

# Spring Training 2020

## HB 242

## GASB 87

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MAY 12, 2020

# HB 242- Summary



Requires all charter schools to follow GASB (Governmental Accounting Standards Board) standards starting FY21



Requires new charter schools to go through a probationary initial 3-year review period.



Updates and clarifies the charter school closure process

# Transitioning from FASB to GASB

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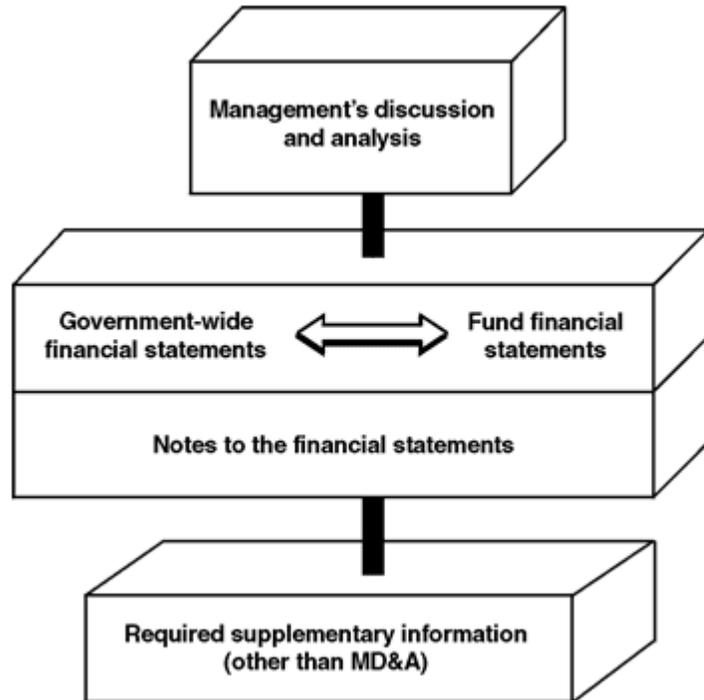
Almost all charter schools have been following the nonprofit standards of FASB (Financial Accounting Standards Board) for financial statement presentation

UPEFS has always required the Oct 1 financial report to be uploaded on a GASBfund accounting basis. This will continue.

All charters have had to provide a reconciliation between GASB and FASB standards to USBE. This will no longer be required.

# GASB Minimum Requirements for General Purpose External Financial Reporting

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- Management Discussion and Analysis (MD&A)
- Basic Financial Statements
  - Government-wide financial statements
  - Fund financial statements
  - Notes to the financial statements
- Required Supplementary Information (RSI) other than MD&A

# Comprehensive Annual Financial Report (CAFR)

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Encouraged by GASB, but not required.

As of Fiscal Year 2019, only 12 school districts in Utah report a CAFR

The CAFR provides more detail and overview. The required sections of the CAFR are:

- Introductory Section
- Financial Section (where all the minimum requirements in previous slide are housed)
- Statistical Section

# Basic Financial Statements

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## Government-Wide Financial Statements

	Measurement Focus	Basis of Accounting
Governmental activities	Economic Resources	Accrual
Business-type activities	Economic Resources	Accrual

## Fund Financial Statements

	Measurement Focus	Basis of Accounting
Governmental Funds	Current Financial Resources	Modified Accrual
Proprietary Funds	Economic Resources	Accrual
Fiduciary Funds	Economic Resources	Accrual

# Measurement Focus

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## Economic Resources (accrual)

- Revenues are recognized as soon as they are earned and expenses are recognized as soon as a liability occurs, regardless of the timing of cash inflows and outflows.

## Current Financial Resources (modified accrual)

- Revenues are recognized when they are available and measurable. Expenditures are recorded when there is a decrease in net financial resources, which usually occurs when a liability occurs, if measurable\*.
- Instead of a focus on overall economic position, the focus is on the near-term inflows or outflows of cash.

\*One major exception to the 'when a liability occurs' clause is for interest. Interest is recognized as an expenditure when it is due

# Measurement Focus Difference

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One of the main differences that arises between the accrual accounting (economic resources measurement) and modified accrual (current financial resources measurement) is in general:

Long-term assets and liabilities and items associated with those assets and liabilities (for example, depreciation) are not recorded under modified accrual accounting.

# Funds

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## Governmental Funds

- Focus is on sources, uses, and balances of current financial resources
- Accounting segregations of financial resources
- Budgetary orientation

## Proprietary Funds

- Focus is on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows

## Fiduciary funds

- Focus is on net position and changes in net position.

# Governmental Funds

Fund	Description	LEA Applicability
General Fund	The chief operating fund of the LEA. It is used to account for all financial resources of the LEA except for those required to be accounted for in another fund. An LEA may only have one general fund	Used by all LEAs
Special Revenue Funds	Used to account for and report the proceeds of <u>specific revenue sources</u> that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.	Use when applicable. Common uses include student activity funds, Non-K-12 Programs, Foundations, or School Food Services
Capital Projects Funds	Used to account for and report financial resources that are restricted, committed, or assigned to <u>expenditure for capital outlay</u> . Capital outlays financed from general obligation bond proceeds should be accounted for here.	Use when there is a capital levy or to accumulate resources for capital expenditures. For LEAs that do not issue capital levies (charter schools) this is optional.
Debt Service Funds	Used to account for and report financial resources that are restricted, committed, or assigned to expenditure for <u>principal and interest</u> .	Use when there is a debt assessment or to accumulate resources for debt expenditures. For LEAs that do not issue debt assessments (charter schools) this is optional.
Permanent Funds	Used to account for and report resources that are restricted to the extent that <u>only earnings, and not principal</u> , may be used for purposes that support the reporting government's programs.	Possible, but unlikely.

# Proprietary Funds

Fund	Description	LEA Applicability
Enterprise Funds	May be used to report any activity for which a fee is charged to external users for goods or services.	<p>Required only when principal revenue sources are:</p> <ul style="list-style-type: none"> <li>-debt backed solely by revenues from fees and charges</li> <li>-a legal requirement to recover costs through fees and charges, or</li> <li>-policy decisions of the governing board of management to recover the costs of providing services through fees or charges</li> </ul> <p>Examples include food service programs (not school lunch), bookstore operation, athletic stadium or community swimming pool</p>
Internal Service Funds	May be used to report any activity that provides goods or services to other funds, or departments on a cost-reimbursement basis.	<p>Optional.</p> <p>Examples include activities for central warehousing, central printing, other central type services</p>

# Fiduciary Funds

Fund	Description	LEA Applicability
Pension Trust Funds (including OPEB)	Administered through trusts for members and beneficiaries of defined benefit/contribution plans, OPEB plans or other benefit plans.	Only use when the LEA is the one administering the plans. Third party administrators or URS plans do not apply here. Not commonly used.
Investment Trust Funds	Used to report fiduciary activities from the external portion of investment pools and individual investment accounts that are held in a trust.	These would be for non-pension trusts or to account for revocable trusts. Personally, haven't seen this used by LEAs yet.
Private-Purpose Trust Funds	Used to report all fiduciary activities that are not required to be reported above.	These funds are used for specific purposes, such as endowments or scholarships defined by the donor. Not commonly used.
Custodial Funds (previously called agency funds)	Used to report what were previously called agency funds	Fiduciary activity resources that are not held in trust. Somewhat common.

# Important Governmental Fund Balance Terms

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Fund Balance	Description
Non-Spendable	Amounts not in spendable form or are amounts legally contracted to not be spent
Restricted	Legally enforceable constraints are placed on the use of resources that are either (a) externally imposed by creditors, grantors, laws or regulations of governments or (b) imposed by law through constitutional provisions or enabling legislation
Committed	For specific purposes designated by the governing board
Assigned	For a specific intent, but are neither restricted or committed forms of constraint.
Unassigned	Residual classification. For the general fund only

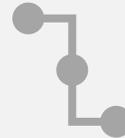
# Important Government-Wide Net Position Terms

Net Position	Description
Net Investment in Capital Assets	Represents total capital assets less accumulated depreciation less debt directly related to capital assets
Restricted Net Position	Represents net assets legally restricted by external sources to the organization or legislation
Unrestricted Net Position	Represents the residual after the other above categories

# GASB 87- Leases Summary



Effective starting FY22 (this has been updated as of this last week from FY21 to FY22)



Establishes single model for lease accounting. “Capital” and “operating” lease terminology goes away.



Exceptions to the requirements of GASB 87 are short-term leases and contracts that transfer ownership

# Short-Term Leases

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12 month or less maximum possible term

Continue to treat these as rentals/operating leases. Payments are not considered debt payments.

Example:

- Charter Z rents/leases for the last 3 months of the year 1 bus from District A for \$1,000 per month

# Short Term Lease Example

Charter Z rents/leases for the last 3 months of the year 1 bus from District A for \$1,000 per month

## Accrual Accounting (Economic Resources Measurement)

### LESSEE

Month 1	Rental Expense	\$1,000
	Cash	\$1,000

*To record the monthly payment. Repeat the same entry for months 2 and 3.*

### LESSOR

Month 1	Cash	\$1,000
	Rental Revenue	\$1,000

*To record the monthly payment. Repeat the same entry for months 2 and 3.*

## Modified Accrual (Current Financial Resources Measurement)

### LESSEE

Month 1	Rental Expenditure	\$1,000
	Cash	\$1,000

*To record the monthly payment. Repeat the same entry for months 2 and 3.*

### LESSOR

Month 1	Cash	\$1,000
	Rental Revenue	\$1,000

*To record the monthly payment. Repeat the same entry for months 2 and 3.*

# Lease or Financed Purchase

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A financed purchase is a contract that contains a transfer of ownership

A contract that meets both of the following is a transfer of ownership:

- (a) transfers ownership of the underlying asset to the lessee by the end of the contract
- (b) does not contain termination options

A contract that contains a fiscal funding or cancellation clause that is not reasonably certain of being exercised is still considered a transfer of ownership and a financed purchase

Account for like any other debt backed purchase or sale.

# Lease or Financed Purchase

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## Lease

- 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 exchange or exchange-like transaction
- Examples of nonfinancial assets include land, buildings, vehicles, and equipment

# Financed Purchase Example

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On 7/1/2020 District B enters into a contract with Charter Y to provide a bus for 5 years. Both parties acknowledge that Charter Y will take ownership of the bus at the end of the term. The payments will be \$7,000 per year for 5 years. The fair value of the bus is \$30,000. The implicit rate is 5.4%. The useful life of the bus is 5 years.



# Financed Purchase Example (Seller)

## Accrual Accounting (Economic Resources Measurement)

7/1/2020    Note Receivable    \$30,000  
                                 Bus Asset                    \$30,000

*To record the financed sale of the bus*

6/30/2021    Cash                                \$7,000  
                                 Interest Revenue    \$1,620  
                                 Note Receivable    \$5,380

*To record the first payment*

## Modified Accrual (Current Financial Resources Measurement)

7/1/2020    No Entry

*Long-term assets and liabilities are not recorded*

6/30/2021    Cash                                \$7,000  
   Other Financing Sources    \$7,000

*To record the proceeds from capital assets as other financing sources (revenue code 5300)*

# Lease Example

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On 7/1/2020 District C enters into a contract with Charter X to provide a bus for 5 years. The payments will be \$7,000 per year for 5 years. The fair value and book value of the bus is \$60,000. The implicit rate is 5.4%. The useful life of the bus is 10 years. The net present value of the lease payments is \$30,000.

# Lease Example (Lessee)

## Accrual Accounting (Economic Resources Measurement)

7/1/2020	Right-of-use asset	\$30,000	
	Lease Liability		\$30,000

*To record the right-of-use asset and related liability*

6/30/2021	Lease Liability	\$5,380	
	Interest Expense	\$1,620	
	Cash		\$7,000

*To record the first payment on the related lease liability*

6/30/2021	Amortization Expense	\$6,000	
	Accumulated Amortization		\$6,000

*To record the first year's amortization of the right-to use asset equal to one-fifth of the asset value of \$30,000 each year*

## Modified Accrual (Current Financial Resources Measurement)

7/1/2020	Capital Expenditure	\$30,000	
	Other Financing Source		\$30,000

*To record the lease agreement at the present value of the minimum lease payments*

6/30/2021	Debt Principal Expenditure	\$5,380	
	Debt Interest Expenditure	\$1,620	
	Cash		\$7,000

*To record the first payment of interest and principal on the long-term lease*



# Sources

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HB 242, 2020 Utah Legislative Session

GASB 87

GASB Codification, Sections 1100, 1300, 1600, 1800, 2200, and L20

National Center for Education Statistics (NCES), Financial Accounting for Local and State School Systems (2014)

Government Finance Officers Association GFOA, Internet Training, Accounting and Disclosures for Debt, March 18, 2020

GFOA, 113<sup>th</sup> Annual Conference Slides, Or We Could Just Buy It: Accounting and Financial Reporting for Leases, May 22, 2019, <https://www.gfoa.org/sites/default/files/AccountingforLeases.pdf>

Journal of Accountancy, Lessee accounting for governments: An in-depth look, Robert Paretta, August 1, 2019, <https://www.journalofaccountancy.com/issues/2019/aug/lease-accounting-for-governments-gasb-87.html>

GFOA, Governmental Accounting, Auditing, and Financial Reporting (GAAFR) (Blue Book) (2005)

# Questions?

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## Other Links

GASB also has an Emergency Toolbox, that may be helpful to reference.

See: <https://www.gasb.org/cs/Satellite?c=Page&cid=1176174469582&pagename=GASB%2FPage%2FGASB%2FSectionPage>

## Contact Information

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