2019 FINANCIAL REVIEW WORKSHOP AUDIT UPDATES

Presented By:
Georgia Department of Audits & Accounts

Georgia State Capitol

Presentation Topics

✓	Important Dates and Other Reminders
✓	Federal Compliance Issues
✓	Accounting and Reporting Issues
✓	GASB Updates

Important Dates and Other Reminders

Important Due Dates

Transparency in Government Act (TiGA)

- October 1st TiGA Submission Due

  (July 9th TiGA Submission Site Opens)

- August 15th Salaries & Travel Report CS1

  (Opens July 8th and due by August 15th)

- October 1st Audit History File (AHIS)
- December 6th SPLOST Schedule

Important Due Dates

Immigration Act

- December 31^{st}

  Immigration Reporting Due

  (Nov. 1st Immigration Submission Site Opens)

Important Dates

Availability of Audit Tools

- July 31st
  - Financial Statement Templates
  - (including Note Templates)

Financial Statements Due to DOAA

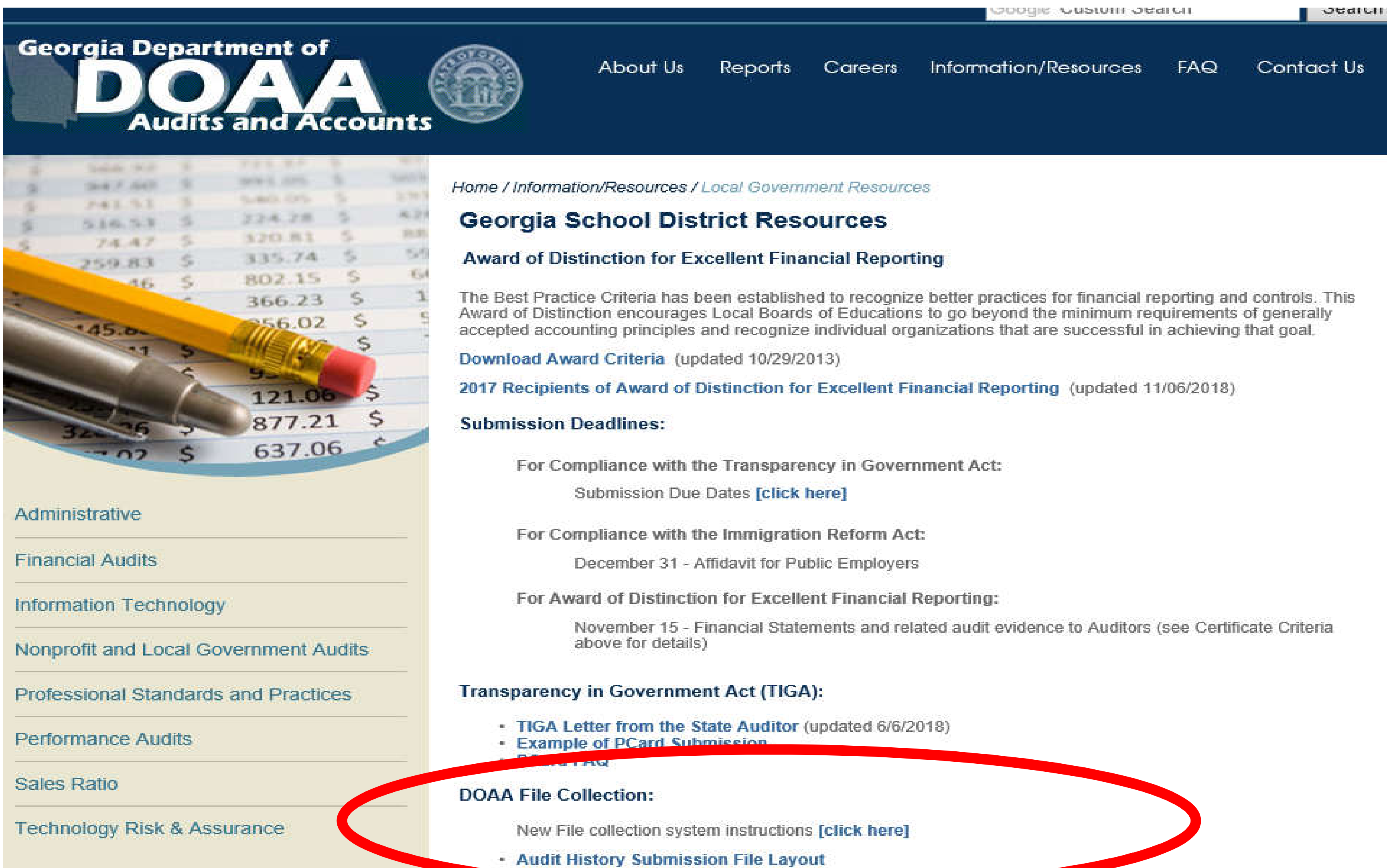
- November 15th Certificate of Distinction
- December 31st Otherwise

Other Notes & Reminders

- Special reporting needs
  - Let us know ASAP!
- GASBO financial statement workshop

  Tuesday, November 5th

NEW DOAA Collection System



NEW DOAA Collection System

- Self-reset and add or change the files submitted

<u>* If you have clicked on “Confirm” in error, you may request a reset of your submission by clicking this icon-</u>

There is no need to call us for this reset request as this will be processed systematically.

- File Share Point Option

DOAA Award of Distinction for Excellent Financial Reporting

DOAA Award of Distinction for Excellent Financial Reporting - FY18 Recipients to date

- Atkinson County
- Bulloch County
- Charlton County
- City of Bremen
- City of Pelham
- City of Vidalia
- Crisp County
- Dawson County
- Decatur County
- Early County
- Evans County
- Gilmer County
- Greene County
- Hall County
- Hart County
- Houston County
- Jasper County
- Lee County
- Lincoln County
- Lowndes County
- Marion County
- McDuffie County
- Morgan County
- Paulding County
- Putnam County
- Tattnall County
- Thomas County
- Towns County
- Ware County
- Washington County

Federal Compliance Issues

Federal Compliance – Equipment Testing

- Auditors complete the equipment inventory management compliance testing required per the OMB Compliance Supplement as follows:
  - Identify equipment acquired and trace selected purchases to the property records. Verify that the property records contain the required information.
  - Verify that the required physical inventory of equipment was performed. Test whether any differences between the physical inventory and equipment records were resolved.
  - Select a sample from all equipment acquired under Federal awards from the property records and physically inspect the equipment and determine whether the equipment is appropriately safeguarded and maintained.

Federal Compliance – Equipment Testing

- 2 CFR 200.313(d)(1) requires the following items to be reflected on each Federal program's equipment listing:
  - a description of the property
  - a serial number or other identification number
  - the source of funding for the property (including the FAIN)
  - who holds title
  - the acquisition date
  - cost of the property
  - percentage of Federal participation in the project costs for the Federal award under which the property was acquired
  - the location
  - use and condition of the property
  - any ultimate disposition data including the date of disposal and sale price of the property

Federal Compliance – Equipment Testing

- DOAA staff have encountered significant problems in the testing of equipment items as follows:
  - Equipment listings do not contain all required components.
  - Equipment items were physically located but were not reflected on the listings appropriately, and/or items reported on the listings could not be physically located.
  - Physical inventories have not been performed or physical inventory documentation provided by School District personnel does not appear to be reasonable or complete.
- Standards require auditors to ensure that they have met the objectives of their testing.
  - However, the excessive deviation rates noted in equipment testing often times do not support the achievement of these objectives.

Federal Compliance – Equipment Testing

- In an effort to ensure that the level of deficiency matches the results of this testing, auditors will be allowing School Districts several months to make the necessary updates to their equipment listings.
- Until June 30, 2019, auditors will only write Significant Deficiency or Material Weakness findings for two or more of the following issues as has been our practice in the past:
  - Items are located when performing the physical inspection but are missing from the listing.
  - Items on the equipment listing cannot be physically located.
  - Significant issues are noted with the listing not containing costs or identifying numbers.
  - A physical inventory was not performed in the last two fiscal years.

Federal Compliance – Equipment Testing

- After June 30, 2019, auditors will begin to write Significant Deficiency or Material Weakness findings for equipment listings that do not reflect all required components.
  - Most of the listing requirements have been required for many years though the verbiage in the Uniform Guidance has changed slightly.
  - However, the FAIN number is a new requirement under the Uniform Guidance. Therefore, auditors will expect to see a FAIN number listed for equipment purchased from FY2016 to the present as this was the year in which School District's began reporting the FAIN numbers on the SEFA.

Federal Compliance – Internal Controls under the Uniform Guidance

- Non-Federal entities, such as School Districts, are required to implement internal controls over Federal programs:
  - 2 CFR 200.303, "the non-Federal entity must: (a) establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with the Federal statutes, regulations, and the terms and conditions of the Federal award."

Federal Compliance – Internal Controls under the Uniform Guidance

- Auditors are required to test internal controls over Federal programs:
  - Per 2 CFR 200.514(c)(3), "…the auditor must (i) plan the testing of internal control over compliance for major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program; and (ii) perform testing of internal control as planned…"
- Based upon this guidance, it is imperative that the internal controls implemented for each compliance requirement be documented and maintained on-file by School District personnel.

Federal Compliance – Materiality Considerations

Under the Uniform Guidance, there are several levels of materiality:

- *Major Program Level*—materiality level for opining on the entity's compliance with requirements having a direct and material effect on each major program.
- *Compliance Requirement Level*—materiality level for individual compliance requirements.
- *Audit Finding Level*—materiality level for purposes of reporting audit findings in the schedule of findings and questioned costs. Audit finding materiality is defined in 2 CFR section 200.516(a).

Document Title: 1307 Considering Compliance with Laws and Regulations in a Single Audit
Checkpoint Source: Audits of Local Governments (PPC)

Federal Compliance – Materiality Considerations

Compliance requirement and audit finding materiality levels are lower levels of materiality than major program materiality…. **the determination of whether noncompliance is material for the purpose of reporting audit findings is in relation to a type of compliance requirement identified in the Compliance Supplement.**

Document Title: 1307 Considering Compliance with Laws and Regulations in a Single Audit
Checkpoint Source: Audits of Local Governments (PPC)

Federal Compliance – Materiality Considerations

When noncompliance related to monetary transactions is found auditors must

- Determine and report known questioned costs
- Estimate likely questioned costs – usually through projection of audit sample error
- Consider effect of likely questioned costs on opinion on compliance
- Include an audit finding when estimated likely questioned costs exceed $25,000
- Please note that materiality to the program of compliance requirement is **not** a consideration. A finding is required when likely QC exceed $25,000.
- Materiality will help determine the level of finding – Significant deficiency vs. Material weakness

Accounting and Reporting Issues

Collateralization of Deposits

- Request Collateralization information directly from the financial institution
- Review the information and include in the Notes to the Financial Statements
  - FDIC Insurance:
    - Time Deposits (includes NOW and Money Market deposit accounts)- $250,000
    - Demand Deposits (includes both interest-bearing and non-interest bearing) - $250,000
    - Bond Sinking Funds -$250,000 for each bondholder

https://www.fdic.gov/deposit/deposits/FactSheet.html

Collateralization of Deposits

SB157 – Effective May 2, 2019

Defines when funds considered “held in depository”

- If initially deposited in FDIC insured depository
- Depository arranges for funds to be deposited in FDIC insured institutions, **wherever located**
- Full amount is FDIC insured
- Allows for 3rd-party facilitators as long as approved by State Depository Board, which is required to establish policies/procedures by 12/31/19

Collateralization of Deposits

The insurance coverage of accounts held by government depositors is different if the depository institution is located outside the State in which the public unit is located. In that case, all deposits, both time and savings deposits and demand deposits, owned by the public unit and held by the public unit's official custodian are added together and insured up to $250,000. Time and savings deposits are not insured separately from demand deposits.

Collateralization of Deposits

Special Rule for Public Bonds

- A deposit is insured up to $250,000 for the beneficial interest of each bondholder.

- Coverage is separate from the coverage for other deposits owned by the public unit at the same institution.

Collateralization of Deposits

Special Rule for Public Bonds

In order to obtain this special coverage, the deposit account must satisfy certain disclosure requirements applicable to deposits held by agents or fiduciaries.

- Deposit account records of the insured depository institution must disclose the existence of the fiduciary relationship or the fiduciary nature of the deposit.
- Details of the fiduciary relationship and the interests of the bondholders must be ascertainable from the records of the depository institution or the records of the depositor maintained in good faith and in the regular course of business.

QSCB Bonds Interest

Reporting of Interest Payable on QSCB Bonds – IRS Subsidy Bonds

Calculate the amount owed at June 30

Debt Service Schedule

Calendar Year Ending December 31	Principal	Interest	Total Annual Debt Service Requirements	Federal Subsidy Payment	Total Annual Debt Service after Subsidy
2019	-	377,520.00	377,520.00	(337,880.40)	39,639.60
2020	-	475,200.00	475,200.00	(425,304.00)	49,896.00

QSCB Bonds Interest Payable

Interest Payment due December 31, 2019 of $377,520.00

Calculate Monthly amount: 377,520.00/12=31,460.00

31,460.00 x 6 months = 188,760.00 – Interest Payable

ENTRY:

Interest on Debt Function	$188,760.00	
Interest Payable		$188,760.00

QSCB Bonds Interest Receivable

Federal Subsidy Payment December 31, 2019 of $337,880.40

Calculate Monthly amount: 337,880.40/12=28,156.70

28,156.70 x 6 months = 168,940.20 – Interest Receivable

ENTRY:

Interest Receivable $168,940.20

Capital Grants and Contribution – Interest on Short-Term and Long-Term Debt Function $168,940.20

E-Rate

Should E-rate funds paid directly by the program to the vendor be recorded at both the fund level and government-wide level?

N50.714-1 Q—How should donations of capital assets to governments be recorded in governmental funds?

A—The measurement focus of governmental funds is on current financial resources. Therefore, if a capital asset is donated to a government and is held for use in general government operations, no asset or revenue is recorded in the governmental fund.

E-Rate

What if the E-rate funds are for equipment items not meeting the capital assets threshold ?

- Do not recognize on fund level. Only on-behalf payments for salaries and fringe benefits are recognized on the fund level
- Record as miscellaneous revenue

Net Investment in Capital Assets

Net Investment in Capital Assets (NICA)

Capital Assets, Net (Exhibit A)
Less:
Long Term Liabilities *(current and noncurrent portions)*
Notes and Loans Payable – Capital Asset Related *(current and noncurrent portions)*
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 *(ex. Compensated Absences)*
Unexpended Bond Proceeds
Uncapitalized Bond Proceeds expended

NICA – Discussion Points

- Be sure to consider **ALL** payables related to capital assets (accounts, contracts and retainages payables) not just those related to Bond Projects
- "Bond Proceeds on Hand" - Should never be negative and is considered for the life of the Debt
- Unexpended Bond Proceeds will impact the calculation of NICA. Choose either:
    - 1) Fund Balance Method
    - 2) Cash Method

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

- Bond Proceeds used to purchase items that are NOT capitalized must be added back to NICA
  - Cumulative Calculation for the life of the debt
  - Typically tracked by Fiscal Year
- Impacts Unrestricted Net Position

NICA – Discussion Points

Bond proceeds used for non-capital items (2200.709-5)

Q - Often, debt is issued for capital purposes, but some of the proceeds are spent for assets that are not capitalized. Should some of the debt be removed from the *net investment in capital assets* component of net position?

NICA – Discussion Points

Bond proceeds used for non-capital items (2200.709-5)

A - Governments are not expected to categorize all uses of bond proceeds to determine how much of the debt actually relates to assets that have been capitalized . Unless a **significant** portion of the debt proceeds is spent for noncapitalizable purposes, the entire amount could be considered "capital-related."

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 and removed from Restricted for Capital Projects
  - Items purchased with proceeds from Energy Leases that are not capitalized must be added back.
    - Impacts Unrestricted Net Position
    - Cumulative Calculation for the life of the debt
    - Typically tracked by Fiscal Year

Insurance Recoveries

Reporting Insurance Recoveries

GASBS 42 — Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries

- In governmental fund financial statements, restoration or replacement of an impaired capital asset should be reported as a separate transaction from the associated insurance recovery, which is reported as an other financing source or extraordinary item, as appropriate.
- In governmental and business-type activities in government-wide financial statements and in proprietary fund financial statements, restoration or replacement of an impaired capital asset should be reported as a separate transaction from the impairment loss and associated insurance recovery. The impairment loss should be reported net of the associated insurance recovery when the recovery and loss occur in the same year.

Reporting Insurance Recoveries

GASBS 42 — Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries

- Insurance recoveries reported in subsequent years should be reported as a program revenue, nonoperating revenue, or extraordinary item, as appropriate.
- Insurance recoveries should be recognized only when realized or realizable. For example, if an insurer has admitted or acknowledged coverage, an insurance recovery would be realizable. If the insurer has denied coverage, the insurance recovery generally would not be realizable.
- If not otherwise apparent in the financial statements, the amount and financial statement classification of insurance recoveries should be disclosed.

Reporting Insurance Recoveries

.728-1 Q—What is the difference between "extraordinary " items and "special" items ?

*A—Special items are significant transactions or other events within the control of management that are either unusual in nature **or** infrequent in occurrence. Special items differ from extraordinary items in two ways. The first difference is that special items should be within the control of management, whereas extraordinary items are not required to be within the control of management. The other difference is that extraordinary items are required to be both unusual in nature and infrequent in occurrence, whereas special items are only unusual in nature or infrequent in occurrence, but not both.*

Reporting Insurance Recoveries

Examples of events or transactions that may qualify as extraordinary or special items may include:

Extraordinary items:

- Costs related to an environmental disaster caused by a large chemical spill in a train derailment in a small city.

- Significant damage to the community or destruction of government facilities by natural disaster (tornado, hurricane, flood, earthquake, and so forth) or terrorist act. Geographic location of the government may determine if a weather-related natural disaster is *infrequent*.

- A large bequest to a small government by a private citizen.

Reporting Insurance Recoveries

Examples of events or transactions that may qualify as extraordinary or special items may include:

Special items:

- Sales of certain general governmental capital assets
- Termination benefits resulting from workforce reductions due to sale of utility operations
- Early-retirement program offered to all employees
- Significant forgiveness of debt
- Gains or losses on the disposal of government operations

GASB Updates – Effective FY19

GASB 83 – Asset Retirement Obligations

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

- Establishes criteria for accounting and financial reporting for certain asset retirement obligations (AROs).
- An ARO is a <u>legally enforceable liability</u> associated with the retirement of a tangible capital asset that is permanently removed from service.
- Requires an external obligating event:
  a. Approval of federal, state, or local laws or regulations
  b. Creation of a legally binding contract
  c. Issuance of a court judgment.

GASB 83 – Asset Retirement Obligations

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

This Statement does not apply to:

a. Obligations that arise solely from a plan to sell or otherwise dispose of a tangible capital asset
b. Obligations associated with the preparation of a tangible capital asset for an alternative use
c. Obligations for pollution remediation, such as asbestos removal, that result from the other-than-normal operation of a tangible capital asset
d. Obligations associated with maintenance, rather than retirement, of a tangible capital asset
e. The cost of a replacement part that is a component of a tangible capital asset
f. Landfill closure and postclosure care obligations
g. Conditional obligations to perform asset retirement activities.

GASB 88 – Certain Disclosures Related to Debt

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 – Certain Disclosures Related to Debt

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

- Direct borrowings – entering into a loan agreement with a lender
- Direct placements – issuing debt security directly to an investor
- Direct borrowings and direct placements have terms negotiated directly with the investor or lender and are not offered for public sale.
- In notes to financial statements, a government should separate information in debt disclosures regarding direct borrowings and direct placements of debt from 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 now been removed and included in Custodial funds
- Need to analyze current funds to determine the new categorization

GASB 84 – Fiduciary Activities

GASB Statement No. 84 "*Fiduciary Activities*"

"Administrative involvement" by the government is key to determination of fiduciary activities

(a) monitors compliance with the requirements of the activity that are established by the government or by a resource provider that does not receive the direct benefits of the activity,

(b) determines eligible expenditures that are established by the government or by a resource provider that does not receive the direct benefits of the activity, or

(c) has the ability to exercise discretion over how assets are allocated. A government has direct financial involvement with the assets if, for example, it provides matching resources for the activities.

GASB 84 – Fiduciary Activities

"Administrative involvement" guidance from Implementation Guide (Draft)

"In assessing whether a government has administrative involvement, a "substance versus form" consideration is appropriate. That is, the government's role would have substance if the school board, school administrator, or faculty advisor (representative of the school) establishes how the resources can be spent through approved policies."

GASB 84 – Fiduciary Activities

"Administrative involvement" guidance from Implementation Guide (Draft)

Question:

A school district holds the funds raised by 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. Does the school district have administrative involvement?

GASB 84 – Fiduciary Activities

"Administrative involvement" guidance from Implementation Guide (Draft)

A— Yes. The school district does have administrative involvement. The school district's role is considered to be substantive because in the absence of an approved policy, the faculty advisor (who is acting in the capacity of a school representative) has the ability to reject, modify, or approve how the resources are spent.

GASB 84 – Fiduciary Activities

"Administrative involvement" guidance from Implementation Guide (Draft)

Question:

A school board establishes and approves a policy related to the receipt, disbursement, and holding of funds for various student clubs and organizations that are not legally separate from the school district. The policy includes specific guidelines related to how the funds raised by the clubs and organizations can be spent. Does the school district have administrative involvement?

GASB 84 – Fiduciary Activities

"Administrative involvement" guidance from Implementation Guide (Draft)

A—Yes. The school district does have administrative involvement. The school district's role is considered to be substantive because the school has established specific guidelines on how the resources can be spent in an approved policy.

GASB 84 – Fiduciary Activities

"Administrative involvement" guidance from Implementation Guide (Draft)

Q—Assume the same facts, except that the policy that applies to all clubs only addresses issues such as the authorized account signers and the prohibition of spending for illegal activities. Does the school district have administrative involvement?

A—No. The school district does not have administrative involvement. The school district's role is not considered to be substantive because the school has not established specific guidelines regarding how the resources of the clubs and organizations can be spent.

GASB 84 – Fiduciary Activities

Financial Statement Presentation – Restatement

- Must restate beginning fiduciary net position
- Describe the nature of the restatement and it's effect in the notes to financial statements
- Possible that if only had Agency funds in prior years and no funds deemed custodial, that the restatement will remove all fiduciary funds and will need to be disclosed

GASB 90 – Majority Equity Interests

GASB Statement No. 90 "*Majority Equity Interests*"

- Provides 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
- Equity interest is a financial interest in a legally separate organization shown by ownership of the organization's stock or by explicit, measurable rights to the net resources of the organization

GASB Updates – Effective FY21

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 a 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*" - Guidance from draft Implementation Guide

Q—An equipment vendor installs equipment on a government's building to increase energy efficiency. The government makes payments to the equipment vendor based on a percentage of the government's energy cost savings. The government will own the equipment at the end of the agreement, and the contract does not contain a termination option. Is this transaction a lease for financial reporting purposes?

A—No. If title to the equipment transfers to the lessee by the end of the contract, the transaction is not accounted for as a lease for financial reporting purposes. Rather, the transaction is a financed purchase, as discussed in paragraph 19 of Statement 87.

GASB 87 – Leases

GASB Statement No. 87 "*Leases*" - Guidance from draft Implementation Guide

Q—A government adopts a capitalization threshold and expenses acquisitions, including lease assets, that fall below that threshold. Can the government apply a similar threshold to recording lease liabilities?

GASB 87 – Leases

GASB Statement No. 87 "*Leases*" - Guidance from draft Implementation Guide

A—Authoritative pronouncements do not provide specific guidance related to a capitalization threshold. However, governments often use capitalization thresholds in practice so that limited resources are not spent accounting for insignificant items. When applying a capitalization threshold to leases, lessees should consider the significance of the lease liability in addition to the significance of the lease asset in accordance with the guidance provided in Question 7.4.1 of *Implementation Guide No. 2015-1,* as amended. Significant lease liabilities, either individually or in the aggregate, should be recognized.

GASB 87 – Leases

GASB Statement No. 87 "*Leases*" - Guidance from draft Implementation Guide

Q—A lease contract for copy machines requires that a minimum amount be paid for toner and paper regardless of whether these supplies are obtained. Should some portion of the minimum amount to be paid for supplies be included in the measurement of the lease liability?

GASB 87 – Leases

GASB Statement No. 87 "*Leases*" - Guidance from draft Implementation Guide

A—As discussed in paragraphs 66 and 67 of Statement 87, if the amount that the lessee is required to pay for supplies does not appear to be unreasonable, regardless of whether supplies are obtained, the government should account for the supplies separately from the lease and therefore not include it in the measurement of the lease liability. If the amount appears to be unreasonable, professional judgment may be needed to determine whether some or all of the minimum amount is, in substance, a fixed lease payment that should be included in the measurement of the lease liability.

GASB 87 – Leases

GASB Statement No. 87 *"Leases"* - Guidance from draft Implementation Guide

Q—A government purchases an underlying asset from the lessor and, as a result, terminates a lease. The government reclassifies the right-to-use lease asset to the appropriate asset class. How should this reclassification be disclosed in the notes to financial statements?

GASB 87 – Leases

GASB Statement No. 87 "*Leases*" - Guidance from draft Implementation Guide

A—Paragraph 37b of Statement 87 requires that lease assets, and the related accumulated amortization, be disclosed separately from other capital assets. Because lease assets are capital assets, paragraphs 116–120 of Statement 34 apply. Upon termination of the lease and purchase of the underlying asset, the lessee should disclose a decrease of the lease asset and an increase of a capital asset in the appropriate capital asset class, as described in paragraph 117 of Statement 34, as amended. Alternatively, a reclassification column could be used to show the change from lease asset to the other capital asset class.

GASB 87 – Leases

GASB Statement No. 87 "*Leases*" - Guidance from draft Implementation Guide

Q—Should lease assets be included with other capital assets in the disclosure of changes in capital assets?

A—Yes. Lease assets are capital assets and, therefore, should be included in the disclosure of changes in capital assets. Paragraph 37c of Statement 87 requires lessees to disclose "the amount of lease assets by major classes of underlying assets, disclosed separately from other capital assets." Paragraphs 116 and 117 of Statement 34, as amended, require disclosure of information about major classes of capital assets, including disclosure of changes in capital assets.

GASB 87 – Leases

GASB Statement No. 87 "*Leases*"

Capitalization of the right-to-use asset should follow the underlying asset based on current capitalization policies.

GASB 89 – Construction Interest Cost

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 (government-wide), interest cost incurred before the end of a construction period should be recognized as an <u>expense in the period in which the cost is incurred.</u> Such interest cost should <u>not be capitalized</u> as part of the historical cost of a capital asset.

- In financial statements prepared using the current financial resources measurement focus (fund level), 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.

- Early implementation is not permitted!

GASB Updates – Effective…

Financial Reporting Model Update

Financial Reporting Model – *Reexamination of Statements 34, 35, 37, 41, and 46 and Interpretation 6*

Current Developments:

- Public hearings and user forums were held in March 2019
- Exposure Draft expected June 2020
- Comment Period & Public Hearings Remainder of 2020
- Redeliberate Issues, discuss draft of final statement 2021
- Draft of final statement considered for approval February 2022

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