

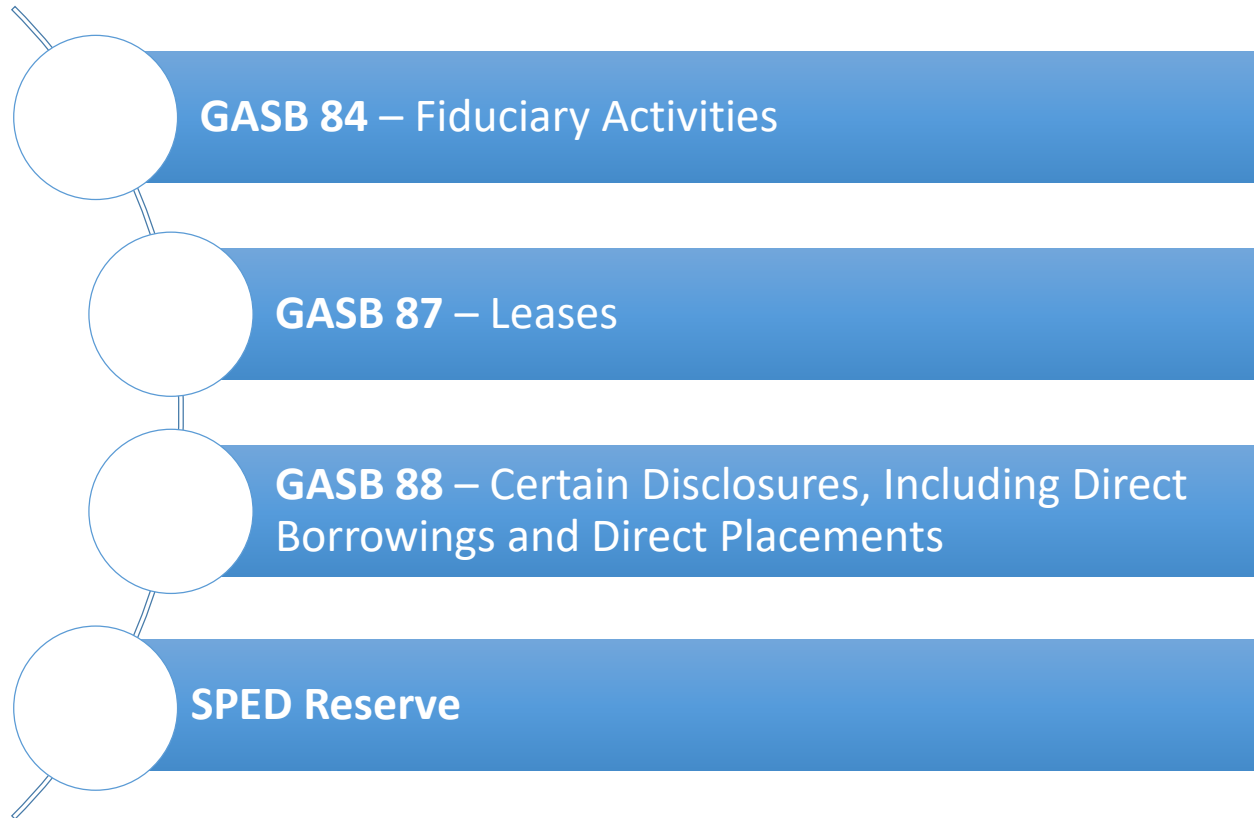
# GASB/Finance Updates

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Colorado Charter School Institute  
CSI Finance



# Agenda





# **GASB 84**

## *Fiduciary Activities*



# GASB 84 – Fiduciary Activities

- The Board issued Statement 84 to clarify when a government has a fiduciary responsibility and is required to present fund financial statements
- Existing standards required reporting of fiduciary responsibilities but do not define what they are; use of private-purpose trust funds and agency funds is inconsistent
- *Effective FY20*



# 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 specified criteria
  - Note that Agency funds have been replaced by *custodial* funds



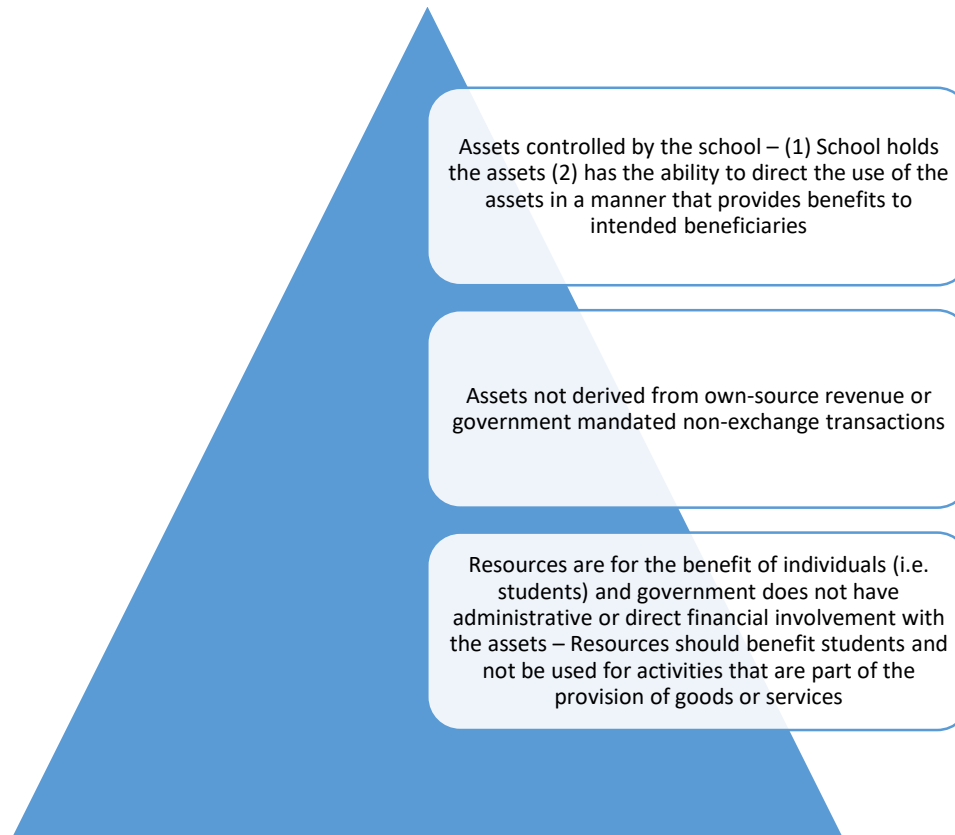
# GASB 84 – Fiduciary Activities

- GASB Statement No. 84 “*Fiduciary Activities*”
  - Establishes criteria for identifying fiduciary activities of all state and local governments
  - Focus of the criteria is generally on
    - (1) whether a government is controlling the assets of the fiduciary activity and
    - (2) the beneficiaries with whom the fiduciary relationship exists



# GASB 84 – Fiduciary Activities

- Fiduciary if all three below criteria met:





# GASB 84 – Fiduciary Activities

- Administrative involvement is present if government:
  - Has the ability to exercise discretion in how the funds are allocated – (Can approve, reject, modify or approve how the resources are spent)
  - Monitors secondary recipients for compliance with program-specific requirements
- Schools should review their policies and procedures in place for fiduciary funds to determine the level of administrative involvement they currently have





# GASB 84 – Fiduciary Activities

- Reporting updates for fiduciary activities:
  - Liability now only recognized when an event occurs that compels the government to disburse resources. If no other event or action is needed to disburse funds a liability should be reported.
    - If a liability does not exist, the custodial fund can now have a net position



# GASB 84 – Fiduciary Activities

- Reporting updates for fiduciary activities:
  - More detail now required for additions to and deductions from custodial funds than currently reported for agency funds. Should be presented by type or source.
  - Retroactively applied by restating financial statements for all prior periods presented
  - If criteria not met to be deemed a fiduciary activity then it could potentially be treated as a special revenue fund and reported with all other governmental fund activity



# Example – Student Activity Funds

- Funds are accumulated by donations or ticket sales from fundraisers or events
- School maintains custody of the funds
- Funds are expended at the discretion of non-school employees for student club activities that benefit the students
- How should these funds be reported (*Fiduciary or Special Revenue fund*)?



# Example – Funds used to provides goods or services

- Funds accumulated from fundraisers or events
- School maintains custody of the funds
- School uses the funds to provide band instruments to students
- How should these funds be reported (*Fiduciary or Special Revenue fund*)?



# **GASB 88**

## *Certain Debt Disclosures*



# GASB 88 – Certain Disclosures Related to Debt

- Statement 88 issued to improve existing standards for debt disclosures
- A review of existing standards related to disclosures of debt found that debt disclosures provide useful information, but that certain improvements could be made
- Effective FY19 – So will be applicable to this year's financials



# Definition of Debt for Disclosure Purposes

- “A liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash)
- Leases and accounts payable are excluded from the definition of debt for disclosure purposes



# New Disclosure Requirements

- Direct borrowings of debt should be distinguishable from other types of debt for all disclosures
- In addition to existing debt disclosures, governments should disclose the following about all types of debt:
  - Amount of unused lines of credit
  - Assets pledged as collateral for debt
  - Terms specified in debt agreements related to significant:
    - Events of default with finance-related consequences
    - Termination events with finance-related consequences
    - Subjective acceleration clauses





# **GASB 87**

## *Leases*



# GASB 87 - Leases

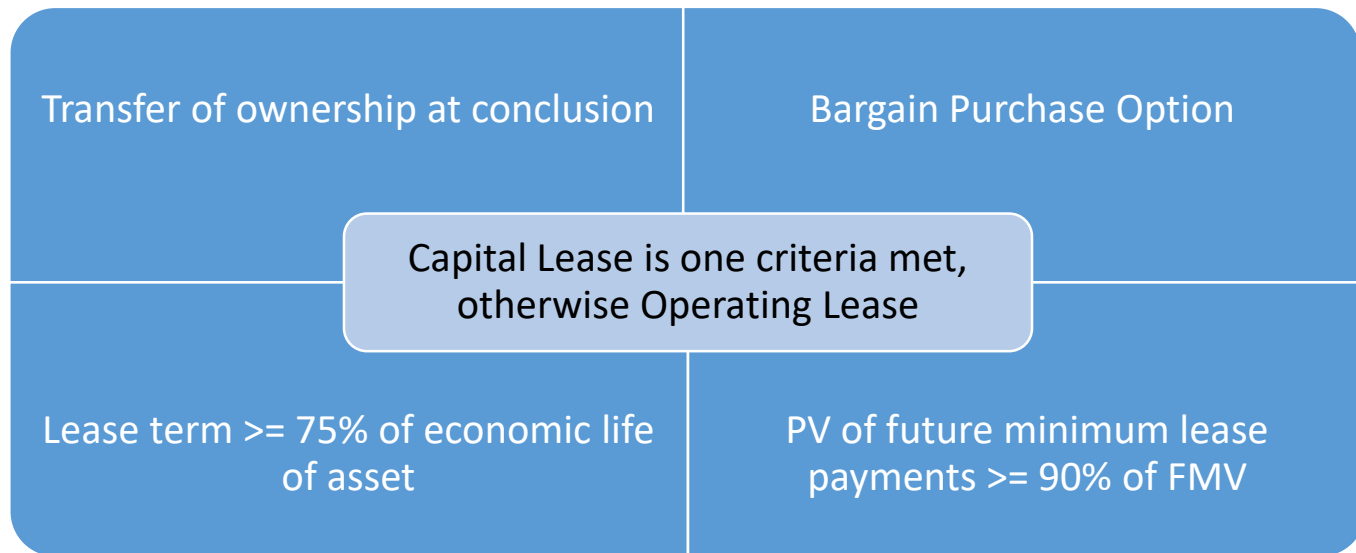
- Years beginning after December 15, 2019
  - FY2020-21
- Apply retroactively
  - Facts and circumstance of the lease in period of implementation GASB 87 (not inception of the lease)
    - Use remaining lease payments at beginning of period
  - Restate beginning net position in period of implementation
- **Begin analysis now**
  - Need to accumulate all lease contracts
  - Potential issues with debt limits, compliance with debt covenants, and statutes (budget)





# Current Lease Accounting

- Lessee – determines type of lease (Capital or Operating)



Lease Type	Accounting – accrual basis	Disclosure
Capital	Debit: capital asset Credit: long-term debt for PV of future minimum payments	Disclose future minimum payments
Operating	Expense payments as made	Disclose future minimum payments (if noncancelable)



# Scope of GASB 87

No more capital or operating leases

Excluded from scope of GASB 87

- Leases for intangibles (including computer software)
- Leases for biological assets
- Leases for inventory
- Leases where underlying asset financed with conduit debt
  - Exception – underlying asset and conduit debt reported by lessor
- Service concessions agreements
- Supply contracts – power purchase agreements

Other exclusions

- Short-term leases (Maximum term of contract = 12 months or less)
- Contracts that ultimately transfer ownership of the underlying asset to the lessee
  - Transfers ownership of underlying asset at end of contract
  - Contains no termination options (fiscal funding clause not applicable if reasonably certain it will not be exercised)

# Definition of a Lease



- A contract that conveys 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
  - Contract – legally enforceable (written or verbal)
  - Right to use underlying asset
    - Obtain present service capacity
    - Determine nature and manner of use
  - Nonfinancial asset – (i.e. Land, buildings, vehicles)



# Lessee Accounting – Proprietary and Trust Funds

- Initial recognition
  - Lease asset – intangible right-to-use capital asset
  - Lease liability
- Subsequent accounting
  - Amortization of lease asset
    - Shorter of lease term or useful life of underlying asset
  - Lease payments
    - Reduction of liability
    - Interest expense





# Measurement - Lessee

## Lease liability

- Present value (PV) of payments over lease term
  - Interest rate charged by lessor, or
  - Lessee's borrowing rate
- Lease asset
  - PV of payments over lease term (lease liability)
  - Add: Payments made at or before the beginning of the term to lessor
  - Less: Lease incentives received from lessor beginning of the term
  - Add: Certain direct costs to put asset into service



# Lessee Accounting – Governmental Funds

- Initial recognition (same as current guidance for capital leases)
  - Expenditure – capital outlay
  - Other financing source
- Subsequent accounting (same as current guidance)
  - Lease payments – debt service expenditures







# Note Disclosure - Lessee

- Description of leasing arrangements
- Amount of lease assets
- Schedule of future lease payments
  - Principal and interest listed separately





# Lessor Accounting – Proprietary & Trust Funds

- Initial recognition
  - Lease receivable (continue to report underlying asset)
  - Deferred inflow of resources
- Subsequent reporting
  - Lease payments
    - Reduction of receivable
    - Interest revenue
  - Reduction of deferred inflow of resources – revenue
    - Over term of the lease
    - Systematic and rational manner
    - Governmental funds – if available



# Measurement - Lessor

- Lease receivable
  - PV of lease payments over lease term
- Deferred inflow of resources
  - PV of lease payments over lease term
  - Add: Payments received at or prior to the beginning of the lease that relate to future periods



# Lessor Accounting – Governmental Funds

- Initial recognition
  - Lease receivable at PV of payments
  - Deferred inflow of resources
- Subsequent reporting
  - Lease payments
    - Reduction of receivable
    - Interest revenue
  - Reduction of deferred inflow of resources – revenue
    - Over term of the lease
    - Systematic and rational manner, if available



# Note Disclosure - Lessor

- Description of leasing arrangements
- Total amount of lease revenue for current year



# Other Topics Covered by Statement 87

- Lease term
- Contracts with multiple components
- Contract combinations
- Lease modifications & terminations
- Lease incentives
- Subleases
- Sale-leasebacks
- Lease-leasebacks



**KEEP  
CALM  
&  
FOLLOW  
THE RULES**



# Leases - Review Question

- In your proprietary or trust fund, what will be the initial entry (Debits and Credits) to reflect a capital lease?





# Leases - Review Answer

- In your proprietary or trust fund, what will be the initial entry (Debits and Credits) to reflect a capital lease?
  - DR Capital Asset (PV of lease payments)
    - CR Lease Liability (PV of lease payments)





# Leases - Review Question

- In your proprietary or trust fund, what will be the entry (Debits and Credits) to record a lease principal and interest payment?





# Leases - Review Answer

- In your proprietary or trust fund, what will be the entry (Debits and Credits) to record a lease principal and interest payment?
  - DR Lease liability
  - DR Interest Expense
    - CR Cash



# Leases - Review Question

- In your governmental fund, what will be the initial entry (Debits and Credits) to reflect a capital lease?





# Leases - Review Answer

- In your governmental fund, what will be the initial entry (Debits and Credits) to reflect a capital lease?
  - DR Expenditure – Capital Outlay (PV of lease payments)
    - CR Other financing source (PV of lease payments)



# Leases - Review Question

- In your governmental fund, what will be the entry (Debits and Credits) to record a lease principal and interest payment?





# Leases - Review Answer

- In your governmental fund, what will be the entry (Debits and Credits) to record a lease principal and interest payment?
  - DR Debt Service (principal)
  - DR Debt Service (interest)
    - CR Cash



# SPED Reserve



# SPED Reserve

- Implemented to assist schools in ensuring they have funding available for severe needs students
- CSI staff will no longer be funded out of ECEA  
~ *additional funds will be passed through to schools through per pupil allocation*
- Assistance fund will still be available





# SPED Reserve - MOU

- MOU created to establish SPED reserve as an assigned fund balance by FY20 year end
- If a school does not agree to the SPED reserve requirement:
  - *It will be reflected in the CARS report, and likely be a point of consideration if the school ends up submitting an emergency assistance request for SPED needs*



# SPED Reserve - Budget

- Effective FY 2019-20
- FY 2019-20 Adopted budget should include an assigned fund balance titled *SPED Reserve* in your detailed budget and CDE uniform budget summary
- The amount of the FY20 budgeted SPED reserve requirement will be:
  - 1% of the October 2018 actual funded pupil count multiplied by \$10,000, not to exceed \$90,000



# SPED Reserve - Actual

- The amount of the FY20 actual SPED reserve requirement will be:
  - 1% of the October 2019 actual funded pupil count multiplied by \$10,000, not to exceed \$90,000
- It is expected that in years subsequent to FY20, if the SPED reserve is used for unexpected high needs supports, it will be replenished by the end of the following fiscal year



# School Funding Changes





# READ Act

Bill Number: SB19-199

## Financial Impact:

- FY20: Changes distribution by reducing per-pupil allocation and increasing early literary grant funding
- PPA reduction of approximately 10-20% relative to the amount this year
- Additional requirements to access PPA

## Programmatic Impact:

- New reporting and K-3 PD requirements
- Schools would retain the right to seek a waiver.

Current Status: House Education



# PPR Update

- Average of 4% increase in PPR
- Includes ~\$102M buydown in Budget Stabilization Factor
- Funded primarily from “local share” – increases in assessed valuations
- Separate from increases related to increased FPC from Full Day Kindergarten



# Rural Funding

- \$20M in FY20
  - down 33% from \$30M in FY19
- Large Rural 55%, Small Rural 45%
- Requires reporting to CDE on how money is used



# SPED Categoricals

- Increases the amount of tier B funding in ECEA by \$22M statewide
- Per pupil allocation impacts yet to be determined





# PERA Rate Increases

- Employee:
  - FY19: increase by 0.75% (total 8.75%)
  - FY20: increase by 0.75% (total 9.5%)
  - FY21: increase by 0.5% (total 10%)
- Employer:
  - FY19: increase by 0.25% (total 20.4%)



# Assistance Fund Limit

CSI Board considering increasing the amount of funds in the assistance fund

Requires school feedback and board resolution

Benefit: Additional funds available for FY20 assistance request

Cost: Comes from the FY19 rebate to schools

# Questions?

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