(409)
Investment earnings	5,100	5,100	-	6,792	1,692
Miscellaneous	3,313	3,313	-	2,075	(1,238)
Total budgetary revenues	208,179	208,764	585	213,376	4,612
BUDGETARY EXPENDITURES					
Current:					
General government	29,786	29,138	(648)	29,097	(41)
Public safety	132,479	129,953	(2,526)	129,770	(183)
Public works	3,297	3,263	(34)	1,882	(1,381)
Culture and recreation	22,086	22,075	(11)	21,354	(721)
Social and economic development	12,095	12,038	(57)	11,614	(424)
Debt Service:					
Principal	1,275	1,275	-	1,262	(13)
Interest and other charges	41	41	-	54	13
Capital outlay	1,105	1,105	-	1,103	(2)
Total budgetary expenditures	202,164	198,888	(3,276)	196,136	(2,752)
Budgetary excess of revenues over expenditures	6,015	9,876	3,861	17,240	7,364
BUDGETARY OTHER FINANCING SOURCES (USES)					
Proceeds from sale of capital assets	-	-	-	275	275
Transfers in	2,630	2,630	-	2,630	-
Transfers out	(1,871)	(2,713)	(842)	(662)	2,051
Total budgetary other financing sources (uses)	759	(83)	(842)	2,243	2,326
UNUSUAL OR INFREQUENT ITEM—FLOOD DAMAGE					
Grant revenues	-	2,500	2,500	2,500	-
Cleanup	-	(10,000)	(10,000)	(10,000)	-
Total	-	(7,500)	(7,500)	(7,500)	-
Net change in fund balances	6,774	2,293	(4,481)	11,983	9,690
Budgetary fund balance—beginning of period	55,009	55,009	-	55,009	-
Budgetary fund balance—end of period	\$ 61,783	\$ 57,302	\$ (4,481)	66,992	\$ 9,690
RECONCILIATION TO GAAP BASIS					
Total fund balance GAAP basis				\$ 66,992	

GASB Example - RSI

GASB Example – Notes to RSI

	<u>General Fund</u> <u>over (under)</u>
BUDGETARY REVENUES	
Differences—final budget to actual:	
The City experienced an increase in revenue for taxes from budgeted amounts primarily due to the opening of the new shopping center 3 months earlier than expected.	\$ 4,170
Actual amounts of interest revenue exceeded budgeted amounts as the City saw higher interest rates than expected.	1,692
BUDGETARY EXPENDITURES	
Differences—original budget to final budget:	
The original budget was amended for public safety as the new police station #453 was completed 7 months behind schedule. The original budget included salaries and benefits for new officers and administrative staff, in addition to noncapital building expenditures. Station #453 will be opening in the next fiscal year, and these expenditures have been included in the next year's budget.	\$ (2,526)
UNUSUAL OR INFREQUENT ITEM	
Differences—original budget to final budget:	
The City experienced flood damage during the current fiscal year. During the year, the City increased the original budget to account for the State grants received to address the flood damage.	\$ 2,500
During the year, the City increased the original budget to account for the spending required to address the flood damage.	(10,000)

Districts can also show this information in other styles such as paragraph form if they choose

Budgetary Comparison Tips

Budget vs. Actual is RSI – any districts that present RSI on the face of the financial statements should show these schedules in the RSI

When completing final analyticals, go over significant variances between final budgets and actual results with the districts

Prelim Work – if budgets are available, go over significant variances between original and final budgets with the district

Give your district a heads up



Recap:

MD&A

Unusual or Infrequent Items

***Proprietary Funds
Presentation***

Budgetary Comparison

Benefits:

1. Improve clarity & comparability
2. Highlight relevance and reliability
3. Provide useful information for users of financial statements

GASB Statement No. 104 – Disclosure of Certain Capital Assets

GASB Statement No. 104

- **Requires certain types of capital assets to be disclosed separately in the capital assets note disclosures**
 - **Leases**
 - **Public-Private and Public-Public Partnerships**
 - **Subscriptions**
- **Additional disclosures for capital assets held for sale**
 - **Criteria**
 - **Disclosure**

Example

Capital asset activity for the year ended June 30, 20X2, was as follows (in thousands):

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases	
Governmental activities:				
Capital assets not being depreciated:				
Land and improvements	\$ 29,484	\$ 2,020	\$ (4,358)	\$ 27,146
Construction in progress	2,915	13,220	(14,848)	1,289
Total capital assets not being depreciated	<u>32,399</u>	<u>15,240</u>	<u>(19,204)</u>	<u>28,435</u>
Capital assets being depreciated:				
Buildings and improvements	40,861	334	-	41,195
Equipment	32,110	1,544	(1,514)	32,140
Road network	72,885	10,219	-	83,104
Bridge network	18,775	4,627	-	23,402
Software	2,100	548	(650)	1,998
Lease assets:				
Buildings	25,821	209	-	26,030
Equipment	20,389	2,312	(2,456)	20,245
Subscription assets	5,490	687	(743)	5,434
Total capital assets being depreciated	<u>218,431</u>	<u>20,480</u>	<u>(5,363)</u>	<u>233,548</u>
Less accumulated depreciation for:				
Buildings and improvements	(10,358)	(691)	-	(11,049)
Equipment	(9,247)	(2,676)	1,040	(10,883)
Road network	(12,405)	(823)	-	(13,228)
Bridge network	(2,896)	(197)	-	(3,093)
Software	(543)	(110)	25	(628)
Lease assets:				
Buildings	(7,456)	(596)	-	(8,052)
Equipment	(5,864)	(1,782)	823	(6,823)
Subscription assets	(1,009)	(450)	209	(1,250)
Total accumulated depreciation	<u>(49,778)</u>	<u>(7,325)</u>	<u>2,097</u>	<u>(55,006)</u>
Governmental activities capital assets, net	<u>\$ 201,052</u>	<u>\$ 28,395</u>	<u>\$ (22,470)</u>	<u>\$ 206,977</u>

Capital Assets Held for Sale

- **Requirements**
 - **The entity has decided to pursue the sale of the asset**
 - **Probable that the sale will be finalized within one year of the financial statement date**
- **Factors to Consider:**
 - **Condition of asset**
 - **Locating a buyer**
 - **Market conditions**
 - **Regulatory approvals**

General Notes

- **Annual evaluation**
- **Reported within appropriate major class**
- **Note disclosure**

Illustration 2—Capital Assets Held for Sale Disclosure

Included in capital assets are buildings that are capital assets held for sale. Those buildings are reported in governmental activities. They have a total historical cost of \$8.0 million and an accumulated depreciation of \$5.0 million, and they are pledged as collateral for debt with a balance of \$1.5 million.

Uniform Guidance Updates

2024 Uniform Guidance Updates

What are we going to cover?

- Background
- Key Changes
- Effective Dates and Transition

Background

- Final published version was released April 2024
- Generally, the effective date for the final guidance is October 1, 2024
- Objective: attempt to make the Uniform Guidance more “plain language” including reducing agency and recipient burden, clarifying sections, and addressing inconsistency in terms
- Some of the changes will pertain to the individual awards but others will not (e.g. increase in UG threshold)

Effective Dates

2024 Uniform Guidance Revisions are effective for:

- **New Awards:** entered into on or after October 1, 2024.
- **NOFO:** issued prior to October 1, 2024 with awards issued on or after October 1, 2024.
 - Federal agencies should provide clear direction to applicants whether 2024 Revisions are applicable.
- **Existing Awards** (issued prior to October 1, 2024) that are amended to apply 2024 Revisions:
 - Any amendments entered on or after October 1, 2024.
 - Existing awards that will extend into fiscal year 2025 or beyond.
- **Effect for Subawards:**
 - If federal agency amends an existing award to apply 2024 Revisions, the passthrough entity (PTE) must as well.
 - PTE does not need to apply 2024 Revisions to a subaward if the federal agency has not, even if executed on or after October 1, 2024

Key Changes – Audit Requirements

- Single Audit and Major Program Determination Thresholds
 - Single Audit Requirement - Increased threshold from \$750,000 to \$1,000,000
 - Major Program Determination – Type A threshold also increased from \$750,000 to \$1,000,000
- **IMPORTANT:** Not effective until audits of fiscal years beginning on or after October 1, 2024 (year-ends September 30, 2025).
- Other updates:
 - Added some circumstances where the auditee is responsible for ensuring contractor’s compliance with procurement transactions (200.501).
 - Change in tiers for Type A program threshold from \$25M to \$34M (200.518).

Key Changes – Audit Requirements

Key Auditor Changes – Report Submission (2 CFR 200.512)

- Added language to allow cognizant agency for audit to authorize an extension when the 9-month timeframe would place an undue burden on the auditee.
 - Result of change is that we should not expect to see broad extensions from OMB as we have had in the past and will be a case by case basis.

Key Changes – Audit Requirements

Key Auditor Changes – Audit Findings (2 CFR 200.516)

- When questioned costs are known, they are to be identified by ALN and Federal award identification number, and **how these questioned costs were computed.**
 - Nonauthoritative Example:
 - Questioned Costs: \$1,200 computed as a total of five (5) payroll transactions that lacked proper documentation evidencing the transactions were allowable.
- Added that when there are known questioned costs, but the dollar amount was undetermined or otherwise could not be reported, it must be explained why.
 - Nonauthoritative Example:
 - Questioned Costs: Not determinable. ABC auditee provided sufficient documentation to establish that these six individuals qualified for benefits but insufficient documentation to establish the correct benefit amount.

Note: Subpart A provides the definition of Questioned Costs

Key Changes – Auditee

Internal Controls (2 CFR 200.303)

- Made plain English changes, including the replacement of “non-federal entity” with recipient and subrecipient.
- (a) The recipient and subrecipient must: establish, document, and maintain effective internal control over the Federal awards...
- (e) added a requirement that a recipient/subrecipient take “reasonable cybersecurity and other measures to safeguard information including protected personally identifiable information (PII) and other types of information.

Key Changes – Auditee

Subrecipient and Contractor Determinations (2 CFR 200.331)

- Passthrough entity (PTE) is responsible for making case-by-case determinations to determine whether the entity receiving federal funds is a subrecipient or a contractor.
- Added additional language emphasizing that federal agencies do not have a direct legal relationship with subrecipients and contractors of PTE.
- Clarified that characteristics indicative of a subrecipient or contractor determination are not limited to the sample characteristics currently provided in the guidance.

Key Changes – Auditee

Indirect Costs (2 CFR 200.414)

- Clarified recipients and subrecipients have a right to negotiate a rate, rather than use the de minimis rate.
- Clarified the PTE must accept all federally negotiated indirect cost rates for subrecipients.
- Increased de minimis indirect rate from 10% to up to 15%.
 - New Awards
 - Recipients may elect to use the new 15% de minimis indirect cost rate for any award executed on or after October 1, 2024.
 - Existing Awards
 - Federal agencies may allow a recipient to apply the 15% de minimis rate to an existing award if the agency determines there are sufficient funds to support increased rate.
 - Must charge 15% rate only to costs incurred after the effective date of the amendment to implement the 15% rate.
 - Recipient may not retroactively apply the de minimis rate to costs incurred prior to the effective date of the amendment.

Key Takeaways for Auditee/Subrecipients

- Assign a person within the entity to be responsible for understanding 2024 Revisions.
- Revise federal grant policies and procedures and internal controls, as applicable.
- Educate the entity's governance about the changes.
- Prepare the information needed by the auditor to support the appropriate UG requirements.

Key Changes – Pre Award Requirements

Other updates within Subpart C:

- Reinforced importance of engaging communities during program development (200.202)
- NOFO: emphasized plain language and clearly communicating requirements, clearly identifying eligible applicants, and providing an executive summary (200.204)
- Emphasized diversity of reviewers in merit review panels (200.205)
- Added new section on whistleblower protection (200.217)

Key Changes - Post Federal Award Requirements

Equipment and Supplies (2 CFR 200.313 & 314)

- Updated definition of equipment and what is included.
- Award Level Threshold Changes
 - Equipment Capitalization Threshold: \$5,000 to \$10,000 (or recipients' threshold if internal policies are lower).
 - Supplies Threshold: \$5,000 to \$10,000.



Questions?