

The background of the slide is a photograph of the Georgia State Capitol building in Savannah, Georgia. The building is a grand, classical-style structure with a prominent golden dome topped by a statue. The facade features numerous columns and arched windows. In the foreground, there are some trees and a statue of a man on a pedestal. The sky is clear and blue.

**G.A.I.N.S.**

*Georgia Accounting Information  
Network Support, Inc.*

[www.GAgains.org](http://www.GAgains.org)

## 2021 UPDATES

**GAINS Conference**  
**May 13, 2021**  
**Savannah, 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
- ✓ Standards and Other Updates

# Important Dates and Other Reminders



# Important Due Dates



## Compliance with Transparency in Government Act (TIGA)

### Salary and Travel Collection (CS1)

- Due August 13, 2021
- FY21 will open July 2021

### Audit History/Payments/Purchase Card Files

- Due by October 1, 2021
- FY21 will open July 2021

### Schedule of SPLOST Expenditures

- Due by December 3, 2021

# Important Due Dates



## Annual Immigration Compliance Reporting

- Due by December 31, 2021
- System will open on November 1, 2021

## Financial Statements Due to DOAA

- November 15<sup>th</sup> – Certificate of Distinction
- December 31<sup>st</sup> – Otherwise

# Important Dates



## Availability of Audit Tools

### Financial Statement Templates

July 30, 2021

### Notes to the Basic Financial Statements

August 16, 2021

# Other Notes & Reminders



- Special reporting issues?
  - Upcoming bond issuance
  - Turnover in key personnel
  - Let us know ASAP!
- GaDOE year-end workshops
- GASBO financial statement workshop  
Tuesday, November 5th

# Accounting and Reporting Issues





# SB 68



- Effective July 1, 2021
- Implementation meetings with GDOE have been ongoing.
- ....To strengthen provisions relating to the financial management of local school systems; to provide training for local board of education members and local school superintendents on financial management; to provide for monthly reporting to the local board of education on the financial stability of the local school system; to provide for designation by the Department of Audits and Accounts of high-risk local school systems and moderate-risk local school systems based on annual audits; to provide for financial management provisions in flexibility contracts and system charters....

# SB 68



§20-2-5

“It shall be the duty of each local board of education to hold a regular meeting during each calendar month for the transaction of business pertaining to the public schools and to review the financial status of the local school system.”

- DOAA will review documentation that provides evidence that the required financial information was shared monthly with the board (i.e. review of board minutes).

# SB 68



§ 20-2-67

“The Department of Audits shall designate local school systems that have had **reported irregularities or budget deficits** for **three or more consecutive years** as **high-risk** local school systems and shall designate local school systems that have had **reported irregularities or budget deficits** for **one year or two consecutive years** as **moderate-risk** local school system.”

# SB 68



- Bill defines high risk and moderate risk LEAs
  - High risk = LEA that has reported irregularities or budget deficits for three or more consecutive years.
  - Moderate risk = LEA that has reported irregularities or budget deficits for one year or two consecutive years.
- Irregularities – Internal control findings - significant deficiency or material weakness (excludes findings like FS Prep)
- Budget Deficits – opinion units that present a deficit as a result of a lack of controls over the budget process.

# SB 68



§ 20-2-67

"The **State Board of Education shall inform** the **superintendent** of the local school system of the irregularities or budget deficits...including if a local system has been designated as a **high-risk** local school system or **moderate-risk** local school system."

"The **superintendent** shall **submit** to the Department of Education a **response to the findings and a corrective action plan** approved by the local board of education **within 120 days** of receiving notice of designation as a high-risk or moderate-risk local school system..."

# SB 68



- DOAA will inform School District of their risk status during the exit conference.
- DOAA will inform GDOE of each School District's risk status during the closure process.
- DOAA will formally notify the State Board of Education each quarter of those School Districts that have been designated as high-risk or moderate-risk.

# SB 68



§ 20-2-109

“Each local board of education which governs a local system that has been designated as a **high-risk** local school system or **moderate-risk** local school system...**shall require the local school superintendent to complete training** on financial management and financial governance of a local school system.”

- Superintendents of high-risk and moderate-risk districts will have to attend training.

# SB 68



## § 20-2-230

The State Board of Education will require **each newly elected member of a local board of education** to receive **guidance and training** regarding his or her own local school system's most recent audit findings and the risk status of the local school system

- New Board Member training and guidance:
  - Shall include training on the role of the local superintendent with respect to financial management and financial governance of a local school system.
  - Plan to leverage the new board member training that GDOE holds twice a year.



## SB 68



§ 20-2-230

"The State Board of Education shall require **members of the board of education** to complete the **training**...if the local board of education has been designated as **high-risk** local school system...or if DOAA has determined that **corrective actions have not been implemented or devised** to correct serious findings...from the previous year."

# Schedule of Expenditures of Federal Awards (SEFA)



## Education Stabilization Fund (CFDA 84.425):

- For LEAs, the Education Stabilization Fund amounts reported on the SEFA will include expenditures for all subprograms designated by letters, such as:
  - 84.425D Elementary and Secondary School Emergency Relief Fund (ESSER)
  - 84.425U American Rescue Plan ESSER
- If expenditures for all subprograms included in the Education Stabilization Fund equal or exceed \$750,000, we will most likely be required to audit the program as a high-risk Type A program.
  - *Exception: If total federal expenditures exceed \$25 million, your Type A threshold will be higher than \$750,000.*
- Please review the Education Stabilization Fund information in the FY2020 OMB Compliance Supplement Addendum to prepare for your audit.
  - Website: [2020 Compliance Supplement Addendum \(whitehouse.gov\)](https://www.whitehouse.gov/omb/compliance-supplement-addendum)

# COVID Impact on Audit



- Analytical and Estimates
  - Historical trends and assumptions may not be relevant in the current environment.
  - Different procedures made need to be performed if analytical are determined to be ineffective.
- Internal Controls
  - Likely have different or updated processes and internal controls.
    - Pre-pandemic – Remote – Post-Shut Down

# 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 & Bond Premium/Discount**

- 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

# Other Reporting Issues



## Management's Discussion and 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
- Request the final modified version from the prior year auditors to ensure you have the latest copy.

# Other Reporting Issues



## Management's Discussion and Analysis

- **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

# Other Reporting Issues



## Management's Discussion & Analysis

- *Consider if the impacts of COVID are part of the needed explanation for changes in account balances.*
  - Reduction in SPLOST receipts
  - Closure of schools creating an increase in outflows related to virtual learning
  - Change in economic conditions of the county given job losses.

# Census Testing



- School Districts received an email from pension entities and/or OPEB in March 2021 notifying them they were selected.
- DOAA has a Central Census Team that will be conducting most of the testing.
- Crews are starting to work on those engagements now and you will hear from your auditors directly.



# Census Testing



What is the purpose of census testing and why is it important?

To ensure the census data information used in calculating the net OPEB liability and/or net pension liability is complete and accurate.

# Pension Census Testing



- Baldwin County
- Bleckley County
- Bulloch County
- Burke County
- City of Valdosta
- Clarke County
- Coffee County
- Cook County
- Dawson County
- DeKalb County
- Dooly County
- City of Dublin
- Early County
- Effingham County
- Elbert County
- Gilmer County
- Grady County
- Irwin County
- Jefferson County
- Laurens County
- Miller County
- Mitchell County
- Morgan County
- Pierce County
- Taylor County
- Thomaston-Upson County
- Treutlen County
- Upson County
- Walker County
- Ware County
- Wayne County
- Wilkes County
- Wilkinson County

# OPEB Census Testing



- Baldwin County
- Burke County
- Calhoun County
- Clarke County
- Coffee County
- DeKalb County
- Emanuel County
- Grady County
- Harris County
- Jones County
- Laurens County
- Liberty County
- Monroe County
- Paulding County
- Polk County
- Quitman County
- Thomas County
- City of Valdosta

# Keys to a Successful Audit



# Keys to a Successful Audit



- Preparation
  - Visit the DOAA and GDOE websites on a regular basis for any updated information.
  - Read communications sent out to Schools Districts (i.e. quarterly newsletter)
  - Preliminary Analytical Review (PAR) – starting thinking about any significant changes from the prior year.
    - Comparison can help find errors.
    - **Are the changes related to COVID?**
  - Maintain documentation used to prepare financial statements.

# Keys to a Successful Audit



- Preparation
  - Compare note disclosures from one year to another to ensure all notes are included.
  - Download and use the DOAA Review Checklists and Final Analytical Check sheet.
    - Very similar to checklists used by auditors.
    - Consider using even if a consultant prepares your statements – management is still responsible for the financial statements.

# Keys to a Successful Audit



- Tips for Remote Audit
  - Utilize the DOAA File Storage System
    - <https://www.audits.ga.gov/auth>
    - Instructions on how to use the system are on our website under the School District Resources page.
    - System will be helpful during remote audits.
      - Submit financial statements
      - Submit documentation to support financial statements (i.e. Cash Recons, Capital Asset listing, A/R and A/P listings)

# DOAA Collection System



Home / Information/Resources / Local Government Resources

## Georgia School District Resources

### Award of Distinction for Excellent Financial Reporting

The Best Practice Criteria has been established to recognize better practices for financial reporting and controls. This Award of Distinction encourages Local Boards of Educations to go beyond the minimum requirements of generally accepted accounting principles and recognize individual organizations that are successful in achieving that goal.

[Download Award Criteria](#) (updated 10/29/2013)

[2017 Recipients of Award of Distinction for Excellent Financial Reporting](#) (updated 11/06/2018)

#### Submission Deadlines:

**For Compliance with the Transparency in Government Act:**

Submission Due Dates [\[click here\]](#)

**For Compliance with the Immigration Reform Act:**

December 31 - Affidavit for Public Employers

**For Award of Distinction for Excellent Financial Reporting:**

November 15 - Financial Statements and related audit evidence to Auditors (see Certificate Criteria above for details)

#### Transparency in Government Act (TIGA):

- [TIGA Letter from the State Auditor](#) (updated 6/6/2018)
- [Example of PCard Submission](#)
- [TIGA FAQ](#)

#### DOAA File Collection:

- [New File collection system instructions](#) [\[click here\]](#)
- [Audit History Submission File Layout](#)

[Administrative](#)

[Financial Audits](#)

[Information Technology](#)

[Nonprofit and Local Government Audits](#)

[Professional Standards and Practices](#)

[Performance Audits](#)

[Sales Ratio](#)

[Technology Risk & Assurance](#)



# DOAA Collection System



- Self-reset and add or change the files submitted

\* If you have clicked on "Confirm" in error, you may request a reset of your submission by clicking this icon-



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

- File Share Point Option

# Keys to a Successful Audit



- Tips for Remote Audit
  - Clear and regular communication from both the auditors and School District.
  - Submit needed documentation timely.
  - Regular status meetings between the auditors and School District to update on any deficiencies, misstatements, and needed documentation.
  - Work with us to use video conferencing and other collaborative tools.

# DOAA Award of Distinction for Excellent Financial Reporting



# Award Criteria



Criteria	Description of Best Practices
Timeliness	<p>Financial Statements including MD&amp;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"> <li>• Salary and Travel Information: August 13</li> <li>• Audit History/Payments Files: October 1</li> <li>• SPLOST Schedule: December 3</li> </ul>
Quality of Financial Statements, Note Disclosures, Required Supplementary Information and Supplementary Information	<p>First set of financial statements, MD&amp;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 – FY20 Recipients to date



- Atkinson County
- Barrow County
- Bryan County
- Bulloch County
- Carroll County
- Charlton County
- City of Bremen
- City of Chickamauga
- City of Gainesville
- City of Pelham
- City of Vidalia
- Clarke County
- Coffee County
- Crisp County
- Dawson County
- Decatur County
- Early County
- Elbert County
- Evans County
- Fannin County
- Gilmer County
- Greene County
- Hall County
- Hart County
- Houston County
- Jasper County
- Lee County
- Lincoln County
- Long County
- Lowndes County
- Madison County
- Marion County
- McDuffie County

## DOAA Award of Distinction for Excellent Financial Reporting – FY20 Recipients to date



- Morgan County
- Paulding County
- Pike County
- Putnam County
- Schley County
- Tattnall County
- Thomas County
- Tift County
- Towns County
- Ware County
- Washington County
- Whitfield 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 State Auditor, Deputy Directors, and other responsible individuals
- ✓ An overall assessment is done periodically, but individual issues are addressed immediately.

**Thank you for responding!!**



# GASB Updates – Effective FY21



# GASB 95 – Postponement of the Effective Dates of Certain Authoritative Guidance



## GASB 95 – “Postponement of the Effective Dates of Certain Authoritative Guidance”

- Statement provides temporary relief to governments in light of the COVID-19 pandemic.
- GASB still encourages governments to implement early if possible
- Postpones the effective dates of this Statement by 18 months:
  - GASB No. 87 – Leases
- Postpones the effective dates of certain Statements by one year.
  - GASB No. 84 – *Fiduciary Activities*
  - GASB No. 90 – *Majority Equity Interests*
  - GASB No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*
  - And others not discussed here

# GASB 84 – Fiduciary Activities



*\*\*School Districts that didn't implement GASB 84 in FY19 or FY20 **must** implement in FY21.\*\**

## 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"

- 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.



# GASB 84 – Fiduciary Activities



## Financial Statement Presentation – Restatement

- Must restate beginning fiduciary net position
- Describe the nature of the restatement and its 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.

# GASB 84 – Fiduciary Activities – Administrative Involvement



When making determination of fiduciary activities consider the School District's "**administrative involvement**".

## *Administrative involvement* –

1. 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,
2. Determines eligible expenditures that are established by government or by a resource provider that does not receive the direct benefits of the activity, or
3. 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



“Administrative involvement” guidance from Implementation Guide

“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



“Administrative involvement” guidance from Implementation Guide

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 how the resources of the club 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, as discussed in paragraph 11c(2) of Statement 84?

# GASB 84 – Fiduciary Activities- Administrative Involvement



Answer:

**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 district representative) has the ability to reject, modify, or approve how the resources are spent.
- The faculty advisor's approval is more than just a formality and is analogous to the example provided in footnote 1 of Statement 84 regarding the determination of eligible expenditures that are established by the government.

# GASB 84 – Fiduciary Activities- Administrative Involvement



Question:

A school board establishes and approves a policy related to the disbursement of funds for various student clubs that are not legally separate from the school district. The **policy includes specific guidelines** related to how the funds raised by the clubs can be spent.

Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

# GASB 84 – Fiduciary Activities- Administrative Involvement



Answer:

**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



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 – Impact to the Audit



- Items Needed from School District:
  - Policy for GASB 84
  - Documentation of consideration in determining which activities of the District are Fiduciary Activities or Governmental Activities
  - Journal Entry Restating Financial Statements
  - Restatement Note Disclosure

# GASB 84 – Fiduciary Activities – Impact to the Audit



- Impact on the Testing Performed:
  - Auditor will need to do a sample to ensure that a consideration was performed, and account is in the correct fund.
  - Auditor will review entity's policy.
  - Review of the restatement note and Fiduciary Statements to ensure activity ties to documentation.

# 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 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 FY22



# GASB 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



- 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



- Will require restatement of financial statements
- Short term leases ( Maximum period of 12 months or less) are not covered by Statement 87
- Leases that transfer ownership are not covered by Statement 87
- Lease liability = PV of expected payments during the lease term – lease incentives
- Lease asset = lease liability + any payments to lessor on or before the inception of the lease.
- Account for lease and non-lease components as separate transactions.

# GASB 87 – Leases



- The lease term is the period during which a lessee has a noncancelable right to use an underlying asset, plus any extension options that are likely to be exercised.
- If a lease is expected to be paid from general government resources, the lease should be accounted for and reported on a basis consistent with governmental fund accounting principles.
- [GASB Statement No. 87, Leases](#)

# 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 87 – Leases – Impact to Audit



- Impact on the Testing Performed:
  - Auditor will review the consideration of the School District's leases and determination of reporting.
  - Review of the restatement note and documentation.
  - Review GASB 87 Policy

# GASB 87 – Leases – Impact to Audit



- Items Needed from School District:
  - Policy for GASB 87
  - Documentation of consideration of lease agreements.
  - Documentation of amounts for separate components of leases (maintenance, supplies, etc.)
  - Journal entry documentation for restatement related to leases.
  - Restatement note disclosure

# GASB 87 – Leases



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

Question:

An equipment vendor installs equipment on a government's building to increase energy efficiency. The government will own the equipment at the end of the agreement, and the contract does not contain a termination option.

For financial reporting purposes, should this transaction be reported as a lease or a financed purchase?

# GASB 87 – Leases



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

Answer:

This transaction should be reported as a finance purchase. 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 Implementation Guide

Question:

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 Implementation Guide

Answer:

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 Implementation Guide

Question:

A school district leases computers. At the end of the lease term, students are given the option to purchase their computer from the school district. Regardless of whether the students purchase their computers, the school district is required to purchase all computers from the lessor. The school district does not have a termination option.

Should this arrangement be reported as a lease or a financed purchase of the computers by the school district?

# GASB 87 – Leases



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

Answer:

This arrangement should be reported as financed purchase. Paragraph 19 of Statement 87 states that one criterion of a financed purchase is that the contract transfers ownership of the underlying asset to the lessee by the end of the contract.

In this example, the lessee is the school district, not the students. The contract transfers ownership of the computers because the purchase by the school district is required. The sale of the computers to the students is separate transaction.

# 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*" - Guidance from Implementation Guide

Question:

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 lease liabilities?

# GASB 87 – Leases



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

Answer:

Lease liabilities that are significant, either individually or in the aggregate, should be recognized. Authoritative pronouncements do not provide specific guidance related to a determination of capitalization threshold amounts.

However, governments often establish capitalization thresholds. When applying a capitalization threshold to leases, lessees should consider the quantitative and qualitative significance of the lease liability, in addition to the significance of the lease assets in accordance with the guidance provided in Question 7.4.1 of Implementation Guide 2015-1, as amended.

# 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 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.
- 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.
- 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?



**Sara Rohrbach**  
[rohrbach@audits.ga.gov](mailto:rohrbach@audits.ga.gov)