



GASBO

Georgia
Association
of School
Business
Officials

2018 UPDATES

GASBO Conference
November 2018
Augusta, Georgia

Presented By:
Georgia Department of
Audits & Accounts

Presentation Topics



- ✓ Important Dates and Other Reminders
- ✓ Accounting and Reporting Issues
- ✓ Common Audit Issues
- ✓ DOAA Award of Distinction for Excellent Financial Reporting
- ✓ Client Satisfaction Surveys
- ✓ Standards and Other Updates

Important Dates and Other Reminders



Important Due Dates



Transparency in Government Act (TiGA)

1 December 7th SPLOST Schedule

Immigration Act

1 December 31st

Immigration Reporting Due

(Nov. 1st Immigration Submission Site Opens)

Important Dates



Financial Statements Due to DOAA

- 1 November 15th Certificate of Distinction
- 1 December 31st Otherwise

Accounting and Reporting Issues



Accounting & Reporting Issues



- Guaranteed Energy Savings Leases /Contracts
 - Capital Asset must be reported (School District Responsibility)
 - ✓ Documentation of Capital Assets
 - ✓ Estimate with supporting documentation
(a deficiency exists if capital assets are not reported and this could affect the opinion)

Net Investment in Capital Assets (NICA)



Capital Assets, Net (Exhibit A)
Less:
Long Term Liabilities <i>(current and noncurrent portions)</i>
Notes and Loans Payable – Capital Asset Related <i>(current and noncurrent portions)</i>
Deferred Gain on Debt Refunding Contracts Payable – Capital Asset Related
Contracts Payable – Capital Asset Related
Retainage Payable – Capital Asset Related
Accounts Payable – Capital Asset Related
Deferred Inflow Service Concession Arrangement – Capital Asset Related
Advances – Capital Asset Related
Add:
Deferred Loss on Debt Refunding
Long-Term Liabilities not associated with Capital Assets <i>(ex. Compensated Absences)</i>
Unexpended Bond Proceeds
Uncapitalized Bond Proceeds expended

NICA – Discussion Points



- If you use total long-term liabilities from the Statement of Net Position (Exh A), you may need to add back items not related to Capital Assets:
 - Compensated Absences
 - Capital Leases for items not Capitalized (copiers, computers, ipads, etc.)
- Be sure to consider **ALL** contracts and retainages payables, not just those related to Bond Projects
- Your method of calculation "Unexpended Bond Proceeds" will impact the calculation of NICA.

NICA – Discussion Points



Unexpended Bond Proceeds (Fund Balance Method)

Fund Balance for Bond Proceeds Fund

Less: Interest Earned on Bond Proceeds
(Cumulative Total)

=

Total Bond Proceeds on Hand

Note: Because "Fund Balance" accounts for contracts and retainages payable if recorded on the Fund Statements, they should not be removed again in the NICA calculation.

NICA – Discussion Points



Unexpended Bond Proceeds (Cash Method)

Cash Balance in Bond Proceeds Bank Acct

Less: Interest Earned on Bond Proceeds
(Cumulative Total)

=

Total Bond Proceeds on Hand

Note: When starting with the "Cash Balance", contracts and retainages payable have not been considered. They should be deducted as part of the NICA calculation.

NICA – Discussion Points



- Other Notes on "Bond Proceeds on Hand"
 - Should never be negative.
 - For the life of the Debt
- Items purchased with Bond Proceeds that are not capitalized must be added back.
 - Cumulative Calculation for the life of the debt.
 - Typically tracked by Fiscal Year

NICA – Discussion Points



- Impact of Energy Leases
 - If Cash Proceeds are on hand for Energy Leases, these proceeds should be added back to the NICA calculations.
 - Items purchased with proceeds from Energy Leases that are not capitalized must be added back.
 - Cumulative Calculation for the life of the debt
 - Typically tracked by Fiscal Year

Other Reporting Issues



Change in Accounting Estimates

- There is no restatement of beginning net position for a change in accounting estimate, including useful life of capital assets.

Deferred Loss/Gain on Debt Refunding

- Amortization should be charged to Interest expense

Corrective Action Responses

- Must include signature of person providing the CAP
- Must be included on School District letterhead
- Auditors will provide electronic file with finding header

Common Audit Issues



Common Audit Issues



■ Common Deficiencies

□ School Activity Accounts

■ Common Issues

- Lack of Separation of Duties
- Receipt documentation not on hand
- Voucher package documentation not available
- Bank reconciliations not completed timely or adequately

■ Potential Solutions

- Schools reconcile each other's monthly bank reconciliations
- Secretary and Bookkeeper split duties
- No evidence of receipt = no payments

Common Audit Issues



■ Common Deficiencies

□ Federal Fund Balances

- Federal funds not closed out at year end
- Review balances to determine:
 - Refund to grantor
 - Deferred inflow of resources
 - Transfer from another fund
 - Receivable recorded

□ Equipment and Real Property Management

- Property records should contain:
 - Description
 - Source
 - Who holds title
 - Acquisition date and cost
 - Percentage of federal participation in the cost
 - Location
 - Condition
 - Disposition data (including date of disposal and sales price)

Common Audit Issues



■ Common Deficiencies

□ Capital Assets

- Incomplete Listing
- Assets not capitalized according to Board policy

□ Journal Entries

- No evidence of review and approval
- Documentation not maintained

Common Audit Issues



- Risk of Material Misstatement
 - Contracts and Retainages Payable
 - Capital Assets
 - Construction in Progress
 - Building and Building Improvements
 - E-rate
 - Capitalize the entire asset value, not just the amounts paid.

Common Audit Issues



- Management's Discussion & Analysis
 - Required Supplementary Information – GASB 34
 - Purpose is to provide an **objective** and easily readable **analysis** of the government's financial activities
 - Management's analysis – Auditor role is to ensure that the required elements exist

Common Audit Issues



■ Management's Discussion & Analysis

Provide an **analysis** of the government's overall financial activities and results of operations to assist users in assessing whether district's financial performance has improved or deteriorated as a result of the year's activities.

- Analysis should address important economic factors that affected the results of operations (changes in tax base)
- Explain *reasons* for significant changes in:
 - Financial Position
 - Results of operations
 - Significant changes in Net Position
 - Significant changes in Fund Balance

Common Audit Issues



■ Management's Discussion & Analysis

The analysis should explain reasons why variances occurred not just state that a variance exists.

➤ Not an analysis

"Total Net Position increased \$407,928.24."

➤ Analysis

"Total Net Position increased \$407,928.24 in fiscal year 2016. This increase is due largely to a decrease in austerity and additional state and local funds."

Common Audit Issues



■ Management Discussion & Analysis

Discussion of *currently known* facts, decisions, or conditions that are expected to have a *significant effect* on results or operations.

Limit discussion to factors *already in place*

- *Bill that has been enacted*
- *Resolution adopted*
- *Contract that has been signed*
- *Award of major grant*
- *Settlement of lawsuit*
- *Major change in tax base*

Common Audit Issues



■ Keys to a Successful Audit

- ✓ Visit DOAA and GaDOE websites on a regular basis
- ✓ *Financial Statement Preparation Guides*
- ✓ *Go through DOAA Review Checklists*

DOAA Award of Distinction for Excellent Financial Reporting



Award Criteria



Criteria	Description of Best Practices
Timeliness	<p>Financial Statements including MD&A, note disclosures, required supplementary information and supplementary schedules and all key supporting evidence were available for auditors by November 15.</p> <p>Compliance with Transparency in Government Act Accurate information submitted by the following established deadlines:</p> <ul style="list-style-type: none"> • Salary and Travel Information: August 15 • Audit History/Payments Files: September 15 • SPLOST Schedule: December 7
Quality of Financial Statements, Note Disclosures, Required Supplementary Information and Supplementary Information	<p>First set of financial statements, MD&A, notes, required supplementary information and supplementary information provided for audit required only minimal adjustments during the audit.</p>

Award Criteria



Criteria	Description of Best Practices
Quality of Audit Documentation	Full supporting documentation to substantiate financial statements provided in a timely manner. Evidence easy to locate and use for audit.
Resolution of Accounting Standards / Presentation Issues	Management resolved all accounting standards and presentation issues in a timely manner.
Key Staff	Key staff readily available and cooperative during the audit and did not contribute to any delays in finalizing the audit.
Number/Significance of Deficiencies Identified	No significant deficiencies or material weaknesses noted during the audit. No more than 3 to 5 deficiencies reported within the management letter.
Clean Audit Opinion	Unmodified Opinion

**Congratulations to the
Following Recipients!!**



DOAA Award of Distinction for Excellent Financial Reporting - FY17 Recipients to date



- Atkinson County
- Barrow County
- Bryan County
- Candler County
- Catoosa County
- Charlton County
- City of Bremen
- City of Chickamauga
- City of Pelham
- City of Vidalia
- Coweta County
- Crisp County
- Dawson County
- Decatur County
- Evans County
- Gilmer County
- Greene County
- Hall County
- Hart County
- Houston County
- Jasper County
- Lee County
- Lowndes County
- Marion County
- Morgan County
- Paulding County
- Polk County
- Putnam County
- Tattnall County
- Tift County
- Towns County
- Washington County
- Webster County
- Wilcox County

Client Satisfaction Survey Results



Our Process



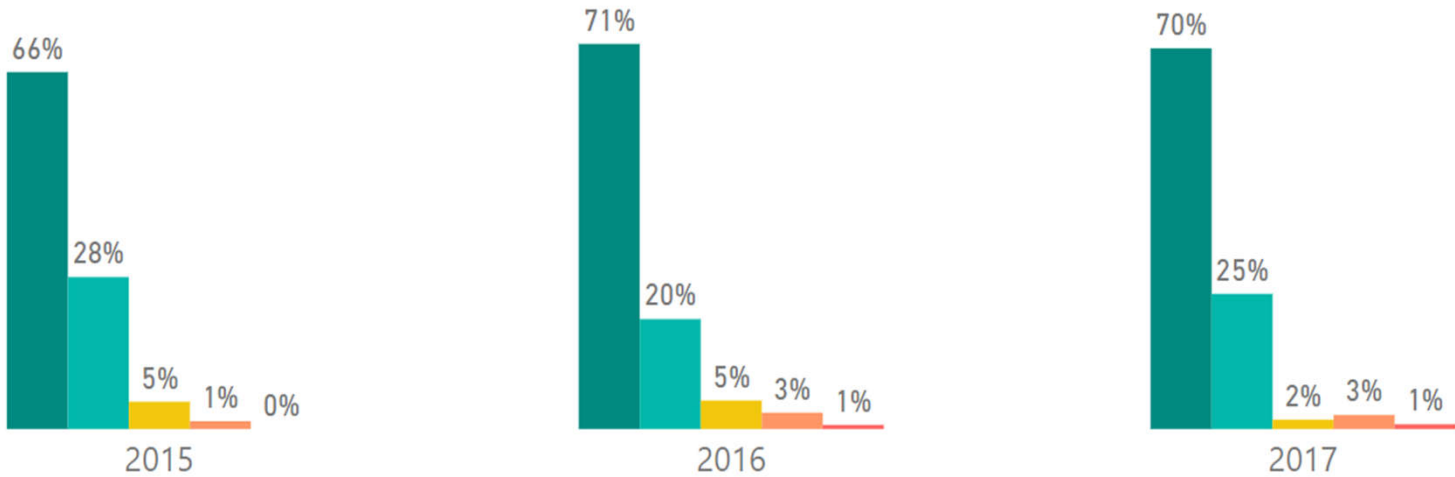
- ✓ Our Business Innovations Team sends surveys to each auditee once the audit report has been released.
- ✓ Surveys are received and reviewed by our Professional Standards and Practices Division
- ✓ Results are provided to the State Auditor, Deputy Directors, and other responsible individuals
- ✓ An overall assessment is done periodically, but individual issues are addressed immediately.

Client Satisfaction Survey Results



Audit staff met agreed-upon expectations associated with communications, deadlines, and deliverables.

● Strongly Agree ● Agree ● Neither Agree Nor Disagree ● Disagree ● Strongly Disagree

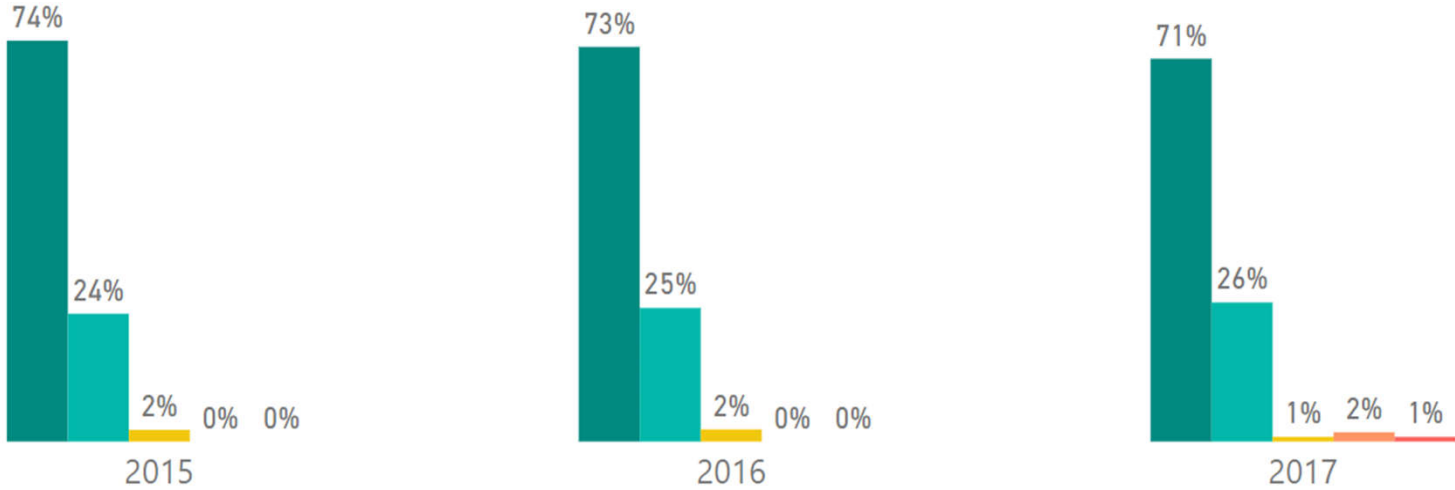


Client Satisfaction Survey Results



Auditors demonstrated professional skills and knowledge required to conduct the engagement.

● Strongly Agree ● Agree ● Neither Agree Nor Disagree ● Disagree ● Strongly Disagree

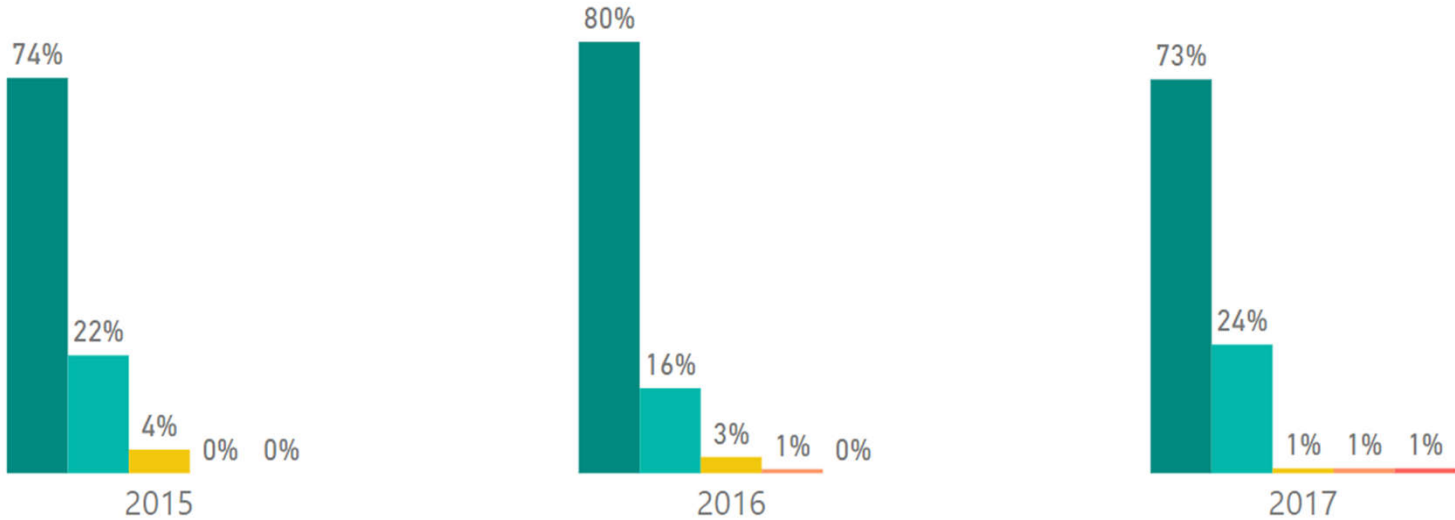


Client Satisfaction Survey Results



The engagement report(s) clearly communicated deficiencies, engagement findings, and other issues noted.

● Strongly Agree ● Agree ● Neither Agree Nor Disagree ● Disagree ● Strongly Disagree



Thank you for responding!!



GASB Updates





GASB Updates – Effective FY18

GASB 75 – OPEB Employer Reporting



GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"

- Requires employers participating in OPEB plans to record their proportionate share of a plan's activity, including the net OPEB liability
- Similar to GASB 68 implementation – will have a significant effect on financial statements
- Requires restatement to prior period financial statements

GASB 81 – Split Interest Agreements



GASB Statement No. 81 *"Irrevocable Split Interest Agreements"*

- Provides recognition and measurement guidance for situations in which a government is a beneficiary of an irrevocable split-interest agreement.
- Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries.
- Donor irrevocably transfers resources to an intermediary
- Intermediary administers resources for the unconditional benefit of a government and at least one other beneficiary

GASB 81 – Split Interest Agreements



Types of irrevocable split interest agreements

- **Lead Interest** – provides resources to beneficiary throughout the term of the agreement through periodic disbursements
- **Remainder Interest** – provides a final disbursement at the termination of the agreement
- **Life-Interest in Real Estate** – donor retains right to use an asset, such as a residence, until the occurrence of a specified event, such as the death of the donor

GASB 81 – Split Interest Agreements



GASB Statement No. 81 *"Irrevocable Split Interest Agreements"*

- Different accounting required depending on whether the government is the **lead interest** beneficiary, or the **remainder interest** beneficiary.
- Requires restatement and retroactive application of the provisions of the statement

GASB 85 – Omnibus 2017



GASB Statement No. 85 *"Omnibus 2017"*

Addresses a variety of topics including issues related to

- blending component units,
- goodwill,
- fair value measurement and application for real estate held by insurance entities,
- and postemployment benefits (pensions and other postemployment benefits [OPEB]).

GASB 86 – Debt Extinguishments



GASB Statement No. 86, *Certain Debt Extinguishment Issues*

- Improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—**resources other than the proceeds of refunding debt**—are placed in an irrevocable trust for the sole purpose of extinguishing debt.
- This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.



GASB Updates – Effective FY19

GASB 83 – Asset Retirement Obligations



GASB Statement No. 83 "*Certain Asset Retirement Obligations*"

- Establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources accounting and financial reporting for certain asset retirement obligations (AROs).
- ARO is a legally enforceable liability associated with the retirement of a tangible capital asset.

GASB 88 – Debt Disclosures



GASB Statement No. 88 *"Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements"*

In addition to other requirements to disclose information related to debt in notes to financial statements, a government should disclose in notes to financial statements summarized information about the following items:

- a. Amount of unused lines of credit
- b. Assets pledged as collateral for debt
- c. Terms specified in debt agreements related to significant (1) events of default with finance-related consequences, (2) termination events with finance related consequences, and (3) subjective acceleration clauses

GASB 88 – Debt Disclosures



GASB Statement No. 88 *"Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements"*

In notes to financial statements, a government should separate information in debt disclosures regarding (a) direct borrowings and direct placements of debt from (b) other debt.



GASB Updates – Effective FY20

GASB 84 – Fiduciary Activities



GASB Statement No. 84 “Fiduciary Activities”

- Establishes criteria for identifying fiduciary activities of all state and local governments
- 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.

GASB 84 – Fiduciary Activities



GASB Statement No. 84 "Fiduciary Activities"

- Describes four fiduciary funds that should be reported, if applicable:
 - Pension (and other employee benefit) trust funds
 - Investment trust funds
 - Private-purpose trust funds
 - Custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria
- Note that Agency funds have been replaced by Custodial funds

GASB 84 – Fiduciary Activities



GASB Statement No. 84 “Fiduciary Activities”

- 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.
- Co5.107 Public colleges and universities engaged only in business-type activities and fiduciary activities should present only the financial statements required for enterprise funds (see Section 1600, paragraphs .130–.137, and Section 2200, paragraphs .170–.196) **and the financial statements required for fiduciary funds** (see Section 2200, paragraphs .198–.200).

GASB 90 – Majority Equity Interests



GASB Statement No. 90 "Majority Equity Interests"

- Modifies previous guidance for reporting a government's majority equity interest in a legally separate organization
- Provides guidance for reporting a component unit if a government acquires a 100% equity interest in that component unit

GASB 90 – Majority Equity Interests



GASB Statement No. 90 “Majority Equity Interests”

- If a government’s holding of equity interest meets the definition of an investment under paragraph 64 of GASB 72, the legally separate organization should not be reported as a component unit.
- If holding of the equity interest does not meet definition of an investment, the legally separate organization should be reported as a component unit.
- If the component unit is a DPCU, the majority interest should be reported as an asset by the primary government. If a blended CU, eliminate the equity interest.

GASB 90 – Majority Equity Interests



GASB Statement No. 90 "Majority Equity Interests"

- If a government acquires a 100% equity interest in a legally separate organization that is reported as a component unit, the measurements required under GASB 69 *Government Combinations and Disposals of Government Operations* should be at the date of acquisition.
- Requires restatement to the financial statements



GASB Updates – Effective FY21

GASB 87 – Leases



GASB Statement No. 87 "Leases"

- 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
- Requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognizes as inflows of resources or outflows of resources based on the payment provisions of the contract

GASB 87 – Leases



GASB Statement No. 87 "Leases"

- A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction
- A lessee is required to recognize a lease liability and an intangible right-to-use lease asset
- Establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset

GASB 87 – Leases



GASB Statement No. 87 "Leases"

- Will require restatement of financial statements
- More to come as implementation nears!

GASB 89 – Construction Interest Costs



GASB Statement No. 89 "Accounting for Interest Cost Incurred before the End of a Construction Period"

- In financial statements prepared using the economic resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred. Such interest cost should not be capitalized as part of the historical cost of a capital asset.

GASB 89 – Construction Interest Costs



GASB Statement No. 89 "Accounting for Interest Cost Incurred before the End of a Construction Period"

- In financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

GASB 89 – Construction Interest Costs



GASB Statement No. 89 "Accounting for Interest Cost Incurred before the End of a Construction Period"

- Changes adopted to conform to the provisions of this Statement should be applied **prospectively**. For construction-in-progress, interest cost incurred after the beginning of the first reporting period to which this Statement is applied should not be capitalized.

Questions?



Michele Moulton
moulton@audits.ga.gov

Sara Rohrbach
rohrbach@audits.ga.gov