FY2020 Open & FY2019 Close Training
Higher Education

May 1, 2019

Agenda & Opening Comments
Presenters

State Controller
Bob Jaros (303) 866-3765

Financial Services Unit
Tom Gamache (303) 866-5657
Karoline Clark (303) 866-3811
Jennifer Henry (303) 866-3809
Daniel Saint (303) 866-3891

Federal Reporting & Indirect Cost
Mark Davis (303) 866-4041

Financial Reporting
Jeffrey Kahn (303) 866-2659

Agenda

• Opening Comments
• State Controller Comments
• General Information
• Calendar Highlights
• Budget Process
• Capital Construction
• Opening & Closing Procedures
• Indirect Cost & Federal Reporting Unit Update
• Financial Reporting & GASB Update
• Closing and Questions
Housekeeping

• Please sign in
• CPE will be offered for today’s training, turn in the form before you leave today
• We will take a break about halfway through the session

State Controller Comments
State Controller Comments

• Fiscal Year 2018 CAFR completed December 18, 2018
• Continued importance of meeting open/close calendar dates
  • Financial Statements and Exhibit J due September 6
• Paydate Shift
• EFT Fraud

Calendar Highlights
Financial Analysis & Reporting Section

Director
Jeffrey Kahn

Financial Services
Tom Gamache

Reporting
Paul Reynolds

Internal Audit
Bradley Treiber

Federal Reporting & Indirect Cost
Bhavna Punatar

Central Mailbox: DPA_FARmailbox@state.co.us

Fiscal Procedures Manual

✓ Items of Note
  ▪ Calendar
    ▪ Changes communicated via Controllers distribution list
  ▪ Audit Risk Letter
  ▪ Updates
    ▪ Changes communicated via Controllers distribution list

www.colorado.gov/osc/fiscalprocedures
## Period Close Dates

<table>
<thead>
<tr>
<th>Period</th>
<th>Purpose</th>
<th>Close Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>Payment / Cash Cut Off</td>
<td>July 19</td>
</tr>
<tr>
<td>13</td>
<td>Department Close</td>
<td>August 5</td>
</tr>
<tr>
<td>14</td>
<td>OSC Close</td>
<td>August 9</td>
</tr>
<tr>
<td>15</td>
<td>Basic Financial Statements</td>
<td>September 20</td>
</tr>
<tr>
<td>16</td>
<td>CAFR / Audit Opinion</td>
<td>December 13</td>
</tr>
</tbody>
</table>

## Calendar Highlights

<table>
<thead>
<tr>
<th>Date</th>
<th>Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30</td>
<td>• Goods must be received or services performed by this date</td>
</tr>
<tr>
<td></td>
<td>• Long bill, special bills, and supplemental bills interfaced to</td>
</tr>
<tr>
<td></td>
<td>CORE by this date</td>
</tr>
<tr>
<td>July 8</td>
<td>• Exhibit K3 due to OSC</td>
</tr>
<tr>
<td>July 12</td>
<td>• Last day departments can bill Institutions of Higher Education</td>
</tr>
<tr>
<td></td>
<td>(via invoice or IET for central billing agencies)</td>
</tr>
<tr>
<td>July 19</td>
<td>• <strong>Period 12 Close</strong></td>
</tr>
<tr>
<td></td>
<td>• Cash cutoff</td>
</tr>
<tr>
<td></td>
<td>• Last day to approve disbursement, cash receipt, and procurement</td>
</tr>
<tr>
<td></td>
<td>documents</td>
</tr>
<tr>
<td>July 24</td>
<td>• OSC will provide the allocation for posting Treasury Pooled Cash</td>
</tr>
<tr>
<td></td>
<td>Unrealized Gain/Loss to the Institutions of Higher Ed, based on</td>
</tr>
<tr>
<td></td>
<td>Period 12 balances (on the assumption that cash balances will not</td>
</tr>
<tr>
<td></td>
<td>change for the IHE)</td>
</tr>
<tr>
<td>July 29</td>
<td>• Target date for OSC to provide pension and OPEB liability workbooks</td>
</tr>
<tr>
<td></td>
<td>(within 7 days of release of PERA's schedules)</td>
</tr>
</tbody>
</table>
### Calendar Highlights

<table>
<thead>
<tr>
<th>Date</th>
<th>Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 2</td>
<td>• Final date for interface feeds to CORE</td>
</tr>
<tr>
<td>August 5</td>
<td>• <strong>Period 13 Close - Department Close</strong></td>
</tr>
<tr>
<td></td>
<td>• Last day for regular department/IHE input into CORE</td>
</tr>
<tr>
<td></td>
<td>• Transfers must be in balance by this date</td>
</tr>
<tr>
<td></td>
<td>• IHE deadline to post Treasury Pool and Institution-Held Unrealized Gain/Loss to CORE</td>
</tr>
<tr>
<td></td>
<td>• Deadline for BG documents to be approved for the continuing portion of expiring capital construction projects</td>
</tr>
<tr>
<td></td>
<td>• Deadline for BG documents to be approved for the reverting portion of expiring capital construction projects</td>
</tr>
<tr>
<td></td>
<td>• After this date all FY19 documents route to the OSC for approval</td>
</tr>
<tr>
<td>August 7</td>
<td>• Deadline to submit overexpenditure requests to the OSC</td>
</tr>
<tr>
<td>August 9</td>
<td>• <strong>Period 14 Close - OSC Close</strong></td>
</tr>
<tr>
<td>August 14</td>
<td>• All exhibits due except I, J, K1, and K3</td>
</tr>
<tr>
<td>August 16</td>
<td>• TABOR Variance Analysis due, as of Period 14 close</td>
</tr>
<tr>
<td></td>
<td>• OSC to provide Treasury pooled cash summarized footnote to IHE and standalone entities; based on Treasury’s Exhibit N</td>
</tr>
<tr>
<td></td>
<td>• Cash funds uncommitted reserves turnaround report due to the OSC</td>
</tr>
<tr>
<td>August 23</td>
<td>• Target date for IHE to submit pension and OPEB liability entries (GASB 68 &amp; 75)</td>
</tr>
<tr>
<td>September 6</td>
<td>• Exhibit I due</td>
</tr>
<tr>
<td></td>
<td>• SNP, SRECNP, and Exhibit J due</td>
</tr>
</tbody>
</table>
## Calendar Highlights

<table>
<thead>
<tr>
<th>Date</th>
<th>Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 20</td>
<td>• <strong>Period 15 Close - BFS</strong></td>
</tr>
<tr>
<td></td>
<td>• Entries after this date are considered audit adjustments</td>
</tr>
<tr>
<td></td>
<td>• CORE document catalog to be cleared of all FY2019 and prior draft and rejected documents</td>
</tr>
<tr>
<td>September 25</td>
<td>• Target date for OSC to carryforward unspent capital construction budgets from FY2019 to FY2020 based on Period 14 balances</td>
</tr>
<tr>
<td>September 27</td>
<td>• Target date to submit MD&amp;A to OSC</td>
</tr>
<tr>
<td>October 1</td>
<td>• Exhibit K1 due</td>
</tr>
<tr>
<td>December 13</td>
<td>• <strong>Period 16 Close - CAFR</strong></td>
</tr>
<tr>
<td></td>
<td>• Management rep letter due to OSC (or due upon submission to IHE auditors if earlier)</td>
</tr>
<tr>
<td></td>
<td>• CAFR audit opinion date</td>
</tr>
<tr>
<td>December 31</td>
<td>• FRAC due to OSC</td>
</tr>
</tbody>
</table>

## Budget Process
FY2020 Budget Structure

- FY2020 Budget lines are now available in CORE
  - Based on active FY2020 budget lines as of February 1 EXCEPT expiring capital construction budget lines
  - BGA90/91 documents were created with department 999A in the header; difficult to find departments
    - Please search the BQ90LV3 or BQ91LV3 screens, based on the fund or appropriation unit
    - Any questions, contact Fiftwo
  - By July 1st, all existing and new lines will be available for use in CORE
    - If budget line exists that is not needed in FY2020, work with Fiftwo to get the budget line deactivated
    - If a budget line does not exist that should be available in FY2020, work with Fiftwo to get the budget line activated

Special & Supplemental Bills & Emergency Supplementals

- Special and Supplemental Bills
  - Bills that are effective for FY2019 are interfaced as Supplemental Bills from PB to CORE. These are processed after signature, based on the effective date of the bill.
  - FY2020 Special Bills will be interfaced from PB to CORE after signature, based on effective date of the bill.
  - Contact Fiftwo if new coding is necessary
- Emergency Supplementals (1331)
  - Processed as manual budget documents (contact Fiftwo)
  - Once final supplemental bills have been booked in CORE through PB, the manual 1331 documents need to be reversed. OSC will work with Fiftwo.
FY2020 Long Bill

- SB19-207 signed by the Governor on April 18th
- Budget data is contained in Performance Budget (PB) and will be interfaced to CORE
  - PB syncs with CORE via appropriation unit
- Any new or changed coding in either PB or CORE should be communicated to Fiftwo
- Reviewed by DHE, Fiftwo, and OSC
- PB to CORE interface for Higher Ed will occur before the start of FY2020

Capital Construction
Long Bill Booking

- Project numbers are assigned by the CDC
- OSC works with Fiftwo to set up new appropriation units
- Once budget documents are finalized in CORE, the OSC will:
  - Apply restrictions which prohibit spending
  - Provide the coded capital construction long bill to Fiftwo for distribution to the IHEs
- To remove a restriction, work with Fiftwo to submit a BGA90/91 document and attach an approved SC4.1 or IT approval (DHE form)
- Capital construction appropriations are effective upon signature by the Governor

Fund 4611

- New Fund called “IT Capital Account”
- HB 15-1266 created this new fund within 4610
- Beginning FY19 all IT appropriations were booked in Fund 4611
- Bill was effective beginning FY16, but projects continued to be recorded in 4610 for FY16-FY18
- For FY16-18 projects still in 4610, OSC will work with the FAC to determine best way to handle these projects
Six-Month Rule

- Statute requires that funds for new capital construction projects be encumbered within 6 months from the date the Long Bill is signed

Six-Month Rule

- Rule applies to the initial appropriation only
- Rule does not apply to IT projects over $500,000 (overseen by JTC)
- Rule also does not apply to projects that are solely funded from cash funds (whether capital, maintenance, or IT)
- 6-Month Certification Form must be submitted to the OSC by six-month due date at DPA_FARmailbox@state.co.us
Expenditures

- For State-funded projects, budgetary compliance is measured in the Capital Construction Funds 4610 & 4611
  - Spend directly in Fund 305x/320x
  - Record a transfer from Fund 4610/4611 to Fund 305x/320x
- Reminders
  - Funds should not be transferred out of Fund 4610/4611 without expenditures in Fund 305x/320x
  - At fiscal year end, IHEs will need to transfer funds from 4610/4611 for any capital construction related accruals in Fund 305x/320x

Capital Assets

- IHEs maintain detailed records of all capital assets in their own systems
- Data are interfaced to CORE at a summary level
- Entries for recording the asset
  - Some IHEs use 6610-Clearing Offset Account to record the elimination entry for the asset and feed this entry to CORE
  - Other IHEs do the eliminating entry in their own system and then feed the asset entry to CORE
Reconciliation

• Tool to help determine if Fund 4610, 4611, 3601 and 305x/320x are in sync
• InfoAdvantage Report OSC-011 - Higher Ed Capital Construction Transfers Compared to Institutional Fund Expenditures
  • “Expenditure Difference” should be $0
  • “Capitalization Difference” should be $0 unless only a portion of the expense was capitalized, the amount is in CIP, or the IHE does not use the 6610-Clearing Offset Account

<table>
<thead>
<tr>
<th>GWAA - Western State Colorado</th>
<th>Fund 305x/320x</th>
<th>Fund 4610</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 16</td>
<td>0&quot;P061X38&quot;</td>
<td>GB36909</td>
</tr>
<tr>
<td>2018 16</td>
<td>0&quot;P061X91&quot;</td>
<td>GB36950</td>
</tr>
</tbody>
</table>

Budget Availability

• Per LB headnotes, appropriations are available upon enactment plus three full fiscal years and for any subsequent year for the amount encumbered as of June 30 of the last year of the project
**Carryforwards: Non-Expired Projects**

- **Projects within the three years**
  - OSC will processes the budget documents in CORE to carryforward spending authority
  - Target date for the carryforward is Sept 25th
  - Calculation is FY Budget less FY Expenditures (based on P15 balances)
  - For any postclosing entries in period 16, work with Fiftwo to ensure the carryforward is correct

**Carryforwards: Expired Projects**

- **Projects outside the three years (expired projects)**
  - IHEs must work with Fiftwo to manually process a budget document to carryforward any amount encumbered as of June 30 and attach encumbrance documentation
  - IHEs work with Fiftwo to process budget documents to revert unencumbered amount
  - Due date is Period 13 Close (August 5th)
  - Use OSC-019 Capital Construction Reversions and Carryforwards to identify expiring projects
Emergency Maintenance Projects

- DPA may choose to pay for and complete an EM project at an IHE
- The expenditures are recorded by DPA, however for TABOR purposes expenditures must also be duplicated in IHE’s Funds (305x/320x) to support the calculation of state support
- Sample entries added to the FPM for reference
- OSC-015 IHE Noncapitalizable Emergency Projects was created to help IHEs reconcile their expenditures to DPA. By year end, DPA’s & IHE’s expenditures should agree.

Emergency Maintenance Projects

- In some cases, IHEs may have remaining budget on a CM project that is about to expire
- The excess budget can be applied to an EM project
- IHE must obtain approval by State Architect
- Once approved by State Architect, work with Fiftwo to process a BG document to transfer the budget by June 30, otherwise the funds stay in Fund 4610/4611 and are reverted like other unencumbered, expiring projects
- The accounting entries discussed on the prior slide will still apply
Open/Close Procedures

Receivable/Payable Confirmations

- Seller must initiate, except CU
- Payable/Receivable confirmation forms are due to the buyer by July 26
  - If confirmation is after July 26, the buyer can refuse to confirm
- Payable/Receivable confirmation forms are due from the seller to the OSC by August 7
  - Unconfirmed amounts may require the OSC to reclassify balances for financial statement purposes
- Please reconcile payable/receivable accounts and clear any old balances that have carried forward from prior years
Receivable/Payable Confirmations

- New process
  - Excel submission only
  - No signatures
  - Department submitting form to OSC affirms both parties completed their own section
- New form
  - Larger font
  - Cell for department code
  - Removed signature block
- Reminders
  - Clean up
  - Complete forms timely
Unrealized Gain/Loss

• Treasury Pooled Cash
  • OSC will provide the allocation to IHEs by July 24 if IHEs have cut off cash entries
  • Allocation is based on IHE BSA 1100 balance as of period 12 close
  • IHEs should feed or post allocation to CORE by August 5
  • Accounts to use:
    • BSA 1105 - Cumulative Unrealized Gain/Loss on Treasury Pooled Cash
    • RSRC 6050 - Unrealized Gain/Loss

Unrealized Gain/Loss

• Institution-Held Investments
  • IHEs determine allocation
  • Difference between book and market value as reported on Exhibit N1
  • IHEs should feed or post allocation to CORE by August 5
  • Accounts to use:
    • BSA 1605 - Cumulative Unrealized Gain/Loss on Investment
    • RSRC 6050 - Unrealized Gain/Loss
Compensated Absences - PERA

- Percentage of state employees expected to retire with PERA benefits not yet available
- Will be provided as soon as OSC receives it from PERA’s actuary

Estimates

- **Do not** change methodology after period 14 close
- **Do not** submit a period 15 or 16 entry just to revise an estimate
  - Estimates should be based on the best information available as of fiscal year close
- **Do** submit a period 15 or 16 entry for calculation errors
- **Do** submit revised estimate for contingences reported on Exhibit L, if applicable
Quarterly Reporting

- Quarterly reports due 2 weeks after quarter close in CORE
- OSC will follow up if report is not submitted or if there are questions
- Diagnostic report training guide available on Fiscal Procedures Manual website
  - Updated to include recent report changes and additional reports have been added to guide

www.colorado.gov/osc/fiscalprocedures

Indirect Cost and Federal Reporting Unit
Single Audit - Reporting Requirements

- 2 CFR §200.512
- At conclusion of single audit, auditee must submit information to the Federal Audit Clearinghouse, U.S. Census Bureau
- OSC prepares statewide submission
- Submission includes:
  - Data Collection Form (Form SF-SAC)
  - Reporting Package
    - Comprehensive Annual Financial Report (CAFR)
    - Auditor’s Report
    - Schedule of Expenditures of Federal Awards (SEFA)
    - Summary Schedule of Prior Audit Findings
    - Corrective Action Plan
- OSC also prepares statewide eZ-Audit submission for IHEs (U.S. Department of Education)

Single Audit - Schedule of Expenditures of Federal Awards (SEFA)

- 2 CFR §200.510(b)
- OSC compiles statewide SEFA
- Exhibit K1 - Schedule of Federal Assistance
  - Federal Award Expenditures for the State Fiscal Year
  - The Exhibit validates the information reported for:
    - Valid values
    - Completeness of required information
    - Provides an Error Message if information reported is invalid or incomplete
  - Due to OSC October 1
**Single Audit - Summary Schedule of Prior Audit Findings**

- 2 CFR §200.511(b)
  - Auditees must report status of prior single audit findings
- OSC compiles statewide *Summary Schedule of Prior Audit Findings*
- Exhibit K3 - *Schedule of Prior Year Audit Recommendation Status*
  - OSC will provide Exhibit K3 to departments/IHEs, pre-populated with the recommendations required to be reported
  - Status reported is as of June 30
  - Due to OSC July 8
  - Submit revised Exhibit K3 if necessary

---

**Single Audit - Corrective Action Plan**

- 2 CFR §200.511(c)
  - Auditee must prepare a document, separate from auditor’s reporting of findings (recommendations)
- OSC compiles statewide *Corrective Action Plan*
- At conclusion of single audit, the OSC will send departments/IHEs a list of recommendations to address
- Due to OSC upon request after release of Single Audit Report
**TABOR**

- TABOR enterprise status for FY2019
  - All institutions of higher education are expected to remain qualified enterprises
  - State Fair is expected to remain disqualified
  - Reminder: AHEC is only partially designated
- Effective FY 2018, the TABOR refund mechanism is the property tax exemption reimbursement for qualifying seniors and disabled veterans
  - The TABOR refund is the lesser of the property tax reimbursement or the amount of TABOR revenue over the excess state revenues cap, C.R.S. 39-3-209 (2).
- Exhibits A1 and A2 due to OSC on August 14
- Variance analysis (report ID: OSC-004) due to OSC on August 16
- See Chapter 5 Section 5 in the Fiscal Procedures Manual for more information on TABOR

---

**Cost Allocation Plans**

- OSC prepares StateWide Cost Allocation Plan (SWCAP) and negotiates agreement with the federal cognizant agency (Health and Human Services, Cost Allocation Services Department in San Francisco)
- OSC prepares StateWide Appropriations/Cash Fees Plan and answers any questions from the OSPB, JBC, legislature and budget staff
- OSC provide assistance/guidance related to the Indirect Cost Rate Proposal’s (ICRP) preparation, negotiation, applicable regulations and recovery issues
- Departments with federal grants are responsible for preparation of Cost Allocation Plan (CAP), Public Assistance Cost Allocation Plan (PACAP) or ICRP after 6 months of the Fiscal Year end
- Submit negotiated agreement to the OSC after the agreement has been signed
Financial Reporting and GASB Pronouncements

Financial Reporting Updates
Adjustments to Beginning Equity

- Three equity (fund balance/net position) accounts used to adjust beginning equity or transfer residual equity between funds
  - BSA 340A - Accounting Change is applicable when the implementation of an accounting change requires restatement of beginning equity
  - BSA 340P - Prior Period Adjustment should be used only to report the correction of an error related to a prior FY
  - BSA 340E - Equity Transfer is available for use by IHE to move equity between funds related to a change in TABOR status
- OSC will reclassify these balances to BSA 3400 after the fiscal year is closed and balances are rolled to the next year
- See Fiscal Procedures Manual, Chapter 3, Section 3.38

Adjustments to Beginning Equity

- **Exhibit PPA - new for FY2019**
  - Addresses audit recommendation
    - FPM directed departments to assess materiality for CAFR
- **Section A** - prior period adjustments above $500,000
  - Contact your Financial Specialist at the time the error is discovered
  - OSC should be aware of all items included in Section A prior to Exhibit submission
- **Section B** - prior period adjustments below $500,000
  - Routinely code in CORE to current year revenue/expense
  - Opportunity to code to a budget, grant, program, etc.
Adjustments to Beginning Equity

- **Exhibit PPA - new for FY2019**
  - OSC will perform CAFR-perspective analysis of all prior period adjustments
  - Departments will be contacted when reclassifications are needed:
    - Reclassify from current year revenue/expense to BSA 340P
    - Reclassify from BSA 340P to current year revenue/expense
- FY2019 is a baseline year
  - OSC lacks information to assess extent of statewide historical practices
  - No minimum threshold amount
  - FY2020 may also need to be a baseline year

Pension & OPEB Update
Pension & OPEB Update

• General Assembly enacted pension reform through SB18-200
  • Increases employer contribution rates
  • Increases employee contribution rates
  • Requires annual recurring direct distributions of $225 million
  • Modifies benefits, e.g. suspending and reducing annual increases
  • Expands eligibility to participate in PERA DC plan

Pension & OPEB Update

• Special Funding Situation
  • GASB Statement No. 68, Paragraph 15
  • Circumstances in which a nonemployer entity is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity or entities and either of the following conditions exists:
    • Amount of contributions for which the nonemployer entity legally is responsible is not dependent upon one or more events or circumstances unrelated to the pensions
    • The nonemployer entity is the only entity with a legal obligation to make contributions directly to a pension plan
**Pension & OPEB Update**

- **Special Funding Situation**

  Specifically, PERA is planning to report a nonemployer contribution in each of the following Division Trust Funds for the following amounts:

<table>
<thead>
<tr>
<th>DIVISION</th>
<th>DIRECT DISTRIBUTION PAYMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Division</td>
<td>$78,488,543.25</td>
</tr>
<tr>
<td>School Division</td>
<td>$126,504,713.25</td>
</tr>
<tr>
<td>Judicial Division</td>
<td>$1,384,836.75</td>
</tr>
<tr>
<td>Denver Public Schools Division</td>
<td>$18,621,906.75</td>
</tr>
<tr>
<td>Total</td>
<td>$225,000,000.00</td>
</tr>
</tbody>
</table>

**Pension & OPEB Update**

- **Special Funding Situation**

- **PERA’s Schedules of Employer Allocations**
  - Public School and DPS Divisions
    - Will include contributions from a nonemployer entity
    - Reduces proportionate share for DPS & the schools
  - State and Judicial Divisions
    - Should align with how reported in the state’s CAFR
Pension & OPEB Update

• Special Funding Situation

• The annual direct distributions of $225 million are:
  • Contributions from a nonemployer contributing entity?
    • Reduces proportionate share of all PERA-affiliated employers
  -OR-

  • Additional employer contributions?
    • Increases proportionate share of all PERA-affiliated employers?
      • OR -
        • A governmental activity?

GASB Update
GASB Pronouncements Effective for Fiscal Year 2019

- GASB Statement No. 83 - Certain Asset Retirement Obligations
- Implementation Guidance Update No. 2017-3 - Financial Reporting for Postemployment Benefit Plans Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)
- Implementation Guide No. 2018-1 - Implementation Guidance Update—2018

Statement No. 83, Asset Retirement Obligations
GASB Statement No. 83 - Certain Asset Retirement Obligations (AROs)

GASB 83 establishes recognition and measurement guidance for assets not covered by existing GASB standards. Under the new guidance, a government with a legal obligation for future asset retirement activities for tangible capital assets would be required to recognize a liability in its financial statements.

WHAT IS AN ASSET RETIREMENT OBLIGATION?

GASB defines an ARO as “a legally enforceable liability associated with the retirement of a tangible capital asset.” The capital asset must be permanently removed from service through its sale, abandonment, recycling or disposal and not just temporarily idled.

WHAT ARE EXAMPLES OF AN ASSET RETIREMENT OBLIGATION?

Examples of potential AROs include:
• An asset that may require decommissioning at a substantial cost to a government such as power plants, coal ash ponds, oil wells, coal strip mines, underground gas tanks, nuclear reactors, research facilities, or sewage treatment plants.
• Assets of governments that operate in special industries such as an X-ray machine that may require special disposal due to radioactive material.
• Contractually required land restoration, such as remove of wind power turbines.
• Obligations to remove data from computers when disposed.
GASB Statement No. 83 - Certain Asset Retirement Obligations (AROs)

WHAT IS NOT AN EXAMPLE OF AN ASSET RETIREMENT OBLIGATION?

The standard specifically excludes:
- Obligations solely arising from a plan to sell or otherwise dispose of a tangible capital asset.
- Obligations from activities necessary to prepare a tangible capital asset for an alternative use, or maintenance of (rather than retirement), or for the cost of a replacement part that component of the tangible capital asset.
- Obligations for pollution remediation, e.g., asbestos removal, that result from the other-than-normal operation of a tangible capital asset, i.e., contamination obligations covered under GASB 49.
- Landfill closure and post-closure care obligations, including items covered by GASB 18.
- Conditional obligations to perform asset retirement activities. However, the existing guidance on contingent liabilities in GASB Statement No. 62 would still apply.

GASB Statement No. 83 - Certain Asset Retirement Obligations (AROs)

WHEN DOES THE GOVERNMENT HAVE TO REPORT AND ASSET RETIREMENT OBLIGATION?

A government should recognize an ARO when the liability is incurred and reasonably estimable. A liability has been incurred when there has been an external and internal obligating event:
- External obligating events are those that place an enforceable legal obligation upon a government to perform asset retirement activities. Examples of these events include an approved law or regulation, court ruling or legally binding contract.
- Internal obligating events include placing an asset into operation or starting to use it, abandoning an asset, or the incurrence of contamination (such as with a nuclear reactor).

This Statement also applies to legally enforceable liabilities of a lessor in connection with the retirement of its leased property if those liabilities meet the definition of an ARO.
GASB Statement No. 83 - Certain Asset Retirement Obligations (AROs)

HOW DO YOU RECOGNIZE AND MEASURE AN ASSET RETIREMENT OBLIGATION?

<table>
<thead>
<tr>
<th>Initial Recognition</th>
<th>Measured based on the best estimate of the decommissioning costs (equipment, facilities, or services) as if it were to be acquired at the end of the reporting period, otherwise termed “current value” of outlays.</th>
<th>Deferred outflow of resources—same amount as the Asset Retirement Obligation liability.</th>
</tr>
</thead>
</table>
| Subsequent Recognition | • At least annually, adjust for general inflation or deflation.  
• At least annually, evaluate relevant factors to determine if there is a significant change in the estimated outlays; re-measure liability when significant. | An outflow of resources (such as expense) in a systematic and rational manner over the estimated useful life of the capital asset. Immediately expense if capital asset is abandoned. |

GASB Statement No. 83 - Certain Asset Retirement Obligations (AROs)

WHAT ARE THE ENTRIES TO RECORD AN ASSET RETIREMENT OBLIGATION?

Chart of account elements have been added in FY 2019 for the recording of asset retirement obligation liabilities and deferred outflows of resources, as well as expenses/expenditures for the amortization of deferred outflows of resources in a systematic and rational manner. The following entries will be used to record an initial asset retirement obligation in Fund 4710 or in the applicable proprietary fund:

4024 Deferred Outflows - Asset Retirement Obligation DR  
2996 Asset Retirement Obligation - Long Term CR  
To record an initial asset retirement obligation related to the retirement of tangible capital asset

4131 Asset Retirement Expense DR  
4024 Deferred Outflows - Asset Retirement Obligation CR  
To record annual amortization of deferred outflows related to an asset retirement obligation
**GASB Statement No. 83 - Certain Asset Retirement Obligations (AROs)**

**WHAT IS MEANT BY EXPENSED IN A SYSTEMATIC AND RATIONAL MANNER?**

- Over the asset’s remaining useful life if the initial reporting was after the asset was placed into operation.

  **OR**

- Over the entire estimated useful life if initial reporting occurred at the beginning of the asset’s life.

For capital assets permanently abandoned before being ready for use, asset retirement costs immediately would be recorded as an outflow of resources (expense) versus being recorded as a deferred outflow of resources.

**GASB Statement No. 83 - Certain Asset Retirement Obligations (AROs)**

**HOW ABOUT SUBSEQUENT MEASUREMENT?**

Subsequent to initial measurement, a government should at least annually adjust the current value of its Asset Retirement Obligation for the effects of general inflation or deflation:

| 4024 Deferred Outflows - Asset Retirement Obligation | DR |
| 2996 Asset Retirement Obligation - Long Term | CR |

**OR**

| 2996 Asset Retirement Obligation - Long Term | DR |
| 4024 Deferred Outflows - Asset Retirement Obligation | CR |
GASB Statement No. 83 - Certain Asset Retirement Obligations (AROs)

WHAT DISCLOSURES ARE REQUIRED?
Generally, the government is required to disclose certain information regarding the ARO and methods and assumptions used to measure the liabilities. A new Exhibit Z2, has been created to assist with reporting and disclosing AROs. Specific disclosures include:

- A general description of the AROs and the associated tangible assets, and the source of the obligations (whether they are a result of laws, regulations, contracts or court judgements).
- The method and assumptions used to measure the liabilities.
- The estimated remaining useful life of the associated tangible capital assets.
- How any legally required funding and assurance provisions associated with AROs are being met; for example, surety bonds, insurance policies, letters of credit, guarantees by other entities, or trust used for funding and assurance.
- The amount of assets restricted for payments of liabilities, if not separately displayed in the financial statements.

In the rare event an ARO or portions thereof have been incurred by a government but are not yet recognized because it is not reasonably estimable, the government should disclose that fact and the reasons thereunder.

WHAT ELSE SHOULD I KNOW?

- For governmental funds, liabilities and expenditures should be recognized for goods and services used for asset retirement activities upon receipt of those goods and services, to the extent that the amounts are normally expected to be liquidated with expendable available financial resources. Those amounts are normally expected to be liquidated with expendable available financial resources to the extent that they are due and payable.

- If a government is a minority owner (less than 50 percent) of a jointly owned capital asset is one of the following:
  - A nongovernmental entity is the majority owner
  - No majority owner, but a nongovernmental owner has the operational responsibility.

  The governmental minority owner should report its minority share of ARO using the measurement produced by the nongovernmental joint owner and also make the appropriate disclosures regarding amounts, percentages, dates of measurement, funding and assurance provisions, and assets restricted for payment of the ARO.
Implementation Guides 2017-3 and 2018-1

GASB Implementation Guides 2017-3 and 2018-1

2017-3 - Financial Reporting for Postemployment Benefit Plans Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting):

- The requirements of Questions 4.484 and 4.491 in circumstances in which OPEB is provided through an OPEB plan that is administered through a trust that meets the criteria in paragraph 4 of Statement 75 are effective for an employer or non-employer contributing entity in the first reporting period in which the measurement date of the (collective) net OPEB liability is on or after June 15, 2018. The PERA Healthcare Trust Fund is an OPEB plan that is administered through a trust that meets the criteria in paragraph 4 of Statement 75, and therefore these paragraphs are effective for Fiscal Year 2019 as the collective net pension liability is measured as of December 31, 2018.
GASB Implementation Guides 2017-3 and 2018-1

2018-1 - Implementation Guidance Update

• Employer Accounting and Reporting for Pensions
• Plan Reporting for Postemployment Benefits Other than Pensions
• The Statistical Section of the CAFR
• Tax Abatement Disclosures
• Other Implementation Guidance, and
• Amendments to Previously Issues Questions and Answers

GASB Pronouncements Effective for Future Fiscal Years

• GASB Statement No. 84 - Fiduciary Activities (effective FY 2020)
• GASB Statement No. 90 - Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61 (effective FY 2020)
• GASB Statement No. 87 - Leases (effective FY 2021)
Statement No. 84, Fiduciary Activities

GASB Statement No. 84 - Fiduciary Activities

What is this pronouncement about and why was it issued?

- GASB issued Statement 84 to clarify when a government has a fiduciary responsibility and is required to present fiduciary fund financial statements.

- Existing standards require reporting of fiduciary responsibilities but do not define what they are; use of private-purpose trust funds and agency funds is inconsistent; business-type activities are uncertain about how to report fiduciary activities.

- Effective for fiscal years beginning after December 15, 2018. Earlier application is encouraged.
GASB Statement No. 84 - Fiduciary Activities

Component Units That Provide Postemployment Benefits

• Fiduciary if (1) the activity meets the definition of a component unit in Statement 14, as amended, and (2) it is one of the following arrangements:
  • A pension plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 67.
  • An OPEB plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 74.
  • A circumstance in which assets from entities that are not part of the reporting entity are accumulated for pensions as described in paragraph 116 of Statement 73.
  • A circumstance in which assets from entities that are not part of the reporting entity are accumulated for OPEB as described in paragraph 59 of Statement 74.

Other Component Units

• Fiduciary if (1) the activity meets the definition of a component and (2) it has one or more of the following characteristics:
  • The assets are (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.
  • The assets are for the benefit of individuals and the government does not have administrative involvement with the assets or direct financial involvement with the assets. In addition, the assets are not derived from the government’s provision of goods or services to those individuals.
  • The assets are for the benefit of organizations or other governments that are not part of the financial reporting entity. In addition, the assets are not derived from the government’s provision of goods or services to those organizations or other governments.
**GASB Statement No. 84 - Fiduciary Activities**

**When Does a Government Have Administrative Involvement or Direct Financial Involvement?**

- Examples of *administrative* involvement:
  - If the government 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.
  - If the government determines eligible expenditures that are established by the government or by a resource provider that does not receive the direct benefits of the activity.
  - If it has the ability to exercise discretion in how assets are allocated.

- An example of *direct financial* involvement is if the government provides matching resources for the activity.

---

**GASB Statement No. 84 - Fiduciary Activities**

**Postemployment Benefits that are not Component Units**

- Fiduciary if (1) the government controls the assets of the arrangement meets the definition of a component unit in Statement 14, as amended, and (2) the arrangement is one of the following arrangements:

  - A pension plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 67.

  - An OPEB plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 74.

  - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for pensions as described in paragraph 116 of Statement 73.

  - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for OPEB as described in paragraph 59 of Statement 74.
**GASB Statement No. 84 - Fiduciary Activities**

**When is a Government Controlling Assets?**

A government controls the assets of an activity if:

- The government *holds* the assets.

- The government has the ability to direct the use, exchange, or employment of the assets in a manner that provides benefits to the specified or intended beneficiaries.

---

**GASB Statement No. 84 - Fiduciary Activities**

**All Other Activities**

Fiduciary if ALL THREE of the following are met:

- The government controls the assets

- Those assets are not derived either:
  - Solely from the government’s own-source revenues.
  - From government-mandated nonexchange transactions or voluntary nonexchange transactions with the exception of pass-through grants and for which the government does not have administrative or direct financial involvement.

- One of the criteria on the next slide is met.
All Other Activities (continued)

- The assets are (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.

- The assets are for the benefit of individuals and the government does not have administrative involvement with the assets or direct financial involvement with the assets. In addition, the assets are not derived from the government’s provision of goods or services to those individuals.

- The assets are for the benefit of organizations or other governments that are not part of the financial reporting entity. In addition, the assets are not derived from the government’s provision of goods or services to those organizations or other governments.

Fiduciary Fund Types

- New definitions for pension trust funds, investment trust funds, and private-purpose trust funds that focus on the resources that should be reported within each.

  - Trust agreement or equivalent arrangement should be present for an activity to be reported in a trust fund.

  - Custodial funds would report fiduciary activities for which there is no trust agreement or equivalent arrangement.

  - External portions of investment pools that are not held in trust should be reported in a separate column under the custodial fund umbrella.
GASB Statement No. 84 - Fiduciary Activities

Stand-Alone Business-Type Activities

• A stand alone BTA’s fiduciary activities should be reported in separate fiduciary fund financial statements.

• Resources expected to be held 3 months or less can be reported instead in the statement of net position, with inflows and outflows reported as operating cash flows in the statement of cash flows.

Statement No. 87, Leases
**GASB Statement No. 87 - Leases**

**What is this pronouncement about and why was it issued?**

- GASB issued Statement 87 to predominately mirror new FASB lease accounting requirements; amends GASGB 62 lease guidance.

- The existing standards had been in effect for decades without review to determine if they remain appropriate and continue to result in useful information; FASB and IASB conducted a joint project to update their lease standards; opportunity to increase comparability and usefulness of information and reduce complexity for preparers.

- Effective for fiscal years beginning after December 15, 2019 (FY 2020 for years ending December 2020 and FY 2021 for years ending June 30).

---

**GASB Statement No. 87 - Leases**

**Prior LESSOR Classification of Leases**

- Sales-Type Leases

- Direct Financing Leases

- Leveraged Leases

- Operating Leases (all other leases)
GASB Statement No. 87 - Leases

Prior LESSEE Classification of Leases

• Capital Leases (must meet one of the four following criteria):
  • Transfer of ownership at conclusion
  • Bargain purchase option
  • Lease term greater than 75% of economic life of asset
  • Present Value of future minimum lease payments greater than 90% of Fair Market Value of the asset

• Operating Leases (all other leases)

GASB Statement No. 87 - Leases

Definition of a Lease under GASB 87:

• “A lease is a contract that conveys control of the right to use another entity’s nonfinancial asset for a period of time in an exchange or exchange-like transaction.”

• Standard is applied to any contract that meets the definition of a lease.
**GASB Statement No. 87 - Leases**

**Definition of a Lease (continued):**

- Conveying control requires both of the following:
  - the right to obtain the present service capacity from use of the underlying asset, and
  - the right to determine the nature and manner of use of the underlying asset.
- Control applied to the right-to-use lease asset (a capital asset) “specified in the contract.”
- Right-to-use lease assets include rights to use underlying assets for portions of time, such as certain days each week or certain hours each day.

---

**GASB Statement No. 87 - Leases**

**What is a nonfinancial asset?**

- According to GASB 72, a financial asset is cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right to do either of the following:
  - Receive cash or another financial instrument from a second entity.
  - Exchange other financial instruments on potentially favorable terms with the second entity (for example, an option).
- Financial assets are excluded from the scope of GASB 87. Non-financial asset examples are land, buildings, vehicles, and equipment.
- Substance over form...leases include contracts that may not be called leases, but still meet the definition of a lease - and vice versa.
**GASB Statement No. 87 - Leases**

**Lease Scope Exclusions**

- Intangible assets (mineral rights, patents, software, copyrights) except for the sublease of an intangible right-to-use asset.

- Biological assets (including timber, living plants, and living animals)

- Inventory

- Service concession arrangements (GASB Statement 60)

- Assets financed with outstanding conduit debt (unless both the asset and conduit debt are reported by lessor)

- Supply contracts (such as typical power purchase agreements, which do not convey control of the right to use the underlying power generating facility).

---

**GASB Statement No. 87 - Leases**

**Lease Scope Exclusions**

- This Statement also does **not** apply to contracts/leases that **transfer ownership**.

  A lease contract that transfers ownership of the underlying asset to the lessee at or before the end of the contract and does not contain termination options should be reported as a financed purchase of that asset.

- Can contain a fiscal funding clause (if not reasonably certain of being exercised) and still qualify for exclusion (i.e. can still be accounted for as a purchase).
GASB Statement No. 87 - Leases

Lease Term

• The lease term is the period during which a lessee has a noncancelable right to use an underlying asset, plus the following periods, if applicable, covered by a lessee’s or lessor’s option to:
  • Extend the lease - if it is reasonably certain of being exercised.
  • Terminate the lease - if it is reasonably certain of not being exercised.

• A short-term lease is one that, at the beginning of the lease, has a “maximum possible term” under the contract, including any options to extend, of 12 months or less.

GASB Statement No. 87 - Leases

Accounting for Short-term Leases

• LESSEE — lease payments recognized as expenses/expenditures based on the payment provisions of the contract
  • No recognition of assets or liabilities associated with the right to use the underlying asset for short-term leases.

• LESSOR — lease payments recognized as revenue based on the payment provisions of the contract
  • No recognition of receivables or deferred inflows associated with the lease
  • No resource flows recognized during rent holiday periods.
  • No required disclosures.
### GASB Statement No. 87 - Leases

<table>
<thead>
<tr>
<th></th>
<th>ASSETS</th>
<th>LIABILITY</th>
<th>DEFERRED INFLOW</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lessee</strong></td>
<td>Intangible asset (right to use underlying asset) - value of lease liability plus prepayments and initial direct costs that are ancillary to place asset in use, less any incentives.</td>
<td>Present value* of future lease payments (including fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.)</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Lessor</strong></td>
<td>• Lease receivable (generally including same items as lessee liability).</td>
<td>N/A</td>
<td>Equal to lease receivable plus any cash received up front that relates to a future period.</td>
</tr>
</tbody>
</table>

*To calculate the PV, the lessee would use a discount rate that reflects the rate the lessor charges the lessee, (may be the rate implicit in the lease). If that cannot be determined, the lessee would use the incremental borrowing rate.

---

### GASB Statement No. 87 - Leases

<table>
<thead>
<tr>
<th></th>
<th>ASSETS</th>
<th>LIABILITY</th>
<th>DEFERRED INFLOW</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lessee</strong></td>
<td>Amortize the intangible asset over shorter of useful life or lease term. Amortization expense may be combined with depreciation expense related to other capital assets for reporting purposes.</td>
<td>Reduce by lease payments (less amount for interest expense).</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Lessor</strong></td>
<td>• Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition).</td>
<td>N/A</td>
<td>Recognize revenue over the lease term in a systematic and rational manner.</td>
</tr>
</tbody>
</table>
GASB Statement No. 87 - Leases

What to do to Prepare?

• Take an inventory of all current agreements.
  • Which ones fall under this standard?
  • Which ones will still be in place during the implementation year?
  • Consider terms - anything need clarification?
  • Any impact on debt convenants or other financial policies (fund balance) with addition of the liabilities?

• Develop system of internal control to ensure all agreements moving forward are considered.
  • How decentralized is your contracting process?
  • How ensure you will consider all of them?

• For new agreements entered until the implementation year - review to ensure you have information to perform proper accounting (break out non-lease components).

Statement No. 90, Majority Equity Interests
Questions?

Please reach out to Jeffrey Kahn, Paul Reynolds, or your assigned FSU Financial Specialist with any questions or concerns regarding the implementation of new GASBs.

Jeffrey Kahn - Director of Financial Reporting & Analysis
Jeffrey.kahn@state.co.us
(303) 866-2659

Paul Reynolds - Financial Reporting Manager
Paul.reynolds@state.co.us
(303) 866-3468
Closing

• Thank you for coming!
• Please sign-in on the sign in sheets if you haven’t already done so
• Leave evaluation and CPE forms on the tables when you leave
  • Remote attendees: email evaluations, sign-in sheets, and CPE forms to DPA_FARmailbox@state.co.us
• CPE forms will be signed and emailed to you

Contact List

Phone: (303) 866-xxxx
Email: firstname.lastname@state.co.us or DPA_FARmailbox@state.co.us

Jeffrey Kahn, Director—2659

Financial Services Unit*
Tom Gamache—5657
Karoline Clark—3811
Jennifer Henry—3809
Daniel Saint—3891
Chris Gallagher—4160
Donna Hocker—4058
Mohamed Mashkooke—4162

Financial Reporting
Paul Reynolds—3468
John McIntosh—6327
Steve Radabaugh—4662

Indirect Cost & Federal Reporting
Bhavna Punatar—4344
Marc Burkepile—3346
Mark Davis—4041

Internal Audit
Bradley Treiber—5830

*FSU Department Assignments: www.colorado.gov/pacific/osc/fast