The New Blue Book-Is it Really the Only Research and Training Reference You’ll Ever Need?

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Overview

• Nature and scope
  – Complete rewrite
  – Coverage through GASB Statement No. 66
  – GFOA best practices

• Structure
  – 5 parts
    • Subdivided into sections
  – 47 chapters
  – 9 appendices
Chapters

- More narrowly focused
- Additional chapters for specialized guidance
- Study aids provided for each chapter
  - Chapter in brief
  - Exercises
Parts

I. Overview

II. Fund accounting and the basic financial statements

III. Specialized accounting applications

IV. Reporting beyond the basic financial statements

V. Internal control, auditing, and analysis
Overview

• Relationship
  – Accounting
  – Auditing
  – Financial reporting

• Types of financial reporting

• Communications methods

• Characteristics of accounting data
Overview

• Accounting v. financial reporting
  – Complementary rather than identical.
• Deferred outflows of resources v. assets
• Deferred inflows of resources v. liabilities
Environment

• Structure of state and local government
• Key environmental differences
• Impact of environmental differences
• How unique environment => unique features
Question 1

• The principle that a local government possesses only those powers that are expressly granted to it by the state, or that are otherwise indispensable to its continued existence and functioning, is known as:

1. Home rule
2. Dillon’s Rule
3. Comity of powers
4. Federalism
GAAP

• Nature and purpose
• Legal authority
• History
• Standard setting bodies and due process
GAAP

• GAAP hierarchy
• Definition of “government”
• Original pronouncements v. codification
• Purpose of due-process
  – Informed decision v. determination of majority view
Question 2

Which of the following has the highest status on the GAAP hierarchy for state and local governments?

1. NCGA Statement
2. GASB Implementation Guide
3. AICPA statement of position specific to government and cleared by the GASB
4. AICPA issued papers
Fund Accounting

• Accounting v. financial reporting
  – Not every “fund” is a fund for financial reporting purposes

• Movement of capital assets between governmental funds and enterprise funds
  – Capital contribution
  – Disposal
Government-wide Reporting

• Relationship
  – Fund financial statements
  – Government-wide financial statements

• From funds to activities

• From one MFBA to another

• From aggregation to consolidation

• Focus on direct cost
Question 3

• Which of the following would not be eliminated in the process of consolidation?
1. Interfund transfers
2. Revenues and expenditure/expense from interfund services provided and used
3. Receivables and payables from interfund services provided and used
4. Both 2 and 3
Reporting Entity

• Overview
• Primary government
• Identifying component units
• Fiduciary funds v. component units
• Potential for dual inclusion
• Presenting component units
Reporting Entity

• New approach to fiscal dependence
• New approach to blending
• Interactions with primary government
  – Blended component units = interfund activity
  – Discretely presented units = transactions
• Different treatment of transfer in separate financial statements
Question 4

Which of the following could qualify as a blended component unit even if its board was not substantially the same as that of the primary government?

1. Financing Authority
2. Utility
3. Housing Authority
4. All of the above
5. None of the above
Categories of Transactions and Events

• Exchange and exchange-like transactions
• Nonexchange transactions
• Extraordinary items and special items
• Direct changes to net position
• Special items
  – Within control of management
  – Significant to the financial statement on which reported
Assets and Liabilities in Governmental Funds

• Valuation of foreclosure properties
• Valuation of redevelopment properties
• Treatment of donated capital assets that will be sold
• Revenue and tax anticipation notes
Governmental Fund Financial Statements

- Major funds
- Basic financial statements
- Practical application of GASB Statement No. 54
Enterprise Funds

• Categories used for classifying cash flows
• Segment reporting
• Tap fees
  – Operating revenues v. capital contribution/non-operating revenue
• Impact fees
  – Deposit = revenue when nonrefundable
Converting and Consolidating Fund Data

• Overview
• Conversion of governmental fund data
  – Adjustments worksheet
    • Adjustments for measurement focus
    • Adjustments for basis of accounting
• Consolidation
• (Dis)allocation – governmental activities
Postemployment and Termination Benefits

- Pensions
- OPEB
- Termination benefits
- Pending changes
Question 5

- Which of the following would qualify as an employer contribution for OPEB?
  1. The commitment of resources
  2. The assignment of resources
  3. The transfer of resources to another fund
  4. All of the above
  5. None of the above
Budgetary Integration

• Nature and purpose
• Budgetary accounts
• Budgetary journal entries
Question 6

• Accountants use the term budgetary integration to describe:
  1. The requirements that state and local governments approve balanced budgets
  2. The use of specialized budgetary accounts
  3. The mandated presentation of budgetary comparisons in conjunction with the basic financial statements
  4. The fact that Public-Sector budgets normally impose legal constraints on spending
Capital Assets

- Basic accounting and financial reporting
- Major asset classes
- Capitalizable costs
- Improvements v. repairs
Capital Assets

• Valuation
• Impairments
• Depreciation/amortization
• Replacements and retirements
Question 7

- Which of the following methods may be used to calculate the amount of an impairment resulting from a change in the manner or duration of use of a capital asset?
  1. Restoration cost approach
  2. Service Units Approach
  3. Deflated depreciated replacement cost approach
  4. All of the above
  5. Either 2 or 3
Debt

- Basic accounting and financial reporting
- Deep discount debt
- Refundings
- Demand bonds
Debt

- Special assessment debt
- Conduit debt
- Borrowings within the primary government
- Proprietary fund debt
- Arbitrage
Debt

• Deep-discount debt
  – Principal = proceeds

• Current v. advance refundings
  – Expenditure v. other financing use
Question 8

- Which of the following occurs as a result of a current refunding?
  1. Redemption
  2. Legal Defeasance
  3. In-substance defeasance
  4. Either 2 or 3
Landfill Closures and Pollution Remediation

• Landfill closure and postclosure care costs
• Pollution remediation obligations
Landfill Closures and Pollution Remediation

• Landfills
  – All costs recognized by time of closure
    • Closure and postclosure care costs
    • Capital assets used for postclosure care

• Pollution remediation
  – *Cleanup of existing* pollution
  – Expected cash flow technique v. traditional approach to estimating contingencies
Risk Financing and Insurance

• Basic accounting for claims and judgments
• Risk financing activities in fund financial statements
• Insurance
• Participation in a public-entity risk pool
Risk Financing and Insurance

• An insurance recovery is recognized as soon as it becomes realizable
  – Acknowledgment of coverage
• FEMA v. insurance
• Accounting for centralized risk financing no longer limited to general fund or internal service fund
Question 9

- Which of the following statements is true regarding the liability for claims and judgments?

1. Incurred but not reported claims *must* be included
2. Incurred but not reported claims *may* be included
3. Incurred but not reported claims *may not* be included
Specialized Applications

- Grants (recipient perspective)
- Investments
- Lease accounting
- Special assessments
Specialized Applications

• Sales and pledges of receivables
• Joint ventures and similar arrangements
• Sales and pledges of future revenues
• Escheat property
• Service concession arrangements
Question 10

A government enters into an agreement to sell ten years of future revenues and the transaction meets the criteria for classification as a sale. How would the receipt of the proceeds of the transaction normally be reported in the government-wide financial statements?

1. Cash+Revenue
2. Cash+Deferred Inflow of Resources
3. Either A or B
CAFR

- Purpose
- Structure
- Contents
- GFOA Certificate of Achievement for Excellence in Financial Reporting
- GFOA recommendations on the contents of the letter of transmittal
Budgetary Reporting in the CAFR

- **Scope**
- **Mandatory v. supplementary comparisons**
  - Similarities
  - Differences
- **Legal level of budgetary control**
Budgetary Reporting in the CAFR

• Contrast with mandatory budgetary reporting
• Option for separate reporting
  – Does not eliminate requirement for CAFR reporting
Postemployment Benefit Plans

- Separate reporting for separate plans
- Basic financial statements
- Notes and RSI
- Supplementary schedules
Postemployment Benefit Plans

- CAFR
- Defined contribution plans
- GFOA recommendations
- Pending changes
Postemployment Benefit Plans

• Specialized guidance for CAFR
  – Additional sections
  – Tailoring of statistical section
  – Recommended supplementary information
Public-entity Risk Pools

• Types of public-entity risk pools

• Accounting and financial reporting
  – Pools that transfer or pool risk
  – Pools that do not transfer or pool risk

Reinsurance
  – Private-sector v. public sector
School Districts

- Reporting entity
- Basic financial statements
- CAFR
School District

- Charter schools normally are not component units
- Volunteer services
- Classification of student activity funds
States, Investment Pools, and Special-Purpose Governments

- States
  - Escheat property
  - SNAP (food stamps)
  - Pass-through grants
  - Special funding situations
States, Investment Pools, and Special-Purpose Governments

- States
  - Unemployment compensation benefit plans
  - Lotteries
  - Debt used to finance capital acquisition by others
  - Financing authorities
States, Investment Pools, and Special-Purpose Governments

- States
  - Conduit debt
    - Securitizing future revenue streams
    - Medicaid
Popular Reporting

- Characteristics of an effective PAFR
- GFOA PAFR Program
- GFOA criteria
Internal control

- Nature and purpose
- Responsibility
- Inherent limitations
- Comprehensive framework
- From *internal control* to *enterprise risk management*
Internal Control

- **Primary** responsibility v. **ultimate** responsibility
  - Who benefits?
  - Who can make it happen?
- Role of audit committee and internal audit
Monitoring Internal Control

- Establishing and maintaining a baseline
- Periodically evaluating actual performance against the baseline
- Resolving deficiencies
Monitoring Internal Control

- Object of control
- Control procedures
- Risk exposure
Question 11

• What is the process used to determine the order in which individual controls will be assessed?
  1. Control Cycle
  2. Process Cycle
  3. Risk Assessment
  4. Vulnerability Assessment
Financial Statement Audit

• Responsibility
• Key concepts
• Levels of auditor responsibility
• Auditing standards
• Procurement
Financial Statement Audit

• Audit committee
  – Membership
  – Closed meetings
• Multiyear audit contracts
• Auditor rotation
Question 12

• According to the GFOA, which of the following would be the best choice to serve as a member of an audit committee for a state or local government?

1. A representative of management
2. A retired CPA with experience auditing governments
3. A member of the governing body
4. Any of the above
Single Audit

• Background
• Requirement
• Applicable standards
• Scope
Single Audit

- Focus on major programs
- Objectives
- Reporting requirements
- Departures from regular Yellow Book audit
  - Additional auditor’s reports
  - Opinion on compliance for major federal programs
Question 13

• How many auditor’s reports are normally produced in a Single Audit?
  1. One
  2. Two
  3. Three
  4. Four
Internal Auditing and Performance Auditing

• Relationship of internal auditors to audit committee
  – Report to top management
    • Advantages
    • Disadvantages
  – Report to audit committee
    • Advantages
    • Disadvantages
Analysis

• Need for a different approach in the public sector

• Focal points for analysis

• Types of information available in a CAFR

• Triple focus
  – Near-term financial position
  – Net position
  – Economic condition
Question 14

What is the best source of information on economic conditions?

1. Government-wide financial statements
2. Fund financial statements
3. Statistical section
4. None of the above
Appendices

A. Illustrative journal entries
B. Illustrative trial balances
C. Illustrative adjustments worksheet
D. Illustrative CAFR*
E. Illustrative accounts, classifications, and descriptions
Appendices (cont.)

F. Responses to exercises
G. Glossary
H. Acronyms
I. General index
Format

- New size (7” x 10”)
- Appendix D available electronically
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The Answers!
Questions?

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