GASB UPDATES/INTERNAL CONTROLS

Overview of Recent GASB Updates and Internal Control Best Practices

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Agenda

GASB Updates

- GASB 84 – Fiduciary Activities
- GASB 87 – Leases

Internal Controls

GASB Updates

GASB 84

Fiduciary Activities

GASB 84 – Fiduciary Activities

What: Clarifies fiduciary responsibility and presentation of fiduciary fund financial statements

Why: Previously required you to report fiduciary funds but did not define fiduciary responsibilities; to improve consistency of reporting trust funds and agency funds; to clarify business-type activities reporting fiduciary activities

When: Effective for fiscal years beginning after December 15, 2018 (year ending June 30, 2020), earlier application permitted. Standard is to be applied retrospectively.

Fiduciary Activities – Criteria

a) Assets associated with the activity are controlled by the government

b) Assets associated with the activity are not derived either 1) solely from the government's own-source revenues or 2) from government-mandated/voluntary nonexchange transactions

c) Assets associated with the activity have one or more of the following characteristics:

   1. The assets are administered through a trust in which the government itself is not a beneficiary, dedicated to providing benefits to recipients in accordance with the benefit terms, and legally protected from the creditors of the government.
   2. The assets are for the **benefit of individuals** and the **government does not have administrative involvement** with the assets or direct financial involvement with the assets. In addition, the assets are not derived from the government's provision of goods or services to those individuals.
   3. The assets are for the **benefit of organizations or other governments** that are not part of the financial reporting entity. In addition, the assets are not derived from the government's provision of goods or services to those organizations or other governments.

GASB 84 – Fiduciary Activities

Example #1

A student club is established in accordance with the school district's operating policies. The club is not legally separate from the school district. The students of the club conduct fundraising events, the proceeds of which are deposited into a savings account held by the school district. The student club president, with the members of the club, establishes how the resources can be spent and approves disbursements from the account.

Is this a fiduciary activity for the school district?

Yes

Example #2

A student club is established in accordance with the school district's operating policies. The club is not legally separate from the school district. The students of the club conduct fundraising events, the proceeds of which are deposited into a savings account held by the school district. The parents of the club members, with the members of the club, establish how the resources can be spent and approve disbursements from the account.

Is this a fiduciary activity for the school district?

Yes

Example #3

A school district holds the funds raised by the various student clubs, which are not legally separate from the school district. The funds are used to pay for various club activities during the year. There is no school board or school administration policy related to the club's activities and how the resources can be spent. The disbursements from the aggregated club account are approved by the faculty advisor (who is representing the school district) assigned to each club. Approval, rejection, or modification of the spending is strictly at the discretion of the faculty advisor.

Is this a fiduciary activity for the school district?

No

GASB 84 – Fiduciary Activities

Example #4

A public high school's student club raised funds that are restricted for a not-for-profit organization's (NFP) hurricane relief efforts and requested that the high school hold those resources during the fundraising campaign. The NFP is a legally separate organization and is not a component unit. The proceeds from the fundraising activities are not own-source revenues and are held by the high school in a separate bank account that is restricted to the disbursement of those resources to the NFP.

Is this a fiduciary activity for the school district?

Yes

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GASB 84 – Fiduciary Activities

Now What?

Effective for fiscal year 2020 and all reporting periods thereafter, funds for student activities for which the school district has administrative involvement can **no longer** be accounted for as pupil activity funds (fiduciary funds) but should be accounted for as special revenue funds. Certain districts may have student activities that should still be classified as fiduciary in nature, but that decision is on a fund by fund, district by district determination.

Not a Fiduciary Activity

- Continue to use the 700 funds as you currently report.
- Report all revenues, expenditures and fund balances in the Other Special Revenue Programs column on your Special Revenue – Special Projects combining schedules. These fund numbers will now be reportable in the "Other Special Revenue Programs" column currently denoted "200s/800s." The State will update the schedule to also include "700s."
- Include 700s "Student Activity Funds" as a group on the Special Revenue – Special Projects Subfund Code List.
- Do **<u>NOT</u>** report the revenues, expenditures, and changes in fund balance on the Schedule of Receipts, Disbursements and Changes in Due to Student Organizations as in previous years.

Not a Fiduciary Activity

Title I (BA Projects) (201/202)	IDEA (CA Projects) (203/204)	Preschool Handicapped (CG Projects) (205/206)	CATE (VA Projects) (207/208)	Adult Education (243)	Other Designated Restricted State Grants (900s)	Other Special Revenue Programs (200s/800s)	Total

Supplemental Listing of LEA Subfund Codes and Titles
Special Projects Fund

	* Other Special Revenue Programs
210	Title IV SSAE
221	Title I - neglected and delinquent
224	21st century community learning

Fiduciary Activity

No changes from historic treatment:

- Continue to use the 700 funds as you currently report.
- Report the assets and liabilities on the Statement of Fiduciary Net Position.
- Report the revenues, expenditures, and the change on the Schedule of Receipts, Disbursements and Changes in Due to Student Organizations.

Resources

- State Department of Education Memo
    - September 3, 2019
- GASB Implementation Guide
    - No. 2019-2, *Fiduciary Activities*

Questions?

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GASB Updates

GASB 87

Leases

GASB 87 – Leases

What: Establishes a single approach to accounting for and reporting leases

Why: Principle that leases are financings of the right to use an underlying asset

When: Effective for reporting periods beginning after December 15, 2019 (year ending June 30, 2021); earlier application is encouraged. Standard is to be applied retrospectively.

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 lease guidance, unless specifically excluded in GASB Statement No. 87.

Examples of Excluded Items

- Leases of intangible assets
- Leases of biological assets
- Leases of inventory
- Nonexchange transactions

Major Changes

- Classification of leases
  - Short-term leases
  - Contracts that transfer ownership
  - All other leases
- Leases beyond 12 months will have a balance sheet impact
  - Lessee will recognize a lease liability and an intangible asset for the right to use the leased asset
  - Lessor will recognize a lease receivable, a deferred inflow of resources and continue to depreciate and account for the leased asset

GAS B 87 – Leases

Lease Term

- Non-cancelable portion of the lease
- Plus those periods the lessee and lessor are reasonably certain will remain in the lease, includes periods where:
  - Lessee or lessor is able to extend the lease and is reasonably certain to do so
  - Lessee or lessor is able to, but is reasonably certain not to, terminate the lease
- Fiscal funding/cancellation clauses should not be taken into consideration unless the clause is reasonably certain of being exercised

Short-Term Leases

- Maximum possible term of 12 months or less, **including** any options to extend
- If cancelable by either the lessee or the lessor (i.e. month-to-month or year-to-year) maximum possible term is the non-cancelable period, including notice periods
- Lessee recognizes short-term lease payments as expenses

GASB 87 – Leases

Contracts that Transfer Ownership

- Lease contracts where ownership transfers to the lessee by the end of the contract
- Lessee reports as a financed purchase
- Lessor reports as sale of the asset

All Other Leases - Lessees

- Recognize a lease liability (long-term debt) and right to use asset (intangible asset)
  - Liability is the present value of the payments covered by the contract. Value will be reduced as payments are made.
  - Asset equals the initial measurement of the liability. Value will be reduced through periodic amortization.
- In the full accrual activity statements (government-wide and proprietary funds), lessees no longer report rent expense. Instead report interest expense on the lease liability and amortization expense related to the right to use asset
- No impact to governmental fund financial statements

GASB 87 – Leases

All Other Leases - Lessors

- Recognize a lease receivable and a deferred inflow of resources
- Continue to report the leased asset in its financial statements
- Recognize lease revenue from amortizing the deferred inflow over the lease term
- Recognize interest revenue on the lease receivable

All Other Leases - Disclosures

- Lessee
  - General description of the leasing arrangement
  - Amount of lease assets recognized
  - Schedule of future lease payments to be made
- Lessor
  - General description of the leasing arrangement
  - Total inflows of resources recognized

Example Entries

Transaction Date	Lessee			Lessor		
1/1/2021	Lease asset	33,617		Lease receivable	33,617	
	Lease liability		33,617	Deferred inflow		33,617
2/1/2021	Interest expense	126		Interest income		126
	Lease liability	874		Lease income		874
	Cash		1,000	Cash	1,000	
2/1/2021	Amortization expense	934		Deferred inflow	934	
	Accum. amortization		934	Lease receivable		934

Assumptions:	
Term:	36 months
Interest rate (lessee cost of funds):	4.50%
Monthly lease payment:	$ 1,000
Lessor does not derecognize underlying capital asset	

Key Impacts of the New Lease Model

- Right-of-use assets may amortize more quickly than the liabilities, negatively impacting net position
- Lessees report lease liabilities as long-term debt, which gives rise to concerns about compliance with restrictive debt covenants
- Lessees will report interest expense on the liability and amortization expense related to the asset, front-loading the expense recognition

GASB 87 – Leases

Transition

- Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation
- Effective for reporting periods beginning after December 15, 2019 (i.e. years ending June 30, 2021)

Transition

- For leases that were reported as operating leases prior to the implementation of GASB 87, should a government determine what the lease asset would have been on the date of implementation if it initially had been recognized and amortized in prior periods as a lease under GASB 87?
- No – leases should be measurer using the facts and circumstances that existed at the beginning of the period of implementation. The lease liability should be measured using the remaining lease term and discount rate as of the beginning of the earliest period restated. The right-to-use asset should be measured based on the lease liability at that date and no restatement of beginning net position would be required as the lease asset and lease liability would be the same.

Resources

- GASB Implementation Guide
  - No. 2019-3, *Leases*

Questions?

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Internal Controls

Internal Controls

The Need for Internal Control

In order to establish effective controls, an organization should first identify its relevant

- Objectives of control
- Risks
- Controls to manage risk

Internal Controls

Risk Responses

There are five predominant risk strategies:

- Avoidance – Don’t do it
- Mitigation – Lessen its impact
- Transfer – Move the risk
- Acceptance – Tolerate it
- Creation – Develop a response

Internal Control Process

Internal control is a process established to provide reasonable assurance regarding the achievement of objectives related to:

- Operations
- Reporting
- Compliance

The responsibility to develop and maintain effective internal controls lies with management.

Consequences of Weak Controls

Weak internal controls create a number of undesirable consequences such as:

- Fraud
- Collusion
- Loss of reputation
- Loss of assets
- Inefficient operations

Preventive vs. Detective Controls

A preventive control is a proactive control activity. Its goal is to eliminate negative events before they occur. Preventive controls are stronger than detective controls.

Detective controls are reactive control activities. The purpose of a detective control is to identify a negative event after its actual occurrence.

Internal Controls

Common Control Deficiencies

Non-recurring transactions

Transfers between funds

Collateral

Journal entry review

Documentation is key!

Questions?

STAY IN TOUCH

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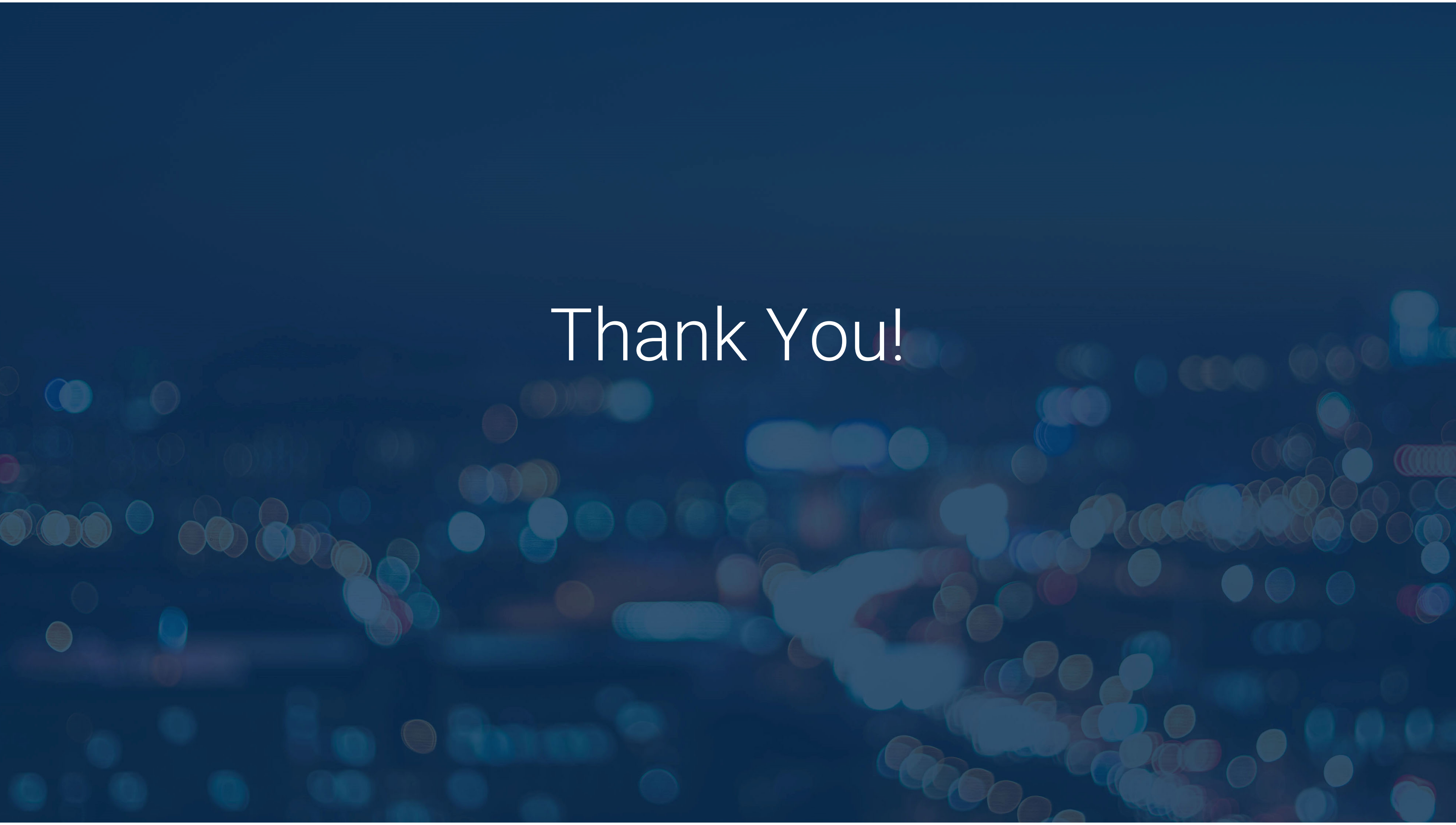
Thank You!