CITY OF ROANOKE, VIRGINIA

COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION

June 30, 2021

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BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND SUGGESTIONS

To the Honorable Members of the City Council
City of Roanoke, Virginia
Roanoke, Virginia

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Roanoke, Virginia (the "City") as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in circumstances for the purpose of expressing our opinion on the financial statements and to comply with any other applicable standards, such as *Government Auditing Standards* and the regulations set forth in the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

If material weaknesses or significant deficiencies were identified during our procedures they are appropriately designated as such in this report. Additional information on material weaknesses or significant deficiencies and compliance and other matters is included in the ***Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*** which should be read in conjunction with this report.

Additionally, during our audit, we may have become aware of certain other matters that provide opportunities for improving your financial reporting system and/or operating efficiency. Such comments and suggestions regarding these matters, if any, are also included in the attached report, but are not designated as a material weakness or significant deficiency. Since our audit is not designed to include a detail review of all systems and procedures, these comments should not be considered as being all-inclusive of areas where improvements might be achieved. We also have included information on accounting and other matters that we believe is important enough to merit consideration by management and those charged with governance. It is our hope that our suggestions will be taken in the constructive light in which they are offered.

We have already discussed these comments and suggestions with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

The City's responses to our recommendations are included in this report. The responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the City of Roanoke, Virginia management, and the appropriate state and federal regulatory agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
___________, 2022

CITY OF ROANOKE, VIRGINIA

COMMENTS AND SUGGESTIONS

Segregation of Duties – Social Services

During our review of cash receipts, we noted an instance of conflicting and overlapping duties at the Department of Social Services. It was determined that a staff member in the accounting department is responsible for collecting cash receipts, posting cash receipts, and delivering cash receipts to the Treasurer's Office. Though certain mitigating detective controls are in place, we recommend segregating these duties as much as possible.

Management's Response:

During the past year, our process has changed for the most part to the Accounts Payable Systems Coordinator receiving checks and creating the CRPT document. He gives the checks and CRPT to an Accounting staff member, to take to the Treasurer's Office downtown for deposit and posting. For SSA checks received in the agency, a specific Account Clerk has historically received them, logged them, and delivered them to the Treasurer's Office who posts the checks. This position does not "post" the check, but does log the check coming in This has long been the practice here. From this point forward, we are changing the process to all checks being delivered to the APSC for receipt. We have purchased a locked drop box that can securely store the checks as opposed to an open mailbox.

Due to the pandemic and intentionally staggered in-office days and schedules, occasionally there is an instance in which we have to process a check that has arrived with whomever is in the office that day, in an effort to comply with guidelines on the timing of deposits. We certainly have trained Accounting staff on the importance of the separation of duties and the reasons for that. As mentioned, there are mitigating controls in place, and that is the norm within the unit and within our processes.

Auditor of Public Accounts – Fire Program

A required audit procedure is to obtain a copy of the locality's completed Annual Report and Disbursement Agreement forms submitted to the Department of Fire Programs for the applicable fiscal year under audit. The procedure includes ensuring that the Annual Report and Disbursement Agreement forms are properly completed in accordance with Fire Programs' requirements and reconciled amounts per the Annual Report to the locality's accounting records.

It was noted in the current year that the City was unable to provide documentation of the reconciliation between the amount of revenues and expenditures reported to the Department of Fire Programs and the underlying accounting records.

Management's Response:

Management concurs and will coordinate a timely and routine reconciliation process between the Department of Fire Programs and the Finance Department.

CITY OF ROANOKE, VIRGINIA

SUMMARY OF THE STATUS OF PRIOR YEAR COMMENTS

Audit Adjustments (Significant Deficiency) (Material Weakness in Fiscal Year 2020)

During the audit, we noted that several year-end adjustments were required to ensure that the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

The adjustments related to cash, unearned revenue, liabilities, debt, pension, and capital assets are as follows:

- The June bank reconciliation was reviewed; however, reconciling items were not properly recorded.
- The City's policy on recording unearned revenue was not applied consistently as year-end entries were made.
- Accrued interest entry was reviewed; however, the entry was incorrect.
- The IBNR liability was partially calculated based on prior year information. It was updated to incorporate current information.
- Unearned revenue for parking was recorded using an incorrect report.
- Capital asset roll forward workbook and depreciation schedules were not reviewed before entries were made, resulting in additional adjustments.
- Bond premiums and deferred costs related to the partial refunding of bonds were not removed from amortization schedules.
- Pension schedules were not reviewed before entries were made, resulting in additional adjustments to deferred inflows and outflows.

We recommend establishing procedures in which qualified supervisors are reviewing year-end workpapers and reconciliations that feed into the final trial balance and financial statement reporting.

Current Year Status: Similar instances noted in the current year related to capital assets and long-term. Comment was reduced to a significant deficiency in fiscal year 2021.

Management's Response: *During fiscal year 2021, the City's Finance Department experienced significant transition of staff at various positions. which diminished the technical abilities and required departmental personnel available with the level of experience to fully analyze the myriad of transactions the City enters into annually. A fully trained and experienced staff is required in order to effectively, efficiently, compliantly, and timely prepare the City's Annual Comprehensive Financial Report (ACFR) in accordance with Generally Accepted Accounting Principles (GAAP). This diminished level of technical strength in the City Finance Department has been a detriment and impedance to timely external audit preparation.*

The continuance of turnover in staff in the Finance Department has impacted the adjustments noted in the preceding paragraph. The capital asset and long term debt issues were all related to policies and procedures that were unfamiliar to new and inexperienced staff members. Procedures have been established going forward to strengthen the review process of workpapers and reconciliations. A continued focus on staff retention, education, and development is key to strengthening our technical abilities, which will in turn reduce the number of year-end adjustments required for timely preparation of the annual external financial reporting.

Segregation of Duties – Civil Facilities (Significant Deficiency in Fiscal Year 2020)

During our review of the Civic Facilities' journal entries, monthly financial statements, and accounts receivable reconciliations, we noted instances where an accountant was preparing, but no supervisory review or approval was documented.

We also noted an instance in which a manager had access to the cash vault, handled cash, and prepared deposit slips without supervisory review. To the extent possible, we recommend establishing a segregation of duties to include supervisory review. We also recommend that supervisors sign and date their reviews.

Finally, we noted that the Accounting Supervisor has administrative rights to accounting software.

Current Year Status: Comment is still applicable as it relates to the Accounting Supervisor's administrative rights, all other elements were cleared in the current year thus the comment has been reduced to a control deficiency in fiscal year 2021.

Management's Response: *The daily journal entries that are prepared by the Senior Accountant will be reviewed and signed off by the Accounting Supervisor. Journal entries that are prepared by the Accounting Supervisor will be reviewed and signed by the General Manager. With regard to the vaults and cash handling, the daily ticket sales reports, worksheets, and deposit ticket prepared by the Director of Ticketing, will be reviewed and signed by the Senior Accountant and or Accounting Supervisor.*

Education and Training

During our audit, it became apparent that the Finance Department employees, involved in the year-end audit preparation, would benefit from additional education and training in generally accepted accounting principles. Training serves several functions:

- It is vital to employees' understanding of their job requirements;
- It enables new employees to master the learning curve;
- It provides a sense of belonging and value for an employee;
- It can foster team spirit; and
- It is evidence of the City's commitment to development the skill-set of its employees.

Because of these benefits, we recommend that training be expanded to include all Finance Department employees. Since the City may operate under budget constraints, a cost-effective way to stretch training dollars is to have employees who are sent to outside specialized training seminars also hold onsite training sessions for the other employees. In addition, we would be happy to provide some basic governmental accounting course for a nominal amount. As a side benefit, by having those employees hold on-site training sessions, concepts learned are reinforced, thus increasing knowledge retention.

Current Year Status: *Comment is no longer applicable.*

CITY OF ROANOKE, VIRGINIA

SUMMARY OF THE STATUS OF PRIOR YEAR COMMENTS
(Continued)

Unrecorded Real Property

During our audit of capital assets, we noted several instances of real property either purchased or sold that were not added or removed, respectively, from the City's capital asset listings. We recommend that the Department of Finance re-evaluate their process for tracking capital asset activity and determine where the weaknesses occurred that led to these omissions. We would be happy to discuss this further with management as they evaluate their real property record keeping practices.

Current Year Status: *Comment is still applicable.*

Management's Response: *We are in agreement with the need to re-evaluate our real property processes and procedures. The City has re-developed processes and procedures which track capital asset activity, and routinely monitor the movement of real property (acquired or sold) to record accurately and timely in the City's capital asset records. Staff turnover was an impediment again this year, hence the delay in fully implementing these processes and procedures. A focused effort to continue improvements in this area will remain a priority, which should prevent omissions of capital asset activity in the future.*

Lead Hazard Control Reporting

During our audit of the Lead Hazard Control federal grant, we noted instances where staff prepared the quarterly progress reports but no supervisory review or approval was documented. We recommend documenting by whom and when the report was prepared and reviewed.

Current Year Status: *Comment is still applicable.*

Management's Response: *We agree with the recommendation.*

Payroll – Social Services

During our testing of payroll, we noted an instance in which there was no documented supervisory approval of an hourly employee's time card approval. We recommend that a supervisor document their approval of timecards for hourly employees.

Current Year Status: *Comment is no longer applicable.*

Procurement Policies

During fiscal year 2019, the sections of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) covering procurement became effective after a three-year grace period on the implementation date. The Uniform Guidance requires entities to have written policies and procedures in place covering many types of procurement situations, including conflicts of interest, avoidance of geographical preferences, bidding thresholds, value engineering, and others. While many of the requirements are currently covered in the City's policies, we noted a few areas that were not included in the City's written policies. We recommend that the City update policies to cover these areas as well so procurement policies are fully compliant with the Uniform Guidance.

Those areas that should be included and/or revised were:

1. Procurement by "micro-purchases" (Section 200.320(a) of the *Uniform Guidance*) included in manual.
2. Procurement by "small purchases" (Section 200.320(b) of the *Uniform Guidance*) included in manual separately from VPPA guidelines.
3. Procurement by noncompetitive proposals as described in Section 200.320(f) included in manual separately from VPPA guidelines.
4. Performing cost or price based analysis in connection with every procurement action in excess of the "Simplified Acquisition Threshold" ($250,000) as required in Section 200.323(a).
5. Costs or prices based on estimated costs for contracts under Federal award are allowable only to the extent that costs incurred or cost estimates would be allowable as described in Section 200.323(c).

Some of these items are in practice by the City, however, the Uniform Guidance requires written policies and procedures, so we recommend that all items be documented in a written policy document.

Current Year Status: *Comment still applicable.*

Management's Response: *The City has modified the purchasing policies to conform with Uniform Guidance Federal Grant requirements referred to in the previous paragraphs. However, the purchasing policy draft was completed, but not formally approved as of June 30, 2021. The revisions to the Uniform Guidance Sections of the City's purchasing policies were approved and implemented in fiscal year 2022.*

CITY OF ROANOKE, VIRGINIA

**SUMMARY OF THE STATUS OF PRIOR YEAR CONTENTS –
INFORMATION TECHNOLOGY COMMENTS**

Review of Access Privilege

The periodic review of access for the Advantage application is currently being performed by personnel with the administrative roles who have the capability to add/modify/terminate user access to the application. In addition, the City does not perform an annual periodic review of access privileges to certain financial applications. Access privileges to the financial applications should be periodically reviewed by the users' management to verify that the level of access still accurately reflects the minimum level required for the user to perform their job function and accurately reflects an appropriate level of segregation of duties within logical access.

We recommended that the City perform scheduled periodic reviews of user access for all financially significant applications on a quarterly basis. This should be undertaken by independent parties in order to identify unauthorized/inappropriate access based on job function, as well as to identify any terminated users who have remained active in the application. These reviews should be documented and identified changes should be processed in accordance with access provisioning procedures.

Current Year Status: *Comment is no longer applicable.*

User Security Awareness Training

We noted that the City does not require users of their IT systems to receive annual security awareness training. The City is in the process of implementing a new learning management system where annual training will occur. Training for this has begun, but will not be completed until 2021.

We recommend cybersecurity training for all users that covers topics such as phishing scams and business email compromise scams be periodically conducted.

Current Year Status: *Comment is no longer applicable.*

ACCOUNTING AND OTHER MATTERS

NEW GASB PRONOUNCEMENTS

In this section, we would like to make you aware of certain confirmed and potential changes that are on the horizon that may affect your financial reporting and audit. The effective dates below are updated based on **Statement No. 95**, ***Postponement of the Effective Dates of Certain Authoritative Guidance*** due to the COVID-19 pandemic.

The GASB issued **Statement No. 87**, ***Leases*** in June 2017. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Definition of a Lease

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

Lease Term

The lease term is defined as the period during which a lessee has a noncancelable right to use an underlying asset, plus the following periods, if applicable:

a. Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option.
b. Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option.
c. Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option.
d. Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option.

A fiscal funding or cancellation clause should affect the lease term only when it is reasonably certain that the clause will be exercised.

Lessees and lessors should reassess the lease term only if one or more of the following occur:

a. The lessee or lessor elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option.
b. The lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option.
c. An event specified in the lease contract that requires an extension or termination of the lease takes place.

Short-Term Leases

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or fewer), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

Lessee Accounting

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

Lessor Accounting

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

Contracts with Multiple Components and Contract Combinations

Generally, a government should account for the lease and nonlease components of a lease as separate contracts. If a lease involves multiple underlying assets, lessees and lessors in certain cases should account for each underlying asset as a separate lease contract. To allocate the contract price to different components, lessees and lessors should use contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment, or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable. If determining a best estimate is not practicable, multiple components in a lease contract should be accounted for as a single lease unit. Contracts that are entered into at or near the same time with the same counterparty and that meet certain criteria should be considered part of the same lease contract and should be evaluated in accordance with the guidance for contracts with multiple components.

Lease Modifications and Terminations

An amendment to a lease contract should be considered a lease modification, unless the lessee's right to use the underlying asset decreases, in which case it would be a partial or full lease termination. A lease termination should be accounted for by reducing the carrying values of the lease liability and lease asset by a lessee, or the lease receivable and deferred inflows of resources by the lessor, with any difference being recognized as a gain or loss. A lease modification that does not qualify as a separate lease should be accounted for by remeasuring the lease liability and adjusting the related lease asset by a lessee and remeasuring the lease receivable and adjusting the related deferred inflows of resources by a lessor.

Subleases and Leaseback Transactions

Subleases should be treated as transactions separate from the original lease. The original lessee that becomes the lessor in a sublease should account for the original lease and the sublease as separate transactions, as a lessee and lessor, respectively.

A transaction qualifies for sale-leaseback accounting only if it includes a sale. Otherwise, it is a borrowing. The sale and lease portions of a transaction should be accounted for as separate sale and lease transactions, except that any difference between the carrying value of the capital asset that was sold and the net proceeds from the sale should be reported as a deferred inflow of resources or a deferred outflow of resources and recognized over the term of the lease.

A lease-leaseback transaction should be accounted for as a net transaction. The gross amounts of each portion of the transaction should be disclosed.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2021.

The GASB issued **Statement No. 91**, ***Conduit Debt Obligations*** in May 2019. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This 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; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

ACCOUNTING AND OTHER MATTERS
(Continued)

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This Statement also addresses arrangements – often characterized as leases – that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.
- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

ACCOUNTING AND OTHER MATTERS
(Continued)

The GASB issued **Statement No. 92**, ***Omnibus 2020*** in January 2020. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports.
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan.
- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits.
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements.
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition.
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers.
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature.
- Terminology used to refer to derivative instruments.

The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 and application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for fiscal years beginning after June 15, 2021. The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

The GASB issued **Statement No. 93, *Replacement of Interbank Offered Rates*** in March 2020. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR) – most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* as amended, requires a government to terminate hedge accounting when it renegotiates or amends a critical term of a hedging derivative instrument, such as the reference rate of a hedging derivative instrument's variable payment. In addition, in accordance with Statement No. 87, *Leases,* as amended, replacement of the rate on which variable payments depend in a lease contract would require a government to apply the provisions for lease modifications, including remeasurement of the lease liability or lease receivable.

The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.
- Clarifying the definition of reference rate, as it is used in Statement 53, as amended.

Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

The GASB issued **Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*** in March 2020**.** The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a 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. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

This Statement requires that PPPs that meet the definition of a lease apply the guidance in Statement No. 87, *Leases,* as amended, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of an SCA. This Statement provides accounting and financial reporting requirements for all other PPPs: those that either (1) meet the definition of an SCA or (2) are not within the scope of Statement 87, as amended (as clarified by this Statement). The PPP term is defined as the period during which an operator has a noncancellable right to use an underlying PPP asset, plus, if applicable, certain periods if it is reasonably certain, based on all relevant factors, that the transferor or the operator either will exercise an option to extend the PPP or will not exercise an option to terminate the PPP.

A transferor generally should recognize an underlying PPP asset as an asset in financial statements prepared using the economic resources measurement focus. However, in the case of an underlying PPP asset that is not owned by the transferor or is not the underlying asset of an SCA, a transferor should recognize a receivable measured based on the operator's estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership. In addition, a transferor should recognize a receivable for installment payments, if any, to be received from the operator in relation to the PPP. Measurement of a receivable for installment payments should be at the present value of the payments expected to be received during the PPP term. A transferor also should recognize a deferred inflow of resources for the consideration received or to be received by the transferor as part of the PPP. Revenue should be recognized by a transferor in a systematic and rational manner over the PPP term. This Statement requires a transferor to recognize a receivable for installment payments and a deferred inflow of resources to account for a PPP in financial statements prepared using the current financial resources measurement focus. Governmental fund revenue would be recognized in a systematic and rational manner over the PPP term.

This Statement also provides specific guidance in financial statements prepared using the economic resources measurement focus for a government that is an operator in a PPP that either (1) meets the definition of an SCA or (2) is not within the scope of Statement 87, as amended (as clarified in this Statement). An operator should report an intangible right-to-use asset related to an underlying PPP asset that either is owned by the transferor or is the underlying asset of an SCA. Measurement of the right-to-use asset should be the amount of consideration to be provided to the transferor, plus any payments made to the transferor at or before the commencement of the PPP term, and certain direct costs. For an underlying PPP asset that is not owned by the transferor and is not the underlying asset of an SCA, an operator should recognize a liability measured based on the estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership. In addition, an operator should recognize a liability for installment payments, if any, to be made to the transferor in relation to the PPP. Measurement of a liability for installment payments should be at the present value of the payments expected to be made during the PPP term. An operator also should recognize a deferred outflow of resources for the consideration provided or to be provided to the transferor as part of the PPP. Expense should be recognized by an operator in a systematic and rational manner over the PPP term.

This Statement also requires a government to account for PPP and non-PPP components of a PPP as separate contracts. If a PPP involves multiple underlying assets, a transferor and an operator in certain cases should account for each underlying PPP asset as a separate PPP. To allocate the contract price to different components, a transferor and an operator should use contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable. If determining the best estimate is not practicable, multiple components in a PPP should be accounted for as a single PPP.

This Statement also requires an amendment to a PPP to be considered a PPP modification, unless the operator's right to use the underlying PPP asset decreases, in which case it should be considered a partial or full PPP termination. A PPP termination should be accounted for by a transferor by reducing, as applicable, any receivable for installment payments or any receivable related to the transfer of ownership of the underlying PPP asset and by reducing the related deferred inflow of resources. An operator should account for a termination by reducing the carrying value of the right-to-use asset and, as applicable, any liability for installment payments or liability to transfer ownership of the underlying PPP asset. A PPP modification that does not qualify as a separate PPP should be accounted for by remeasuring PPP assets and liabilities.

An APA that is related to designing, constructing, and financing a nonfinancial asset in which ownership of the asset transfers by the end of the contract should be accounted for by a government as a financed purchase of the underlying nonfinancial asset. This Statement requires a government that engaged in an APA that contains multiple components to recognize each component as a separate arrangement. An APA that is related to operating or maintaining a nonfinancial asset should be reported by a government as an outflow of resources in the period to which payments relate.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

The GASB issued **Statement No. 96, *Subscription-Based Information Technology Arrangements*** in May 2020**.** 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; and (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.

A SBITA is defined as 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.

The subscription term includes the period during which a government has a noncancellable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend (if it is reasonably certain that the government or SBITA vendor will exercise that option) or to terminate (if it is reasonably certain that the government or SBITA vendor will *not* exercise that option).

Under this Statement, a government generally should recognize a right-to-use subscription asset—an intangible asset – and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, – which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

The subscription asset should be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement of the subscription term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. A government should recognize amortization of the subscription asset as an outflow of resources over the subscription term.

Activities associated with a SBITA, other than making subscription payments, should be grouped into the following three stages, and their costs should be accounted for accordingly:

- Preliminary Project Stage, including activities such as evaluating alternatives, determining needed technology, and selecting a SBITA vendor. Outlays in this stage should be expensed as incurred.
- Initial Implementation Stage, including all ancillary charges necessary to place the subscription asset into service. Outlays in this stage generally should be capitalized as an addition to the subscription asset.
- Operation and Additional Implementation Stage, including activities such as subsequent implementation activities, maintenance, and other activities for a government's ongoing operations related to a SBITA. Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria.

In classifying certain outlays into the appropriate stage, the nature of the activity should be the determining factor. Training costs should be expensed as incurred, regardless of the stage in which they are incurred.

If a SBITA contract contains multiple components, a government should account for each component as a separate SBITA or nonsubscription component and allocate the contract price to the different components. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a government should account for those components as a single SBITA.

This Statement provides an exception for short-term SBITAs. Short-term SBITAs have a maximum possible term under the SBITA contract of 12 months (or fewer), including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs should be recognized as outflows of resources.

This Statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

The GASB issued **Statement No. 97**, ***Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*** in June 2020. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or another employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform.

This Statement also requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively.

This Statement (1) requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities.

This Statement supersedes the remaining provisions of Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,* as amended, regarding investment valuation requirements for Section 457 plans. As a result, investments of *all* Section 457 plans should be measured as of the end of the plan's reporting period in all circumstances.

ACCOUNTING AND OTHER MATTERS
(Continued)

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021.

ACCOUNTING AND OTHER MATTERS
(Continued)

CURRENT GASB PROJECTS

GASB currently has a variety of projects in process. Some of these projects discussed below.

Conceptual Framework – Recognition. The project's objective is to develop recognition criteria for *whether* information should be reported in state and local governmental financial statements and *when* that information should be reported. This project ultimately will lead to a Concepts Statement on recognition of elements of financial statements. The project is currently in the exposure draft re-deliberations period.

Conceptual Framework – Disclosure. The project's objective is to develop concepts related to a framework for the development and evaluation of notes to financial statements for the purpose of improving the effectiveness of note disclosures in government financial reports. The framework will establish criteria for the Board to use in evaluating potential note disclosure requirements during future standards-setting activities and in reexamining existing note disclosure requirements. Those concepts also will provide governments a basis for considering the essentiality of information items for which the GASB does not specifically provide authoritative disclosure guidance. This project is currently in exposure draft re-deliberations period.

Financial Reporting Model. The objective of this project is to make improvements to the financial reporting model, including Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other reporting model-related pronouncements (Statements No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, No. 41, *Budgetary Comparison Schedules – Perspective Differences*, and No. 46, *Net Assets Restricted by Enabling Legislation, and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*). The objective of these improvements would be to enhance the effectiveness of the model in providing information that is essential for decision-making and enhance the ability to assess a government's accounting and address certain application issues, based upon the results of the pre-agenda research on the financial reporting model. The project is currently in the exposure draft re-deliberations period.

Revenue and Expense Recognition. The objective of this project is to develop a comprehensive application model for the classification, recognition, and measurement of revenues and expenses. The purpose for developing a comprehensive model is (1) to improve the information regarding revenues and expenses that users need to make decisions and assess accountability, (2) to provide guidance regarding exchange and exchange-like transactions that have not been specifically addressed, (3) to evaluate revenue and expense recognition in the context of the conceptual framework, and (4) to address application issues identified in practice, based upon the results of the pre-agenda research on revenue for exchange and exchange-like transactions. The project is currently in the preliminary views re-deliberations period.