



# PRINCE WILLIAM COUNTY

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## Prince William County, Virginia Internal Audit Report: Government Accounting Standards Board Statement No. 103 *Financial Reporting Model Improvements* Recommendations

December 20, 2024





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## TRANSMITTAL LETTER

December 20, 2024

The Board Audit Committee of  
Prince William County, Virginia  
1 County Complex Court  
Prince William, Virginia 22192

Pursuant to the internal audit plan for calendar year ("CY") 2024 for Prince William County, Virginia ("County" / "PWC"), approved by the Board of County Supervisors ("BOCS"), we hereby present the recommendations related to the upcoming Government Accounting Standards Board ("GASB") Statement No. 103, *Financial Reporting Model Improvements* ("GASB 103"). We will be presenting this report to the Board Audit Committee of Prince William County at the next scheduled meeting on March 18, 2025.

Our report is organized into the following sections:

### Executive Summary

Provides a high-level overview of the key impacts of GASB 103 on the County's financial reporting, along with structured recommendations to achieve compliance by the June 30, 2026 deadline.

### Appendix A

Provides visual of the change in presentation in the Proprietary Fund Statement of Revenues, Expenses, and Changes in Net Position.

We would like to thank the staff and all those involved in assisting our firm with this project.

Respectfully Submitted,

*RSM US LLP*

**RSM US LLP**

## EXECUTIVE SUMMARY

### Background

The Government Accounting Standards Board ("GASB") issued Statement No. 103, *Financial Reporting Model Improvements* (GASB 103) in April 2024 to improve the financial reporting model for state and local governments. The standard becomes effective for the County's reporting period ending June 30, 2026. Key financial statement areas impacted by GASB 103 include:

1. **Management's Discussion and Analysis (MD&A):** Reduces boilerplate content and repetitive explanations, standardizes sections, and improves clarity on changes from the prior year.
2. **Unusual or Infrequent Items:** Introduces separate reporting for unusual and rare transactions, replacing "extraordinary and special items."
3. **Proprietary Fund Statements:** Requires distinction between operating and non-operating revenues and expenses.
4. **Major Component Units:** Enhances clarity and comparability by presenting significant departments or agencies separately.
5. **Budgetary Comparison Information:** Standardizes budget comparisons, showing original and final budgets alongside actual spending.

The Board anticipates that GASB 103 will result in more comparable, consistent, relevant, reliable, and understandable financial information, justifying the cost of implementation and ongoing compliance.

### Objectives and Approach

The purpose of this analysis was to assist the County in providing recommendations for compliance with GASB 103 by assessing the financial reporting environment and providing implementation guidelines. Our procedures included:

- Review of the FY23 Annual Comprehensive Financial Report ("ACFR") to identify areas affected by GASB 103.
- Analyze the impact and level of effort required for compliance.

### Summary of Analysis and Recommendations

Using the FY23 ACFR as a baseline, here is the summary of recommendations by key area:

#### 1. Management's Discussion and Analysis

The County's MD&A is extensive, but requires minimal modifications for GASB 103 compliance:

- Use the following terminology for the five sections of MD&A:
  - Overview of the Financial Statements (no change from FY23 presentation)
  - Financial Summary
  - Detailed Analysis
  - Significant Capital Asset and Long-term Financing Activity
  - Currently Known Facts, Decisions, or Conditions
- Move discussion of budgetary analysis from the MD&A to the Required Supplementary Information ("RSI") section.
- Expand explanations of major fund performance changes caused by policy decisions (e.g., FY23 compensation policy changes).
- Enhance explanations for changes in proprietary fund financial results to clarify why results changed, not just how much they changed.
- Include descriptions for capital assets that cover:
  - Significant additions or disposals during the year.
  - Policy changes or economic factors affecting capital assets.



## EXECUTIVE SUMMARY (CONTINUED)

### Summary of Analysis and Recommendations (Continued)

#### 1. Management's Discussion and Analysis (continued)

- Expand discussion on long-term financing activity to include:
  - New financing agreements entered into during the year.
  - Credit rating changes or debt limitations impacting planned facilities/services.
  - Significant policy changes or economic factors related to long-term financing.

#### 2. Unusual or Infrequent Items

No unusual or infrequent items reported in the FY23 ACFR. To comply with GASB 103, the County will need to:

- Use GASB Statement 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* as a guide for the definitions of unusual or infrequent in nature.
- Evaluate potential FY26 transactions or other events under this guidance.
- If applicable, present these items separately as the final line item before the net change in resources (net position/fund balance).
- If applicable, disclose unusual/infrequent items clearly in the notes to the financial statements.

#### 3. Proprietary Fund Statements

This section will likely take the largest level of effort to implement. GASB 103 requires proprietary fund statements to distinguish between operating and non-operating revenues/expenses and classify subsidies as either capital or noncapital. To comply with GASB 103, the County will need to:

- Use GASB 103 definition of subsidies as a guide:
  - Must be nonexchange.
  - Resources received from another party or fund (1) for which the proprietary fund does not provide goods and services to the other party or fund and (2) that directly or indirectly keep the proprietary fund's current or future fees and charges lower than they would be otherwise.
  - Resources provided to another party or fund (1) for which the other party or fund does not provide goods and services to the proprietary fund and (2) that are recoverable through the proprietary fund's current or future pricing policies.
  - All other transfers.
- Establish a process to classify transactions meeting the GASB definition of subsidies by setting up location codes in account strings to differentiate capital and noncapital subsidies.
- Providing training for users who enter transactions to determine accurate classification based on the location codes.
- Present transfers and subsidies in the correct category on the Proprietary Fund's Statement of Revenues, Expenses, and Changes in Fund Net Position. See Appendix A for new category for *Noncapital Subsidies*.

#### 4. Budgetary Comparison Schedule (RSI)

Minimal modifications are anticipated for this section. To comply with GASB 103, the County will need to:

- Add a column comparing the original budget to the final budget.
- Provide explanations in the Note to RSI for significant variances between original and final budget amounts.
- Review budget amendments to identify and prepare explanations for significant changes.

#### 5. Component Unit Financial Statements

Based on our analysis, the County's existing component unit financial statements already comply with GASB 103. No additional work is required in this area.



## EXECUTIVE SUMMARY (CONTINUED)

### Next Steps

To achieve compliance with GASB 103 with the June 30, 2026 reporting, the following steps are essential:

- Develop a timeline for addressing the identified areas needing modification.
- Work with finance team to establish location codes for subsidies in your ERP system.
- Provide training to team members over expectations and timing of the utilization of new location codes.
- Maintain a regular cadence of communication throughout the implementation process to facilitate all stakeholders are informed and aligned.

### Conclusion

By following these steps, the County should be able to effectively implement the necessary changes to comply with GASB 103, resulting in more comparable, consistent, relevant, and reliable financial information.



## APPENDIX A

GASB 103 introduces new presentation for *noncapital subsidies*. Below depicts how current presentation (left) will change under the new standard (right).

**Pre-GASB 103 Proprietary Fund Statement of Revenues, Expenses, and Changes in Net Position:**

COUNTY OF PRINCE WILLIAM, VIRGINIA  
 Proprietary Funds  
 Statement of Revenues, Expenses and Changes in Net Position  
 For the Fiscal Year Ended June 30, 2023  
 (amounts expressed in thousands)

Exhibit 8

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Landfill	Nonmajor Funds	Total	
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 21,713	9,347	31,060	133,068
Intergovernmental revenues:				
Federal	12	-	12	-
State	91	-	91	-
Miscellaneous	762	-	762	5,590
Total operating revenues	22,578	9,347	31,925	138,658
<b>OPERATING EXPENSES:</b>				
Personnel expenses	5,218	1,459	6,677	17,018
Contractual services	5,645	4,008	9,653	30,456
Materials / supplies	4,023	848	4,871	10,292
Depreciation and amortization	2,061	152	2,213	3,205
Costs from sale of land	-	839	839	-
Closure expenses	6,451	-	6,451	-
Claims and premiums	-	-	-	65,663
OPEB costs	-	-	-	5,067
Losses and loss adjustment expenses	-	-	-	11,050
Other	290	45	335	827
Total operating expenses	23,688	7,351	31,039	143,578
Operating income / (losses)	(1,110)	1,996	886	(4,920)
<b>NON-OPERATING REVENUES / (EXPENSES):</b>				
Interest income and investment losses	60	147	207	1,444
Interest and other debt costs	-	(153)	(153)	(123)
Gain on sale of capital assets	(79)	-	(79)	14
Total non-operating revenues / (expenses)	(19)	(6)	(25)	1,335
Income / (loss) before transfers	(1,129)	1,990	861	(3,585)
<b>TRANSFERS:</b>				
Transfers in	63	1,722	1,785	1,483
Transfers out	(1,503)	-	(1,503)	(2,996)
Total transfers, net	(1,440)	1,722	282	(1,513)
Change in net position	(2,569)	3,712	1,143	(5,098)
<b>NET POSITION, beginning of the year</b>	56,191	15,920	72,111	59,687
<b>NET POSITION, end of the year</b>	\$ 53,622	19,632	73,254	54,589

**GASB 103 Proprietary Fund Statement of Revenues, Expenses, and Changes in Net Position:**

	Enterprise Funds				Internal Service Funds
	Public Utility	Transit Authority	Golf Courses	Total	
<b>OPERATING REVENUES</b>					
Charges for services	\$ 41,003	\$ 18,636	\$ 2,561	\$ 62,200	\$ 42,523
Miscellaneous	283	33	104	420	78
Total operating revenues	41,286	18,669	2,665	62,620	42,601
<b>OPERATING EXPENSES</b>					
Personnel services	13,991	-	-	13,991	5,786
Contractual services	13,952	16,406	4,893	35,251	4,117
Insurance claims and expenses	-	-	-	-	26,388
Depreciation	11,767	8,972	2,375	23,114	415
Other	1,067	-	165	1,232	7,834
Total operating expenses	40,777	25,378	7,433	73,588	44,540
Operating income (loss)	509	(6,709)	(4,768)	(10,968)	(1,939)
<b>NONCAPITAL SUBSIDIES</b>					
Intergovernmental revenue	-	-	-	-	881
Transfers in	-	2,090	110	2,200	300
Transfers out	(1,980)	-	-	(1,980)	-
Total noncapital subsidies	(1,980)	2,090	110	220	1,181
Operating income (loss) and noncapital subsidies	(1,471)	(4,619)	(4,658)	(10,748)	(758)
<b>OTHER NONOPERATING REVENUES (EXPENSES)</b>					
Investment earnings	1,496	75	103	1,674	446
Gain from the sale of capital assets	-	-	-	-	3
Interest expense	(1,910)	(448)	(963)	(3,321)	-
Capital contributions	2,938	-	-	2,938	-
Transfers in—restricted for capital assets	1,032	15,360	2,384	18,776	1,215
Total other nonoperating revenue (expenses)	3,556	14,987	1,524	20,067	1,664
Increase (decrease) in fund net position	2,085	10,368	(3,134)	9,319	906
Fund net position—beginning of period	331,857	177,997	29,423	539,077	12,387
Fund net position—end of period	\$ 333,742	\$ 188,365	\$ 26,289	\$ 548,396	\$ 13,293



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