



COVID-19:

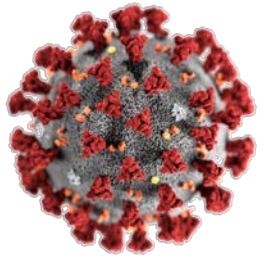
# Governmental Accounting Implications

June 17, 2020

## Presented by:

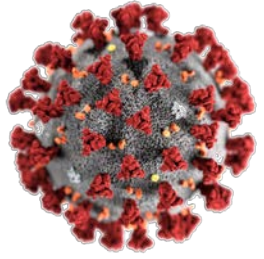


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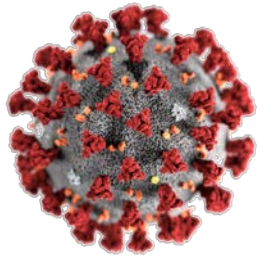
## Background

- December 31, 2019 – A pneumonia of unknown cause detected in Wuhan, China was first reported to the World Health Organization (WHO)
- January 30, 2020 – The outbreak was declared a Public Health Emergency of International Concern
- February 11, 2020 – WHO announced a name for the new coronavirus disease: COVID-19



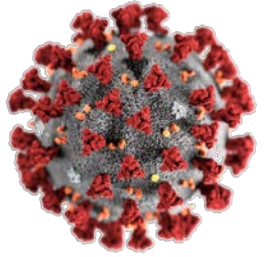
## Background

- March 11, 2020 – WHO's Director-General characterized COVID-19 as a pandemic
- March 13, 2020 – President Trump declared the Covid-19 pandemic a national emergency
- March 23, 2020 – Governor Whitmer Signs "Stay Home, Stay Safe" Executive Order



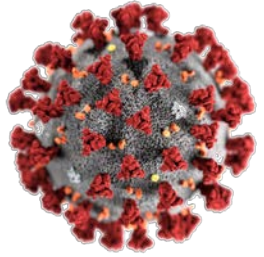
## Background

- April 14, 2020 – The GASB Offers an [Emergency Toolbox](#) to Address Issues Arising from COVID-19
  - Operating under today’s difficult circumstances may raise accounting and financial reporting issues that are not commonly dealt with by governments and their auditors. The purpose of this “toolbox” is to help stakeholders quickly identify the GASB’s authoritative guidance that could be relevant to the current circumstances.



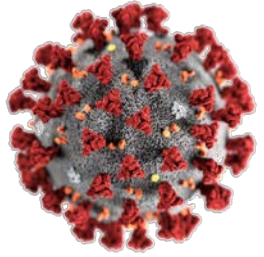
## Background

- May 8, 2020 – The GASB issues Statement No. 95, postponing the effective dates of upcoming pronouncements:
  - GASB 83, Asset Retirement Obligations
  - GASB 84, Fiduciary Activities
  - GASB 87, Leases
  - GASB 88, Debt Disclosures
  - GASB 89, Accounting for Interest Costs during Construction



## Background

- May 8, 2020 – The GASB issues Statement No. 95, postponing the effective dates of upcoming pronouncements:
  - GASB 90, Majority Equity Interests
  - GASB 91, Conduit Debt Obligations
  - GASB 92, Omnibus 2020
  - GASB 93, Replacement of Interbank Offered Rates
  - Various implementation guides



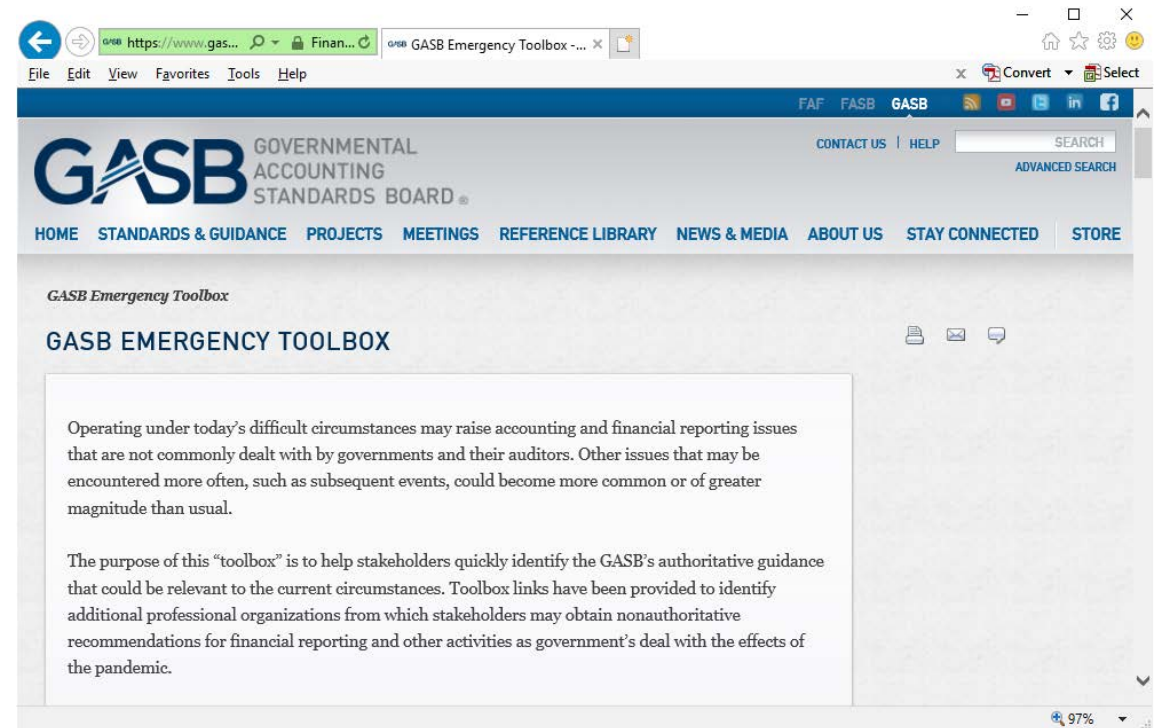
# Background

- June 11, 2020 – The GASB issues a Proposed Technical Bulletin
  - Accounting and Financial Reporting Issues Related to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) of 2020 and Coronavirus Diseases



# GASB Emergency Toolbox

- Identifies 21 issues in governmental GAAP, their relevance to the current pandemic, and the **codification section** with applicable guidance



## GASB Codification

- The GASB has issued 95 separate statements, plus many interpretations and implementation guides
- Original statements are not updated when amended
- Adopted many provisions from AICPA Audit and Accounting Guides, older FASB statements and APB opinions
- The Codification is the only complete source for applicable requirements

# GASB Codification

- The Codification is organized into five parts:
  - I. General Principles
  - II. Financial Reporting
  - III. Measurement
  - IV. Specific Balance Sheet and Operating Statement Items
  - V. Stand-alone Reporting—Specialized Units and Activities

# GASB Codification

- Paragraphs within each section are numbered as follows:
  - .101-.499 Standards (Category A)
  - .501-.599 Definitions (Category A)
  - .601-.699 GASB Technical Bulletins (Category B)
  - .701-.799 GASB Implementation Guides (Category B)
  - .801-.899 AICPA Literature cleared by GASB (Category B)
  - .901-.999 Non-authoritative discussion and illustrations

# Governmental Accounting Research System (GARS)

- Published by the GASB
- Available online at <https://gars.gasb.org>
- Contains
  - Original Pronouncements
  - Codification
  - Implementation Guides
  - Topical Index

Financial Accounting Foundation [US] https://garsapp.gasb.org/Default.aspx

**GASB** Governmental Accounting Research System™  
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### Welcome to GARS Online

The **Governmental Accounting Research System**® has been updated through December 31, 2014. Since the previous update, no pronouncements have been issued by the GASB and no previously issued pronouncements have become newly effective. Therefore, this release primarily includes editorial updates to the material that was included in the June 30, 2014 release.

To navigate directly to GARS content, click the **GARS** tab to the left. Or, alternatively, use the **Search** feature at the top of this page. Detailed user information is available via the **Help** tab.

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GASB Statements X

GASBS34—Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments X

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11. MD&A requirements established by this Statement are general rather than specific to encourage financial managers to effectively report only the most relevant information and avoid "boilerplate" discussion. At a minimum, MD&A should include:

- a. A brief discussion of the basic financial statements, including the relationships of the statements to each other, and the significant differences in the information they provide. This discussion should include analyses that assist readers in understanding why measurements and results reported in fund financial statements either reinforce information in government-wide statements or provide additional information.
- b. Condensed financial information derived from government-wide financial statements comparing the current year to the prior year. At a minimum, governments should present the information needed to support their analysis of financial position and results of operations required in c. below, including these elements:
  - (1) Total assets, distinguishing between capital and other assets
  - (2) Total liabilities, distinguishing between long-term liabilities and other liabilities
  - (3) Total net assets, distinguishing among amounts invested in capital assets, net of related debt; restricted amounts; and unrestricted amounts
  - (4) Program revenues, by major source
  - (5) General revenues, by major source
  - (6) Total revenues
  - (7) Program expenses, at a minimum by function
  - (8) Total expenses
  - (9) Excess (deficiency) before contributions to term and permanent endowments or permanent fund principal, special and extraordinary items, and transfers

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GASB Statements X

GASBS37—Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus X

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**Amendments to Statement 34**

*Management's Discussion and Analysis—Requirements*

4. The introductory sentences preceding subparagraph a in [paragraph 11](#) of Statement 34 are replaced by the following, including the footnote:

MD&A requirements established by this Statement are discussed below in general rather than specific terms to encourage financial managers to effectively report only the most relevant information and to avoid "boilerplate" discussion. The information presented should be confined to the topics discussed in a through h, below.<sup>a</sup>

<sup>a</sup> Governments can provide additional details about the required topics in a through h. Information that does not relate to the required topics should not be included in MD&A, but may be provided elsewhere, such as in the letter of transmittal or in other forms of supplementary information.

5. The second sentence in [paragraph 11b](#) is replaced by the following:

Governments should present the information needed to support their analysis of financial position and results of operations required in c, below, including the following elements, if relevant:

***Elimination of Capitalization of Construction-Period Interest Requirement on Capital Assets Used in Governmental Activities***

6. The second sentence of [paragraph 18](#) is replaced by the following:

The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use.



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should refer readers to the component unit's separately issued financial statements. [GASB 34, ¶16]

.109 MD&A requirements established by this section are discussed below in general rather than specific terms to encourage financial managers to effectively report only the most relevant information and to avoid "boilerplate" discussion. The information presented should be confined to the topics discussed in a through h below. <sup>8</sup>

- a. A brief discussion of the basic financial statements, including the relationships of the statements to each other, and the significant differences in the information they provide. This discussion should include analyses that assist readers in understanding why measurements and results reported in fund financial statements either reinforce information in government-wide statements or provide additional information.
- b. Condensed financial information derived from government-wide financial statements comparing the current year to the prior year. Governments should present the information needed to support their analysis of financial position and results of operations required in c below, including the following elements, if relevant:
  - (1) Total assets, distinguishing between capital and other assets
  - (2) Total deferred outflows of resources
  - (3) Total liabilities, distinguishing between long-term liabilities and other liabilities
  - (4) Total deferred inflows of resources
  - (5) Total net position, distinguishing among the net investment in capital assets; restricted amounts; and unrestricted amounts
  - (6) Program revenues, by major source
  - (7) General revenues, by major source
  - (8) Total revenues

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2200—Comprehensive Annual Financial Report X

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# Governmental Accounting Research System (GARS)

- Available in three views
  - Basic view (free)
  - Academic view (free access to professional)
  - Professional view (subscription)
- Ordering information can be found at <https://gars.gasb.org>

## GASB Emergency Toolbox

### Capital Asset Impairment

- Discontinued operations (other than temporary); idle impaired capital assets
  - Cod. 1400—Reporting Capital Assets, paragraphs .176–.180

## GASB Emergency Toolbox

### Contingencies

- Risk-financing and insurance-related activities other than public entity risk pools
  - Cod. C50—Claims and Judgments, paragraphs .109–.148
- Contingent liabilities, including exchange financial guarantees and contingent assets
  - Cod. C50—Claims and Judgments, paragraphs .149–.168

## GASB Emergency Toolbox

### Debt Extinguishments

- All extinguishments of debt, including refundings
  - Cod. D20—Debt Extinguishments and Troubled Debt Restructuring, paragraphs .103–.128

## GASB Emergency Toolbox

### Demand Bonds

- Remarketing demand bonds, and counterparty take-out agreement
  - Cod. D30—Demand Bonds, Paragraphs .107–.112

## Derivative Instruments

- Termination of hedge accounting, including circumstances in which a swap counterparty or its credit support provider commits or experiences an act of default or a termination event
  - Cod. D40—Derivative Instruments, paragraphs .118–.121

## GASB Emergency Toolbox

### Disposals of Operations

- Cessations of operations, such as through transfer or sale
  - Cod. Co10—Combinations and Disposals of Operations, paragraphs .148–.152 and .155



## GASB Emergency Toolbox

### Extraordinary and Special Items

- Revenues and expenses (expenditures) that are unusual and/or infrequent
  - Cod. 1800—Classification and Terminology, paragraphs .144–.152

## GASB Emergency Toolbox

### Fair Value Measurement

- Transactions that are no longer orderly due to a significant decline in market activity
  - Cod. 3100—Fair Value Measurement, paragraphs .142–.148

## Going Concern Considerations

- Information that contradicts the presumption that a government is a going concern
  - Cod. 2250—Additional Financial Reporting Considerations, paragraphs .117–.120

## Government Combinations

- Mergers between governments, a government acquiring another entity, and transfers of operations
  - Cod. Co10—Combinations and Disposals of Operations, paragraphs .102–.147 and .152–.154

## GASB Emergency Toolbox

### Management's Discussion and Analysis (MD&A)

- Required discussion of currently known facts, decisions, or conditions expected to have a significant effect on financial position or results of operations
  - Cod. 2200—Comprehensive Annual Financial Report, paragraphs .108 and .109h

## Nonexchange Financial Guarantees

- Guarantor recognition and disclosure requirements if a government is more likely than not to make a payment
  - Cod. N30—Nonexchange Financial Guarantees, paragraphs .105–.107, .111, and .113

## GASB Emergency Toolbox

### Prior-Period Adjustments and Accounting Changes

- Changes in an accounting principle, accounting estimate, or the reporting entity
  - Cod. 2250—Additional Financial Reporting Considerations, paragraphs .121–.150

## GASB Emergency Toolbox

# Public Entity Risk Pools

- Risk-financing and insurance-related activities
  - Cod. Po20—Public Entity Risk Pools, paragraphs .119–.124, .130–.132, and 146–.147



## GASB Emergency Toolbox

### Revenue Recognition

- Certain actions that provide budgetary relief—such as accelerating the receipt of future-period revenues—do not result in a comparable change to accrual-based and modified-accrual based inflows and outflows
  - Cod. 1600—Basis of Accounting, paragraphs .103–.106 and .113–.115
  - Cod. N50—Nonexchange Transactions, paragraphs .113–.127
  - Cod. P70—Property Taxes, paragraphs .105–.107
  - Cod. S20—Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, paragraphs .102–.119

## Expense/Expenditure Recognition

- Certain actions that provide budgetary relief—such as delaying payments on expenses (expenditures) already incurred—do not result in a comparable change to accrual-based and modified-accrual based inflows and outflows
  - Cod. 1600—Basis of Accounting, paragraphs .103 and .116–.125
  - Cod. N50—Nonexchange Transactions, paragraphs .116–.125
  - Cod. 2400—Budgetary Reporting, paragraphs .102, .103, .110, and .111

## Revenue and Receivable Recognition

- Estimations of Uncollectible Amounts
  - Cod. 1600—Basis of Accounting, paragraphs .104 and .106
  - Cod. L30—Lending Activities, paragraph .121
  - Cod. N50—Nonexchange Transactions, paragraphs .113, .115, .118, and .123
  - Cod. P70—Property Taxes, paragraph .106

## Sales and Pledges of Receivables and Future Revenues

- Transactions in which a government sells receivables or pledges a future revenue stream to repay a borrowing
  - Cod. S20—Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, paragraphs .102–.119

## Significant Violations of Legal or Contractual Provisions

- Violations, such as a bond covenant violation, and how those violations are being addressed
  - Cod. 1200—Generally Accepted Accounting Principles and Legal Compliance, paragraph .112
  - Cod. 2300—Notes to Financial Statements, paragraph .106h

## GASB Emergency Toolbox

### Subsequent Events

- Events or transactions that affect the financial statements but occur after the financial statement date
  - Cod. 2250—Additional Financial Reporting Considerations, paragraphs .109–.116

# GASB Emergency Toolbox

## Subsequent Events

### 16. SUBSEQUENT EVENT

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The extent of the ultimate impact of the pandemic on the County's operational and financial performance will depend on various developments, including the duration and spread of the outbreak and its impact on employees, vendors, and taxpayers, all of which cannot be reasonably predicted at this time. In addition, it may place additional demands on the County for providing emergency services to its citizens. While management reasonably expects the COVID-19 outbreak to negatively impact the County's financial position, changes in financial position, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.

## GASB Emergency Toolbox

### Termination Benefits

- Early retirement offers and similar programs
  - Cod. T25—Termination Benefits



## Troubled Debt Restructuring

- Restructuring of debt for governments both as debtor and creditor
  - Cod. D20—Debt Extinguishments and Troubled Debt Restructuring, paragraphs .129–.165

## Links to Other Professional Organizations

- “The following are professional organizations from the governmental sphere who are offering advice on how to proceed with financial management activities, including accounting and financial reporting, during the pandemic.”
  - *NOTE: The GASB establishes guidance only after extensive due process. Therefore, the provision of these links should not be viewed as an endorsement of any kind.*

## GASB Proposed Technical Bulletin

# AFR for the CARES Act and Coronavirus Diseases

- Technical Bulletins are Level B GAAP
- Q&A format
  1. Coronavirus Relief Fund (CRF) payments are “voluntary nonexchange transactions”, and should be recognized as revenue as eligibility requirements are met
  2. Provider Relief Fund (PRF) payments should include “loss of revenue” as an eligibility requirement

## GASB Proposed Technical Bulletin

# AFR for the CARES Act and Coronavirus Diseases

- Q&A format
  3. Changes to the CARES Act subsequent to year end should be disclosed as *nonrecognized* subsequent events
  4. Paycheck Protection Program (PPP) forgivable loans should be reported as liabilities until the entity is *legally released* from the debt

## GASB Proposed Technical Bulletin

# AFR for the CARES Act and Coronavirus Diseases

- Q&A format
  5. Business-type activities should generally report CARES Act funds as nonoperating revenues and noncapital financing activities
  6. COVID-19 costs do not meet the definition of an “extraordinary item” or “special item” for reporting under governmental GAAP

# COVID-19 Auditing Implications

- Coronavirus Aid, Relief, and Economic Security Act (CARES Act)
  - Signed into law on March 27, 2020
  - \$500B for the Economic Stabilization Fund (“Main Street Lending Program”) for assistance to eligible businesses, states, and municipalities
  - \$349B for the Paycheck Protection Program (PPP)
  - \$150B for the Coronavirus Relief Fund (CRF)
    - \$3.9B for Michigan (including Detroit and 4 counties)

# COVID-19 Auditing Implications

- Tentative guidance at [beta.sam.gov](https://beta.sam.gov):
  - SBA Economic Injury Disaster Loans (**not subject to 2 CFR 200**)
  - Paycheck Protection Program (**not subject to 2 CFR 200**)
  - Coronavirus Relief Fund (**partially subject to 2 CFR 200**)
    - Subparts D and E (award requirements and cost principles) are not applicable
    - Subpart F (audit requirements) is applicable

# COVID-19 Auditing Implications

- OMB Compliance Supplement
  - The June 2020 Compliance Supplement is not expected to contain much COVID-19-specific guidance
  - An update for COVID-19 funding is expected in September 2020



Questions?



For more information...

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