

**ECONOMIC DEVELOPMENT AUTHORITY  
OF THE CITY OF WINCHESTER, VIRGINIA**

**FINANCIAL REPORT**

**June 30, 2019**

**ECONOMIC DEVELOPMENT AUTHORITY  
OF THE CITY OF WINCHESTER, VIRGINIA**

**TABLE OF CONTENTS**

	Page
<b>INTRODUCTORY SECTION</b>	
Directory of Principal Officials .....	2
<b>FINANCIAL SECTION</b>	
INDEPENDENT AUDITOR’S REPORT.....	4
<b>BASIC FINANCIAL STATEMENTS</b>	
Exhibit 1 - Statements of Net Position.....	7
Exhibit 2 - Statements of Revenues, Expenses, and Changes in Net Position.....	8
Exhibit 3 - Statements of Cash Flows .....	9
Notes to Financial Statements.....	11
<b>SUPPLEMENTARY SCHEDULE</b>	
Schedule of Bonds Outstanding.....	20
<b>COMPLIANCE SECTION</b>	
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 <i>GOVERNMENT AUDITING STANDARDS</i> .....	22
SUMMARY OF COMPLIANCE MATTERS.....	24

# INTRODUCTORY SECTION

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**ECONOMIC DEVELOPMENT AUTHORITY  
OF THE CITY OF WINCHESTER, VIRGINIA**

**DIRECTORY OF PRINCIPAL OFFICIALS**

**BOARD OF DIRECTORS**

2019

William Buettin, Chair  
Douglas Toan  
Lauri Bridgeforth  
Jeffrey Buettner  
Tim Painter  
Cary Craig  
Addie Lingle

**INDEPENDENT AUDITORS**

**Brown, Edwards & Company, L.L.P.**

## **FINANCIAL SECTION**

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**Financial Section contains the  
Basic Financial Statements.**

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Economic Development Authority of the City of Winchester, Virginia  
Winchester, Virginia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Economic Development Authority of the City of Winchester, Virginia (the "Authority") as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**BASIC FINANCIAL  
STATEMENTS**

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**ECONOMIC DEVELOPMENT AUTHORITY  
OF THE CITY OF WINCHESTER, VIRGINIA**

**STATEMENTS OF NET POSITION**

**June 30, 2019 and 2018**

	2019	2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 1,398,505	\$ 1,304,638
Investments (Note 2)	44,567	43,512
Other receivables	5,220	9,171
Bond administration fees receivable	325,754	328,996
Notes receivable, current portion (Note 3)	232,881	200,194
Due from City of Winchester (Note 7)	-	3,542
Prepaid expenses	7,083	-
Total current assets	2,014,010	1,890,053
Noncurrent assets:		
Notes receivable (Note 3)	326,362	76,499
Property held for development (Note 4)	2,572,555	2,774,821
Total noncurrent assets	2,898,917	2,851,320
Total assets	4,912,927	4,741,373
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	40,806	5,883
Deposits	-	1,500
Assets held for others	228	4
Total current liabilities	41,034	7,387
Commitments and contingencies (Note 5)	-	-
<b>NET POSITION</b>		
Unrestricted	4,871,893	4,733,986
Total net position	\$ 4,871,893	\$ 4,733,986

The Notes to Financial Statements are an integral part of these statements.



**ECONOMIC DEVELOPMENT AUTHORITY  
OF THE CITY OF WINCHESTER, VIRGINIA**

**STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>OPERATING ACTIVITIES</b>		
Cash received for fees	\$ 393,574	\$ 398,801
Cash payments to suppliers for goods and services	(186,679)	(306,319)
Business redevelopment grants	(153,455)	(33,819)
Contributions and reimbursements from City of Winchester	78,815	40,590
Miscellaneous receipts	25,800	60,550
Purchase and improvements to property held for development	(62,000)	(3,248,571)
Proceeds from sale of property	-	1,631,000
	<u>96,055</u>	<u>(1,457,768)</u>
<b>NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from line of credit	-	335,981
Payments on line of credit	-	(335,981)
Interest paid	-	(1,065)
	<u>-</u>	<u>(1,065)</u>
<b>INVESTING ACTIVITIES</b>		
Interest received	9,406	7,114
Investment income	7,011	5,839
Loans made to others	(69,326)	(102,496)
Loan repayments received	51,776	167,446
Proceeds from sale (purchases) of investments, net	(1,055)	645,331
	<u>(2,188)</u>	<u>723,234</u>
Net cash provided by (used in) investing activities	<u>(2,188)</u>	<u>723,234</u>
Net increase (decrease) in cash and cash equivalents	93,867	(735,599)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,304,638</u>	<u>2,040,237</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 1,398,505</u>	<u>\$ 1,304,638</u>

(Continued)

The Notes to Financial Statements are an integral part of these statements.

**ECONOMIC DEVELOPMENT AUTHORITY  
OF THE CITY OF WINCHESTER, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018**

**Note 1. Summary of Significant Accounting Policies**

Reporting entity:

The Economic Development Authority of the City of Winchester, Virginia (the "Authority") was created as a political subdivision of the Commonwealth of Virginia by ordinance of the City of Winchester (the "City") on October 15, 1967, pursuant to the provisions of the Industrial Development and Revenue Bond Act (Chapter 33, Section 15.1-1373, et seq., of the code of Virginia (1950) as amended). The Authority is governed by seven directors appointed by the City of Winchester, Virginia. It is authorized to acquire, own, lease, and dispose of properties to the end that such activities may promote industry and develop trade by inducing enterprise to locate and remain in Winchester, Virginia.

The Authority is authorized to issue revenue bonds upon application by qualified applicants for the purpose of acquiring, constructing, equipping, and rehabilitating certain facilities as provided in Chapter 49 of the Industrial Development and Revenue Bond Act as set forth in the Code. Upon issuance, the proceeds of the bonds are loaned to the applicant, who then agrees to repay the bonds as set forth in the Loan Agreement executed in connection with the issuance of the bonds. Section 15.2-4909 of the Code specifically provides that the bonds shall not be deemed to constitute a debt or a pledge of the faith and credit of the Commonwealth, or any political subdivision thereof, including the locality issuing the bonds. Such bonds are payable solely from the revenues and monies pledged for such purpose by the applicant, and are secured by a deed of trust, line or credit, and/or pledge of the applicant's assets.

Measurement focus and basis of accounting:

The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority generally result from charges to borrowers for application and administration fees, certain contributions from the City to assist in operations, including property held for development and resale, and the sale of property. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.



**ECONOMIC DEVELOPMENT AUTHORITY  
OF THE CITY OF WINCHESTER, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018**

**Note 2. Deposits and Investments**

Deposits:

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) or collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits identified as public are considered fully collateralized. At times during the year, this account was in excess of the FDIC limits.

Investments:

Statutes authorize the Authority to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). The Authority has no investment policies that would further limit its investment choices.

Pursuant to Section 2.1-234.7 Code of Virginia, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings and the fair value of the position in LGIP is the same as the value of the pool shares (i.e., the LGIP maintains a stable net asset value of \$1 per share). The investment policy specifies that no investment may have a maturity greater than one year from the date of purchase. LGIP is not registered with the SEC, but is overseen by the Treasurer of Virginia and the State Treasury Board. The value of the Authority's position in the pools is the same as the value of the pool shares and is stated at amortized cost in accordance with GASB Statement 79, which approximates fair value.

At June 30, 2019 and 2018 all investments were held in LGIP. LGIP was rated by Standard and Poor's and has been assigned an AAAM rating.

**ECONOMIC DEVELOPMENT AUTHORITY  
OF THE CITY OF WINCHESTER, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018**

**Note 4. Property Held for Development**

Property held for development activity for 2019 and 2018 was as follows:

Property	Date of Purchase	Cost	Improvements	Sold	Total	2019	2018
200, 214 N. Cameron Street	August 2016	\$ 795,000	\$ 395,268	\$ -	\$ 1,190,268	\$ 1,190,268	\$ 1,190,268
204-206, 210, 212-214 Piccadilly Street	December 2017	523,000	8,031	-	531,031	531,031	531,031
212 East Cork Street	January 2018	260,000	4,266	(264,266)	-	-	264,266
204 North Kent Street and East Piccadilly Street	March 2018	500,000	27,830	-	527,830	527,830	527,830
206 North Kent Street	March 2018	250,000	11,426	-	261,426	261,426	261,426
214 East Piccadilly	June 2019	62,000	-	-	62,000	62,000	-
						<u>\$ 2,572,555</u>	<u>\$ 2,774,821</u>

The Authority created two limited liability companies (L.L.C.) to own, manage, and operate property. The Authority is the sole member of both Piccadilly Street Investments, L.L.C and Cameron Street Investments, L.L.C. which purchased the properties noted above, except for 200 North Cameron Street.

**Note 5. Commitments, Contingencies, Subsequent Events and COVID-19 Impact**

The Authority is currently in negotiations and contract review with a developer regarding the potential development of property on North Cameron Street. No executed agreement has been finalized as of the date of this report

The Authority is also currently in negotiations and contract review with a developer regarding the potential development of property on Piccadilly Street. No executed agreement has been finalized as of the date of this report

In February 2020, the Taylor Hotel Landlord, LC note receivable was paid in full. In December 2020, the TJS Properties note receivable was paid in full.

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The Authority’s operations are dependent on access to funding, including grants and contracts from federal, state and local governments which may decrease or may not be available depending on appropriations. The outbreak could continue to have an impact on economic and market conditions. As such, the Authority’s financial condition and liquidity could be negatively impacted for the fiscal year 2020 and beyond.

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**ECONOMIC DEVELOPMENT AUTHORITY  
OF THE CITY OF WINCHESTER, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018**

**Note 8. New Accounting Standards**

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective. 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.

In January 2017, the GASB issued **Statement No. 84, Fiduciary Activities**. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

In June 2017, The GASB issued **Statement No. 87, Leases**. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021.

In March 2018, the GASB issued **Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements**. This Statement improves the information disclosed in the notes to government financial statements related to debt. The requirements of this Statement are effective for fiscal years beginning after June 15, 2019.

In August 2018, the GASB issued **Statement No. 90, Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61**. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

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## **SUPPLEMENTARY SCHEDULE**

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ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF WINCHESTER, VIRGINIA

SCHEDULE OF BONDS OUTSTANDING  
June 30, 2019 and 2018

Name of Issue	Issued on Behalf of	Original Amount Issued	Date of Original Issue	Name of Trustee	Aggregate Outstanding Payable June 30, 2019	Aggregate Outstanding Payable June 30, 2018
Industrial Development Hospital Revenue Bonds, Series 2009A	Winchester Medical Center, Inc.	\$ 25,000,000	11/17/09	Regions Bank	\$ 24,295,000	\$ 24,660,000
Industrial Development Hospital Revenue Bonds, Series 2009B	Winchester Medical Center, Inc.	25,000,000	11/17/09	Regions Bank	24,290,000	24,665,000
Industrial Development Hospital Revenue Bonds, Series 2009C	Winchester Medical Center, Inc.	25,000,000	11/17/09	Regions Bank	24,290,000	24,665,000
Industrial Development Hospital Revenue Bonds, Series 2009D	Winchester Medical Center, Inc.	25,000,000	11/17/09	Regions Bank	24,290,000	24,665,000
Industrial Development Variable Rate Revenue Refunding Bond, Series 2010	Sunshine's Pride, LLC	7,500,000	05/07/10	Wells Fargo	1,455,000	1,555,000
Industrial Development Variable Rate Revenue Refunding Bond, Series 2011	NW Works, Inc.	2,300,000	12/20/10	Wells Fargo	1,415,000	1,475,000
Economic Development Authority of the City of Winchester, Virginia Hospital Revenue Bonds, Series 2013A	Winchester Medical Center, Inc.	35,135,000	12/04/13	Regions Bank	31,630,000	33,105,000
Economic Development Authority of the City of Winchester, Virginia Hospital Revenues Bonds, Series 2013B	Winchester Medical Center, Inc.	70,530,000	12/04/13	Regions Bank	56,320,000	63,575,000
Industrial Development Residential Care Facility Revenue Bonds, Series 2014A	Westminster-Canterbury of Winchester, Inc.	38,266,009	12/31/14	United Bank	31,938,478	33,458,617
Economic Development Authority of the City of Winchester, Virginia Hospital Revenues Bonds, Series 2014A	Winchester Medical Center, Inc.	43,135,000	10/07/14	Regions Bank	40,040,000	40,835,000
Economic Development Authority of the City of Winchester, Virginia Hospital Revenues Bonds, Series 2014B	Winchester Medical Center, Inc.	12,000,000	10/07/14	Regions Bank	12,000,000	12,000,000
Economic Development Authority of the City of Winchester, Virginia Hospital Revenues Bonds, Series 2015A	Winchester Medical Center, Inc.	114,925,000	07/22/15	Regions Bank	111,715,000	113,045,000
		<u>\$ 423,791,009</u>			<u>\$ 383,678,478</u>	<u>\$ 397,703,617</u>

## COMPLIANCE SECTION

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**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**

To the Board of Directors  
Economic Development Authority of the City of Winchester, Virginia  
Winchester, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the Economic Development Authority of the City of Winchester, Virginia (the “Authority”), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated April 16, 2021.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control.

*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 entity’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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. **Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.**

**ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF WINCHESTER, VIRGINIA**

**SUMMARY OF COMPLIANCE MATTERS**

**June 30, 2019**

As more fully described 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*,” we performed tests of the Authority’s compliance with certain provisions of the laws, regulations, contracts and grant agreements, and other matters shown below.

STATE COMPLIANCE MATTERS

*Code of Virginia:*

Cash and Investment Laws  
Conflicts of Interest Act  
Procurement Laws

LOCAL COMPLIANCE

Authority By-Laws



**ECONOMIC DEVELOPMENT AUTHORITY  
OF THE CITY OF WINCHESTER, VIRGINIA**

**COMMENTS ON INTERNAL CONTROL AND  
OTHER SUGGESTIONS FOR YOUR  
CONSIDERATION**

**June 30, 2019**

## CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND SUGGESTIONS.....	3
SUMMARY OF CURRENT YEAR COMMENTS AND SUGGESTIONS.....	5
SUMMARY OF STATUS OF PRIOR YEAR COMMENTS AND SUGGESTIONS.....	6
ACCOUNTING AND OTHER MATTERS .....	7



## **SUMMARY OF CURRENT YEAR COMMENTS AND SUGGESTIONS**

### **PROPERTY HELD FOR DEVELOPMENT**

A reclassifying entry was required to move amounts originally recorded in an expense account to property held for development on the statement of net position. We recommend a review of purchases for future development to ensure all are reflected on the statement of net position as an asset.

## **SUMMARY OF STATUS OF PRIOR YEAR COMMENTS AND SUGGESTIONS**

### **REVIEW OF RECEIVABLE RECONCILIATIONS**

Currently, a detailed reconciliation is prepared for notes receivable and the related interest income. The reconciliation is used to track payments and amounts owed by note holders. We recommend a formalized review of the schedule on a periodic basis by the Executive Director and Business & Community Development Manager in addition to reviews performed by the City finance staff. Documentation should be noted of who prepared and reviewed the schedule.

A detailed reconciliation for bond administration fees receivable is currently not prepared. We recommend a reconciliation be used to help track balances, payments and revenue earned and be reconciled to the general ledger on a periodic basis. Similar to the note receivable reconciliation comment, we recommend a formalized review of the schedule on a periodic basis by the parties above. Documentation should be noted of who prepared and reviewed the schedule.

*Current Status: A formalized review of the notes receivable schedule is taking place. We continue to recommend a formal review of the bond administration fee reconciliation.*

### **COMMONWEALTH OF VIRGINIA DISCLOSURE STATEMENTS**

For 2018, we noted certain members of the board that did not file statements of economic interests by the February 1<sup>st</sup> deadline as set forth by the Code of Virginia. We recommend taking steps to ensure these statements are filed by all required individuals in a timely manner.

*Current Status: No such instances noted in 2019.*

## 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. 84, *Fiduciary Activities*** in January 2017. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

*The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.*





## INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND SUGGESTIONS

To the Board of Directors  
Economic Development Authority of the City of Winchester, Virginia  
Winchester, Virginia

In planning and performing our audits of the financial statements of the Economic Development Authority of the City of Winchester, Virginia (the "Authority") as of and for the years ended June 30, 2019, 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*, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity'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 entity'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.



## ACCOUNTING AND OTHER MATTERS (Continued)

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.



## ACCOUNTING AND OTHER MATTERS (Continued)

### *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 less), 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.



## ACCOUNTING AND OTHER MATTERS (Continued)

### *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. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements** in March 2018. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

*The requirements of this Statement are effective for reporting periods beginning after June 15, 2019.*



## ACCOUNTING AND OTHER MATTERS (Continued)

The GASB issued **Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*** in August 2018. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

*The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.*

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.



## ACCOUNTING AND OTHER MATTERS (Continued)

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.



## ACCOUNTING AND OTHER MATTERS (Continued)

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.



## ACCOUNTING AND OTHER MATTERS (Continued)

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.



## ACCOUNTING AND OTHER MATTERS (Continued)

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 less), 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.*



## ACCOUNTING AND OTHER MATTERS (Continued)

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 an other 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.

*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 comment period, with an estimated completion of February 2021.

***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 comment 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 comment period, with an estimated completion of February 2021.

***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 comment period, with an estimated completion of February 2021.