

# GASB UPDATES & ACCOUNTING TOPICS

November 5, 2020

# Disclaimer

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# Agenda

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## Discussion Topics

- Crowd Funding
- Remote work environment and IT considerations
- Succession planning and cross training
- Internal Controls

## GASB Updates

- GASB 84 – Fiduciary Activities
- GASB 87 – Leases

# Crowd Funding

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# What is crowd funding?

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Online fundraising.. i.e. GoFundMe, Adopt-A-Classroom, Donors Choose..

Crowd funding has become more popular as it is a way for community members to make donations and raise funds online more quickly without having to go purchase items.

COVID-19 friendly!

Knowing how to make crowd funding work for your District is what's important

# What to be aware of

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Have you thought about the legal, financial or reputational issues potentially at risk?

1. Districts should require prior administrative approval of fundraising campaigns
2. Consider using one approved platform across all schools/locations
3. Have donations distributed through the District or School
4. Don't violate any laws or regulations

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# Remote Work & IT

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# Discussion Points

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- Increase in remote access
- Cybersecurity
- E-communication



# Succession Planning

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# Discussion Points

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- Does the District have succession planning
- Are employees cross trained?
- What happens when a key employee is sick, is on extended leave, or retires/quits?
- What would happen if an entire department was exposed to COVID?

# Internal Controls

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# The Need for Internal Control

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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

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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

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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

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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

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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

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Non-recurring transactions

Transfers between funds

Collateral

Journal entry review

**Documentation is key!**

# Questions?

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GASB Updates

# GASB 84

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Fiduciary Activities

# GASB 84 – Fiduciary Activities

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- 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, 2019 (year ending June 30, 2021), earlier application permitted. Standard is to be applied retrospectively.

# Fiduciary Activities – Criteria

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- 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.

# Example

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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

## Example #2

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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

# Now What?

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Effective for fiscal year 2021 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

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- 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 **NOT** 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.

GASB 84 – Fiduciary Activities

# 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
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*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

# Resources

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

GASB Updates

# GASB 87

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Leases

# GASB 87 – Leases

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- 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, 2020 (year ending June 30, 2022); earlier application is encouraged. Standard is to be applied retrospectively.

# Definition of a Lease

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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

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

# Major Changes

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- 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



# Lease Term

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- 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

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- 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

# Contracts that Transfer Ownership

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- 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

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- 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

# All Other Leases - Lessors

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- 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

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

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

# Key Impacts of the New Lease Model

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- 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



# Transition

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- 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, 2020 (i.e. years ending June 30, 2022)

# Transition

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- 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 measured 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

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

# Questions?

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# STAY IN TOUCH

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Kim Davis, CPA  
Audit Manager

[kim.davis@elliottdavis.com](mailto:kim.davis@elliottdavis.com)

Melissa Monahan, CPA  
Audit Manager

[melissa.monahan@elliottdavis.com](mailto:melissa.monahan@elliottdavis.com)

100 Calhoun Street | Suite 300  
Charleston, South Carolina 29401  
843.577.7040

[elliottdavis.com](http://elliottdavis.com)



Thank You!