## LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors: Cindy Jorgenson Joe Murray

# **MEMORANDUM**

To: Legislative Audit Committee

FROM: Cindy Jorgenson, Deputy Legislative Auditor, Financial-Compliance Audits

Karen Simpson, Audit Manager, Financial-Compliance Audits

**DATE**: June 15, 2020

**RE**: Proposed Changes to Agency Financial Schedule Format

**ATTACHMENTS**:

### **Background**

The current format of the agency financial schedules was adopted by the Legislative Audit Committee in 1996. It is considered a regulatory basis special purpose framework. This framework is intended to provide legislators with information relevant to their decision making. As adopted, the format aligns the presentation of agency financial results with legislator information needs during the appropriations process.

## Required Change-New Accounting Standard

The Governmental Accounting Standards Board (GASB) issued Statement Number 84 – Fiduciary Activities in January 2017. Under GASB 84, the agency fund type has been eliminated, and the custodial fund type has been created. Unlike agency funds, custodial funds will report revenues and expenditures in the agency financial schedules.

The State of Montana is implementing GASB 84 for fiscal year 2020. During the 2019 Legislative Session, several laws were modified in anticipation of the standard. Implementing this standard will require a change to the Schedule of Changes in Fund Equity. Continued inclusion of Property Held in Trust and its associated additions and reductions is no longer necessary or appropriate.

We are asking the Legislative Audit Committee to authorize us to exclude property held in trust activity from the Schedule of Changes in Fund Equity beginning in fiscal year 2020. See Attachment A for an illustration of the changes.

#### **Proposed Change–Revenue Estimates**

As part of the Legislative Audit Division's Next 50 Strategy work, the Financial-Compliance audit team participated in a focus group consisting of legislators and agency personnel on the continued relevance of the information included the financial schedules. Based on input from the focus group and internal team discussions, we believe the presentation of revenue estimate activity in the Schedule of Total Revenues and Transfers-In no longer provides valuable information to legislators.

We are asking the Legislative Audit Committee to authorize us to exclude revenue estimate activity from the Schedule of Total Revenues and Transfers-In effective for the FY2020 audit cycle. See Attachment B for an illustration of this change.

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## **Attachment A**

#### DEPARTMENT OF EXAMPLE

## SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST

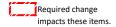
FOR THE FISCAL YEAR ENDED JUNE 30, 20XX

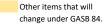
Pre-GASB 84											
	Ge	eneral Fund	Stat	te Special Revenue Fund		Agency Fund		Private Purpose Trust Fund			
FUND EQUITY: July 1, 20XX-1	\$	(14,600)		1,149,391	\$	0	\$	5,000,000			
PROPERTY HELD IN TRUST: July 1, 20XX -1					\$	17,500					
ADDITIONS											
Budgeted Revenues & Transfers-In		262,000		10,310,000							
Nonbudgeted Revenues & Transfers-In								65,000			
Prior Year Revenues & Transfers-In Adjustments				(2,500)							
Direct Entries to Fund Equity		400,000									
Additions to Property Held in Trust						550,000					
Total Additions		662,000		10,307,500		550,000		65,000			
REDUCTIONS											
Budgeted Expenditures & Transfers-Out		650,000		8,328,400							
Nonbudgeted Expenditures & Transfers-Out				461,500				20,000			
Prior Year Expenditures & Transfers-Out Adjustments				4,500							
Reductions in Property Held in Trust						565,000					
Total Reductions		650,000		8,794,400		565,000		20,000			
FUND EQUITY: June 30, 20XX	\$	(2,600)	\$	2,662,491			\$	5,045,000			
PROPERTY HELD IN TRUST: June 30, 20XX					\$	2,500					

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

Post-GASB 84											
	General Fund	State Special Revenue Fund	Custodial Fund	Private Purpose Trust Fund							
FUND EQUITY: July 1, 20XX-1	\$ (14,600)	\$ 1,149,391	\$ 17,500	\$ 5,000,000							
ADDITIONS											
Budgeted Revenues & Transfers-In	262,000	10,310,000									
Nonbudgeted Revenues & Transfers-In			550,000	65,000							
Prior Year Revenues & Transfers-In Adjustments		(2,500)									
Direct Entries to Fund Equity	400,000										
Total Additions	662,000	10,307,500	550,000	65,000							
REDUCTIONS											
Budgeted Expenditures & Transfers-Out	650,000	8,328,400									
Nonbudgeted Expenditures & Transfers-Out		461,500	565,000	20,000							
Prior Year Expenditures & Transfers-Out Adjustments		4,500									
Total Reductions	650,000	8,794,400	565,000	20,000							
FUND EQUITY: June 30, 20XX	\$ (2,600)	\$ 2,662,491	\$ 2,500	\$ 5,045,000							

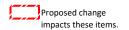
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## **Attachment B**

# <u>DEPARTMENT OF EXAMPLE</u> <u>SCHEDULE OF TOTAL REVENUES</u> <u>FOR THE FISCAL YEAR ENDED JUNE 30, 20XX</u>



#### **Pre-Revenue Estimate Removal**

	_ G	General Fund	_	State Special Revenue Fund	_	Private Purpose Trust Fund	-	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS								
Licenses and Permits	\$	237,000	\$	9,500,000			\$	9,737,000
Charges for Services				800,000				800,000
Investment Earnings						20,000		20,000
Fines and Forfeits		25,000						25,000
Grants, Contracts, and Donations					\$	45,000		45,000
Miscellaneous				7,500				7,500
Total Revenues & Transfers-In		262,000		10,307,500		65,000		10,634,500
Less: Nonbudgeted Revenues & Transfers-In						65,000		65,000
Prior Year Revenues & Transfers-In Adjustments				(2,500)				(2,500)
Actual Budgeted Revenues & Transfers-In		262,000		10,310,000		0		10,572,000
Estimated Revenues & Transfers-In		200,001		1,750,001		0_	_	1,950,002
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$	(61,999)	\$	(8,559,999)	\$	0	\$	(8,621,998)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS								
Licenses and Permits	\$	(86,997)	\$	(8,600,000)			\$	(8,686,997)
Charges for Services		0		47,500				47,500
Fines and Forfeits		24,999						24,999
Miscellaneous		(1)		(7,499)				(7,500)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$	(61,999)	\$	(8,559,999)	\$	0	\$	(8,621,998)

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	Post-Reve	nue Estimate	Rer	noval			
	General Fun		State Special Revenue Fund		Private Purpose Trust Fund		Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Licenses and Permits	\$	237,000	\$	9,500,000		\$	9,737,000
Charges for Services				800,000			800,000
Investment Earnings					20,000	)	20,000
Fines and Forfeits		25,000					25,000
Grants, Contracts, and Donations					\$ 45,000	)	45,000
Miscellaneous				7,500			7,500
Total Revenues & Transfers-In		262,000	_	10,307,500	65,000	)	10,634,500
Less: Nonbudgeted Revenues & Transfers-In					65,000	)	65,000
Prior Year Revenues & Transfers-In Adjustments				(2,500)			(2,500)
Actual Budgeted Revenues & Transfers-In	_	262,000	_	10,310,000	(	_	10,572,000

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.