



COLORADO
Department of Education

FPP Committee Meeting Proposed COA Changes

June 8, 2018

Agenda

Visit various GASB Statements

COA changes needed



NO. 361 | JANUARY 2017

Governmental Accounting Standards Series

Statement No. 84 of the
Governmental Accounting
Standards Board

Fiduciary Activities



Statement No. 84 – Fiduciary Activities

How many currently report fiduciary activities in their audits?

Number of Trusts Funds?

Number of Agency Funds?

Statement No. 84 – Fiduciary Activities

This Statement establishes criteria for identifying fiduciary activities of all state and local governments

Focus of the criteria:

- Whether a government is controlling the assets, and
- Beneficiaries relationship with whom a fiduciary exists



Effective Date

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (CY 2019; FY2019-2020). Earlier application is encouraged

Changes to the Colorado Statewide chart of accounts will be needed to implement this Statement for Colorado school districts and charter schools. Discussed later.

Changes to provide for a phase in approach - optional up to FY18-19, but required starting in FY19-20.



Fiduciary Fund Types involving Trusts

The requirements for assets related to a trust are (must meet all 3)

(1) administered through a trust agreement or equivalent arrangement in which the government itself is not a beneficiary,

(2) dedicated to providing benefits to recipients in accordance with the benefit terms, and

(3) legally protected from the creditors of the government.

Custodial Funds

Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets the specific criteria.

Were called Agency Funds prior to #84

Full accrual basis of accounting is required



Other Fiduciary Activities

Fiduciary if all three criteria are met:

(1) Assets controlled by the government

(2) Assets are not solely derived from either:

- Own-source revenue
- Government-mandated nonexchange or voluntary nonexchange transactions
 - Except in the case that the government is only acting as a fiscal agent for grants – in that there is no administrative or direct financial involvement

Two possibilities

- The primary government holds the assets, or
- Has the ability to direct the use, exchange, or employment of the assets

Clarifications

- Use – expends or consumes an asset for benefit of individuals, organizations, or other governments
- Direct – designate a third party to perform a government's fiduciary duties without assuming them
 - Does not alter government's ability to direct the use, exchange, or employment of the assets
- Unaffected by restrictions on use

Other Fiduciary Activities (cont.)

Fiduciary if all three criteria are met:

(3) Assets have one or more characteristics:

- Administered through a trust, government not a beneficiary; dedicated to provide benefits to recipients per benefit terms; legally protected from creditors of government
- Benefit of individuals and government does not have administrative or direct financial involvement with the assets. Not derived from the government providing goods or services to those individuals
- Benefit of organizations or other governments not part of reporting entity. Not derived from the government providing goods or services to those organizations or other governments.

Administrative Involvement

A government has administrative involvement with the assets if, for example, it

- (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.

Note: Review your policies and procedures in place with regard to the handling of student activity accounts.

Fiduciary Fund Types

This Statement describes four fiduciary funds that should be reported

- Pension (and other employee benefit) trust funds
- Investment trust funds
- Private-purpose trust funds, and
- Custodial funds

Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position

Based on the FY15-16 Colorado School District data, Trust and Agency funds were reported in 217 cases - the use of these funds in each case should be reviewed for implementation under GASB #84

Must have been compelled to disburse resources

- Demand for the resources has been made, or
- No further action or condition is required to be met to be entitled to receive the resources
 - Example, tax collections on behalf of other governments
- Applicable to investment trust funds, private-purpose trust funds, and custodial funds

Pension (and other employee benefit) trust funds follow GASBs #67 and #74

Liability recognition (cont.)

If no such liability, a restricted net position will be reported by the fiduciary fund - full accrual accounting required.

The concept of a liability for “due to student clubs”, etc for the remaining amount of the assets less liabilities goes away with this new Statement.

This is consistent with the current data pipeline edit that required the year to year tracking of fund equity for trust and agency funds by Colorado School Districts



Statement of Changes in Fiduciary Net Position

NEW FOR CUSTODIAL FUNDS:

The Statement of Changes in Fiduciary Net Position should disaggregate additions by source including, if applicable, separate display of:

- Investment earnings
- Investment costs
- Net investment earnings

The Statement of Changes in Fiduciary Net Position should disaggregate deductions by type and, if applicable, should separately display administrative costs.

If the resources, upon receipt, are normally expected to be held for three months or less, a single aggregate total for additions and for deductions is allowed.

Follow the detailed statewide chart of account coding.



Flowchart for Evaluating and Reporting

Chart 1A—Flowchart for Evaluating and Reporting Potential Fiduciary Activities

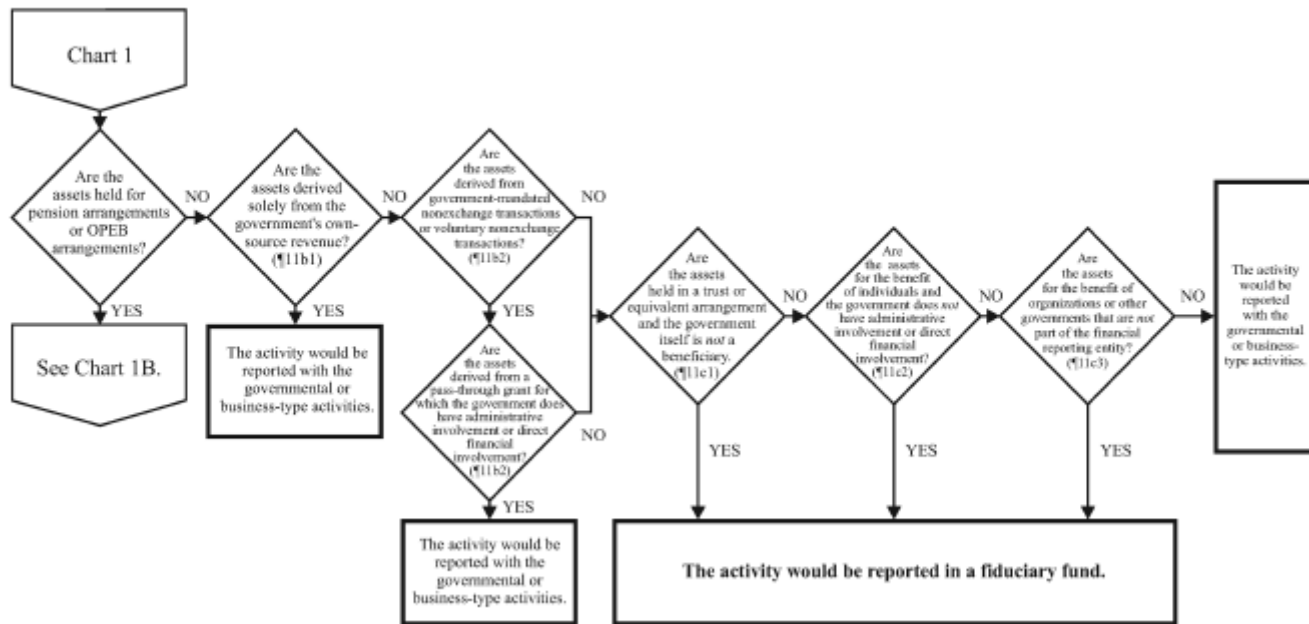


Chart of Account Changes

- Appendix C Pupil Activity - After Statement #84
- Wording changes to Fund 23 - Pupil Activity SRF

Full Accrual Accounting Changes:

- Wording changes to Fiduciary Funds Section, including to Fund 72, Fund 73, and Fund 74
- Add **Source code 1580** for investment costs
 - Restricted to Fiduciary Funds Only
- Wording changes to Net Position Section

Related changes to Table of Contents, Appendix A, and Summary of Changes pages.

Questions On GASB 84?

NO. 366 | JUNE 2017

Governmental Accounting Standards Series

Statement No. 87 of the
Governmental Accounting
Standards Board

Leases



Accounting for Leases prior to GASB #87

How many currently report leases in their audits?

Have capital leases?

Have operating leases?



Accounting for Leases prior to GASB #87

Capital lease if one of the following criteria are met, otherwise treated as an Operating lease:

- Transfer of ownership at conclusion
- Bargain purchase option
- Lease term \geq 75% of economic life of asset
- PV of future minimum lease payments \geq 90% of FMV

For a Capital lease under full accrual, recognize the capital asset and the long-term debt for PV of future minimum payments.

For an Operating lease under full accrual, expense the payments as made.



Effective Date

Periods beginning after December 15, 2019

- CY2020
- FY2020-2021

Apply retroactively

- Facts and circumstances of the lease in period of GASB #87 implementation (not inception of the lease)
 - Use remaining lease payments at beginning of period
- Restate beginning net position, if needed in period of implementation

Begin analysis now!

- Need to accumulate all lease contracts
- Potential issues with debt limits, compliance with debt covenants, and statutes



New Definition of a Lease

Defines a lease contract as “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.

A \$1 per month rent would be a non-exchange transaction.

It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

The concept of capital leases and operating leases would go away.

Operating leases, greater than 1 year would be reported under the new standard, dropping the word “operating”.



Capital Lease = Capital Financing Activities

Capital leases (that transfer ownership), would be reported as capital financing activities instead of being called leases. This will impact the terminology and footnote disclosure of such activities going forward.

For school districts and Federal reporting requirements, we must continue to isolate the general obligation (GO) voter approved debt from the other debt.



Excluded from GASB #87 treatment

Leases for intangibles (including computer software)

- Except, Sublease of intangible right-to-use leased asset

Leases for biological assets

Leases for inventory

Leases where underlying asset financed with conduit debt

- Except, underlying asset and conduit debt reported by lessor

Service concession agreements

Supply contracts - electric power purchase agreements

Short-term leases (maximum term 12 months or less)

Contracts that transfer ownership of the underlying asset to the lessee

Lease Term

The period during which the lessee has:

Noncancelable right to use underlying asset

Plus periods where

- Lessee or Lessor option to extend (if exercise is reasonably certain)
- Lessee or Lessor option to terminate (if *not* exercising is reasonably certain)
 - Includes fiscal funding clauses (such as the annual appropriations clause in Colorado contracts)

Leases of the Lessee Government

For the Lessee Governments - the government-wide statements would report an intangible lease asset that represents the lessee's right to use the leased asset and a long-term liability for the lease.

The long-term lease payable would be measured as the present value of the payments under the provisions of the lease.

The intangible lease asset would equal the lease liability plus any prepayments and certain initial direct costs.

Subsequent to reporting of the lease - the asset will be amortized over the shorter of the useful life or lease term, and the liability will be reduced by lease payments (less amount of interest expense).

Lessee Government – Full Accrual

For the Lessee Governments – under full accrual:

At commencement of the lease –

- Debit lease asset
- Credit lease liability

Ongoing activities –

- Debit lease liability (for the principal amount)
- Debt interest expense
- Credit cash
- Debit amortization expense
- Credit lease asset (or accumulated amortization account)

Lessee Governments – Modified Accrual

For the Lessee Governments - under modified accrual (fund accounting):

At commencement of the lease -

- Debit capital outlay – lease expenditure
- Credit other financing source – lease proceeds

Note: This will cause budgeting issues in the first year of these leases!

Ongoing activities -

- Debit lease principal expenditure
- Debt lease interest expenditure
- Credit cash



Description of leasing arrangements

Amount of lease assets

Schedule of future lease payments

- Principal and interest listed separately
- First five years in detail, 5 year increments thereafter is allowed

Leases of the Lessor Governments

For the Lessor Governments - they would report on the government-wide statements a receivable for the right to receive payments, initially measured based on the present value of future lease payments to be received.

A corresponding deferred inflow of resources, measured at the initial value of the lease receivable, to reflect that the receivable relates to future periods.

Lease revenue (and a corresponding reduction in the deferred inflows of resources) systematically over the term of the lease.

Interest revenue related to the receivable.

Lessor Governments – Full Accrual

For the Lessor Governments - under full accrual:

At commencement of the lease -

- Debit lease receivable
- Credit deferred inflow of resources

Ongoing activities -

- Debit cash
- Credit lease revenue
- Credit interest income
- Debit deferred inflow of resources
- Credit lease receivable

Lessor Governments – Modified Accrual

For the Lessor Governments – under modified accrual (fund accounting):

- Same as for full accrual for lessor!

At commencement of the lease –

- Debit lease receivable
- Credit deferred inflow of resources

Ongoing activities –

- Debit cash
- Credit lease revenue
- Credit interest income
- Debit deferred inflow of resources
- Credit lease receivable

Description of leasing arrangements

Total amount of lease revenue for current year

Chart of Account Changes

For Colorado School Districts and Charter Schools, various changes will be needed to the current chart of accounts for implementation of GASB #87

Changes will be optional prior to FY 2020-2021

Mandatory effective FY 2020-2021



Chart of Account Changes (cont)

- Appendix L - Leases (After Statement #87)

Modified Accrual (Fund Accounting Changes):

- Wording changes to Fund 31 - Bond Redemption Fund
- Wording changes to Object codes in the Rentals Section; 0440, 0443, 0444
- Wording changes to object code 0721 - Lease imp
- Add Bolded object code 0770 Lease
- Wording changes to object code 0833 - Interest
- Wording changes to object code 0913 - Principal

Chart of Account Changes (cont)

- Wording changes to object 0950 - initial outlay
- Wording changes to source 5400 and 5500

Full Accrual Accounting Changes:

- Add Bolded B/S codes 7453 and 7532
- Add the Lease Asset Section in the balance sheet codes for 8261 - Lease Asset, and 8262 - Amortization of Lease Asset
- Add Bolded object code 0745 Amortization

Related changes to Table of Contents, Appendix A, and Summary of Changes pages.

Questions On GASB 87?

Other Information

NO. 350 | JUNE 2015

Governmental Accounting Standards Series

Statement No. 75 of the
Governmental Accounting
Standards Board

Accounting and Financial Reporting for
Postemployment Benefits Other Than Pensions



How many believe that they do not need to implement this Statement?

If you contribute to Colorado PERA, this Statement will impact you.

Effective Date

GASB 75 is effective for fiscal years beginning after June 15, 2017 - FY17-18
Effective Now.

The accounting, reporting, and disclosures for OPEB will be very similar to the ones that were done for pensions under GASB Statement #68



Implementation

Look to Colorado PERA for guidance and information for implementing OPEB reporting and disclosures.

Work with your external auditors.

Colorado PERA is scheduled to be at the next FPP Committee meeting.



GASB #88 – Certain Disclosures Related to Debt

NO. 368 | MARCH 2018

Governmental Accounting Standards Series

Statement No. 88 of the
Governmental Accounting
Standards Board

Certain Disclosures Related to Debt,
including Direct Borrowings and
Direct Placements



Defines Debt

Defines debt as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

Does not include leases (except for contracts reported as a financed purchase of the underlying asset) or accounts payable.

Defines other components of debt

Direct borrowings - the example used by the Statement is a government entering into a loan agreement with a lender.

Direct placements - the example used by the Statement is a government issuing a debt security directly to an investor.

These are not offered for public sale.



Additional disclosures

A government should disclose in notes to financial statements summarized information about the following items:

- Amount of unused lines of credit,
- Assets pledged as collateral for debt,
- Terms specified in debt agreements related to significant events for default, termination, and acceleration clauses.

Effective Date

Is effective for fiscal years beginning after June 15, 2018 - FY18-19

We are still trying to determine how this new guidance will be presented in the notes to the financial statements for Colorado entities and its impact on reporting of general obligation debt.



NO. 359 | MARCH 2016

Governmental Accounting Standards Series

Statement No. 82 of the
Governmental Accounting
Standards Board

Pension Issues



Are you aware that the terminology used for the RSI related to pensions has changed:

'Covered-employee payroll' should now be called 'covered payroll'.

'Covered payroll' is the payroll on which contributions to the pension plan are based.

This was effective for FY16-17.

Audit Review Items Identified for FY16-17

Financial Transparency concerns and issues continues to be the most commented on area during the audit review process.

Followed by comments related to:

- Single Audit
- Expenditures in Excess of Appropriations
- Charter School Issues

Charter School Networks

We have posted updated guidance related to the financial audit requirements for charter school networks.

Posted on the School Finance website at <http://www.cde.state.co.us/cdefinance>

under Statutory Compliance and Reporting.



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