



BIBB COUNTY SCHOOL DISTRICT

Auditor's Discussion & Analysis (AD&A)
Financial & Compliance Audit Summary

June 30, 2023

Meeting with the Board of Education

Presented by:

Hope Pendergrass, CPA
(478) 464-8000



Over 650 Governments Served Annually

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PURPOSE OF ANNUAL AUDITOR'S DISCUSSION & ANALYSIS

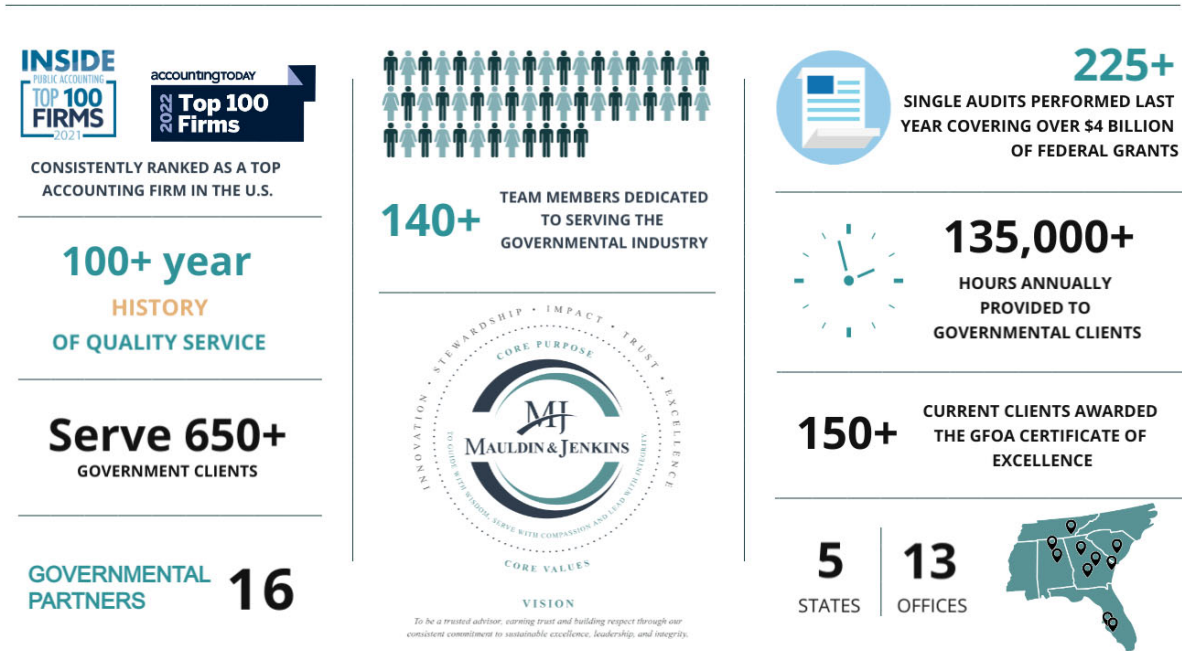
- ◆ Engagement Team and Firm Information:
 - The Governmental Practice
 - Additional Information Regarding Other Industries and Services
- ◆ Overview of:
 - Independent Auditor's Report
 - Review of the Annual Comprehensive Financial Report
 - Overview of the Financial Statements, Footnotes, and Supplementary Information
 - Compliance Reports (Internal Controls and Laws & Regulations)
 - Audit Scopes & Procedures
- ◆ Required Communications under Government Auditing Standards
- ◆ Accounting Recommendations and Related Matters:
 - Recommendations for Improvement
 - Management Points
 - Other Matters for Communication
- ◆ Free Continuing Education and Newsletters
- ◆ Closing Thoughts
- ◆ Answering Your Questions

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MAULDIN & JENKINS – GOVERNMENTAL PRACTICE



Engagement Team Leaders for the Audit of the District Include:

- Hope Pendergrass – Partner – 20 years' experience, 100% governmental.
 - Partner in-charge of the Firm's compliance services for governmental units and non-profit entities.
 - Concentration in serving school systems.
 - Partner responsible for quarterly free governmental continuing education and newsletters.
- Demetria Fluellyn – Senior Manager – 12 years' experience, 100% governmental.
 - Concentration in serving school systems.



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MAULDIN & JENKINS – ADDITIONAL INFORMATION

Other Industries and Services by Mauldin & Jenkins:

Each of Mauldin & Jenkins' offices provides a wide variety of services to a broad range of clientele. We have partners and managers who are responsible for specialized practice areas of auditing and accounting, taxes and management advisory services. Their purpose, as leaders in the particular practice area, is to establish policies with respect to technical matters in these specific areas and ensure that the quality of the Firm's practice is maintained.

Industries Served: Over the years, our partners have developed expertise in certain industries representative of a cross section of the Georgia economy, including:

- Governmental Entities (state entities, cities, counties, school systems, business type operations, libraries, and other special purpose entities)
- SEC Registrants
- Wholesale Distribution
- Agri-Businesses
- Manufacturing
- Professional Services
- Employee Benefit Plans
- Financial Institutions (community banks, savings and loans, thrifts, credit unions, mortgage companies, and finance companies)
- Non-Profit Organizations
- Retail Businesses
- Long-term Healthcare
- Construction and Development
- Individuals, Estates and Trusts
- Real Estate Management

Services Provided: This diversity of practice enables our personnel to experience a wide variety of business, accounting and tax situations. We provide the traditional and not-so-traditional services such as:

- Financial Audit/Review/Compilation
- Compliance Audits and Single Audits
- Agreed-Upon Procedures
- Forensic Audits
- Bond Issuance Services
- Performance Audits
- State Sales Tax Matters
- International Tax Matters
- Business and Strategic Planning
- Profitability Consulting
- Budgeting
- Buy-Sell Agreements and Business Valuation Issues
- Income Tax Planning and Preparation
- Multi-State Income Tax Issues
- Information Systems Consulting
- Cost Accounting Analysis
- Healthcare Cost Reimbursement
- Outsourced Billing Services
- Fixed Asset Inventories
- Succession and Exit Strategy Consulting
- Estate Planning
- Management Information Systems
- Employee Benefit Plan Administration
- Merger/Acquisition and Expansion Financing

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INDEPENDENT AUDITOR'S REPORT

The standard independent auditor's report for governmental units has specific sections of significance to readers of the financial report.

Management's Responsibility for the Financial Statements

The financial statements are the responsibility of management of the Bibb County School District's (the "District") management and the Board.

Auditor's Responsibility

Our responsibility, as external auditors, is to express an opinion (or opinions) on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We planned and performed our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Opinion

We have issued an unmodified audit report (i.e., "clean opinion"). The financial statements are considered to present fairly the financial position and results of operations as of and for the year ended June 30, 2023.

Other Matters

Certain required supplementary information and other information is included in the financial report and, as directed by relevant auditing standards, we have not expressed an opinion or provided any assurance on the respective information.

Other Reporting

Government Auditing Standards require auditors to issue a report on our consideration of internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. We have issued such a report and reference to this report is included in the independent auditor's report.

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REVIEW OF ANNUAL COMPREHENSIVE FINANCIAL REPORT ("ACFR")

General Information About the ACFR

Beginning with the fiscal year ended June 30, 1999, the Bibb County School District (the "District") elected to provide the highest level of financial reporting allowed by governmental reporting standards relative to the annual financial reports produced and distributed. Mauldin & Jenkins prepares the District an Annual Comprehensive Financial Report ("ACFR") which has an introductory section and a statistical section surrounding the annual financial report. The District has elected to continue preparing an ACFR for the year ended June 30, 2023.

The ACFR goes beyond the normal financial reporting required by accounting principles generally accepted in the United States. An ACFR includes, at a minimum, the following elements/sections:

- **Introductory Section:** general information on the District's structure and the services it provides.
 - Letter of Transmittal
 - Organizational Chart
 - Directory of Officials
 - Certificate of Achievement for Excellence in Financial Reporting
- **Financial Section:** basic financial statements, footnotes and required supplementary information along with the auditor's report.
 - Independent Auditor's Report
 - Management Discussion & Analysis ("MD&A")
 - Financial Statements and Footnotes
- **Statistical Section:** broad range of financial, demographic information useful in assessing the District's economic condition, and this information covers multiple years.
 - Financial Trends Information
 - Revenue Capacity Information
 - Debt Capacity Information
 - Demographic and Economic Information
 - Operating Information

The ACFR goes far beyond the basic requirements of annual financial reporting, and the District should be commended for going beyond the minimum and providing such a report.

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Recognition and Award

Since fiscal year 1999, the District has submitted its ACFR to GFOA and received the Certificate of Achievement for Excellence in Financial Reporting. We applaud the District, the Board of Education, and management for its commitment to excellence in financial reporting. The GFOA Certificate has been made a part of the District's 2023 fiscal year ACFR and is included in the Introductory Section. **Only 13 other school districts in Georgia prepare an ACFR.**

OVERVIEW OF FINANCIAL STATEMENTS

Entity-Wide Governmental and Business-Type Activities

Governmental Activities: Total assets and deferred outflows of the District's governmental activities as of June 30, 2023 amounted to approximately \$915,000,000 offset by total liabilities and deferred inflows of approximately \$596,000,000 resulting in total net position (or equity) of approximately \$319,000,000.

The District's governmental activities generated total revenues of approximately \$355,100,000 offset by expenses of approximately \$328,700,000 resulting in a positive change in net position (similar to "net income") of approximately \$26,400,000.

Business-Type Activities: Total assets and deferred outflows of the District's business-type activities as of June 30, 2023 amounted to approximately \$23,500,000 offset by total liabilities and deferred inflows of approximately \$20,300,000 resulting in positive change in a total net position (or equity) of approximately \$3,200,000.

The District's business-type activities generated total revenues of approximately \$19,300,000 offset by expenses of approximately \$17,600,000 resulting in a positive change in net position of approximately \$1,700,000.

Pension and Other Post-employment Benefit ("OPEB") Related Matters: Governmental Accounting Standards Board ("GASB") Statements 68 and 75 have prompted the recognition of two (2) liabilities related to benefit plans for District employees. Important to note is the pension-related deferred outflows and inflows along with the total pension liability nets to an "aggregate" total liability effect of approximately \$177,200,000. Additionally, the OPEB related deferred outflows and inflows along with the net OPEB liability nets to an "aggregate" total liability effect of \$188,300,000. The summation of these two (2) State of Georgia administered benefit plans is net liability of approximately \$365,500,000 which directly offset assets reducing total net position and created a deficit unrestricted net position of approximately \$271,300,000.

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The adoption of these standards for reporting the long-term liability associated with the District's costs-sharing with the State of Georgia has negatively affected the balance sheet of every school district in the country. Most school districts in Georgia reflect such a deficit in unrestricted net position. That being said, it is very important to understand that such a deficit is NOT considered to be reflective of mismanagement of operations, rather this situation is significantly a result of the cost-sharing provisions and allocations determined by the State of Georgia for which management has no control, input or responsibility.

Fund Level – Governmental Funds

The General Fund reflected fund balance of approximately \$70,200,000. This amount represents approximately 23.0% of the 2023 expenditures of the General Fund resulting in approximately 12 weeks available to operate the District's primary operations. With cash and investments of approximately \$71,500,000, this fund balance is considered to be very liquid and available for operations.

The Special Purpose Local Option Sales Tax ("SPLOST") Projects Fund is the fund used to demonstrate activities and financial position of the Special Purpose Local Option Sales Tax programs. Fund balance increased from \$41,200,000 to \$54,200,000. The fund recognized total expenditures of approximately \$25,800,000 related to various capital projects. These expenditures were financed through SPLOST revenues which amounted to \$44,700,000, including \$42,850,000 in sales tax revenues.

Footnotes

Note 1 – Accounting Policies – This footnote discusses the overall organization of the District and the nature of its operations. This note also discloses pertinent information regarding the governing body of the District. This footnote continues by sharing with a reader of the financial statements the significant accounting policies and principles utilized in the preparation of the financial statements.

Note 2 – Reconciliation of Government-wide Financial Statements and Fund Financial Statements – This footnote details the components of items included in the reconciliation of the government-wide financial statements to the fund level financial statements.

Note 3 – Legal Compliance – Budgets – This footnote discloses compliance with budget requirements and details the funds for which budgets are adopted.

Note 4 – Deposits and Investments – This disclosure addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

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Note 5 – Intergovernmental Receivables – This footnote details the amounts due from various other governments.

Note 6 – Property Taxes – This footnote discloses information on property taxes for the District including levy and payment due dates.

Note 7 – Capital Assets – This footnote discloses the District's capital asset activity and its related accumulated depreciation for the year.

Note 8 – Fund Balance Classification – This footnote discloses detailed information on the District's fund balance classifications.

Note 9 – Long-Term Debt – This footnote discloses the District's long-term debt activity and the details of future minimum debt payments.

Note 10 – Capital Lease Receivable – This footnote details the lease agreement terms and the lease payments payable to the District through fiscal year 2025.

Note 11 – Interfund Activity – This footnote details the amount of all activity between the various funds of the District within the year.

Notes 12, 13, and 14 – Retirement Plans, Other Post-employment Benefits, and Deferred Compensation Plan – These footnotes disclose the details related to the Teachers' Retirement System, Employees' Retirement System and the Public School Employees' Retirement System as well as other post-employment benefits available to employees of the District.

Note 15 – Risk Management – This footnote discloses the activity for the year related to workers' compensation, unemployment, and dental claims as well as the District's various risks of loss.

Note 16 – Commitments and Contingencies – This footnote discloses the contingencies from potential litigation, claims, and assessments filed against the District as well as the amount for which the District is committed under various construction contracts.

Note 17 – Tax Abatements – This is a new standard being implemented by state and local governments this year. It reflects that the amount of the District's tax revenues were reduced this fiscal year due to abatement programs established by the Macon-Bibb County Industrial Authority and the Macon-Bibb County Urban Development Authority.

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COMPLIANCE REPORTS

Yellow Book Report: The first compliance report is a report on our tests of the District's internal controls and compliance with laws, regulations, etc. The tests of internal controls were those we determined to be required as a basis for designing our financial statement auditing procedures. Such tests also considered the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. In accordance with the respective standards, the report is not intended to provide an opinion, but to provide a form of negative assurance as to the District's internal controls and compliance with applicable rules and regulations.

Single Audit Report: The second compliance report is a report on our tests of the District's internal controls and compliance with laws, regulations, etc., relative to certain Federal grant programs and the respective expenditures. The District incurred expenditures of Federal funds in the approximate amount of \$94,400,000. Our tests were performed on the District's three major programs (as defined by the relevant Federal guidelines) amounting to approximately \$68,500,000 and were not applied to each and every Federal grant expended by the District. In accordance with the respective standards, we did provide an unmodified (or clean) opinion on the District's compliance. However, we were not required to provide an opinion on the relevant internal controls, but to provide a form of negative assurance on such controls.

AUDIT SCOPES AND PROCEDURES

- 1) Governmental audit standards and pronouncements were applied in all areas.
- 2) We observed and made independent test counts of inventory at the Central Kitchen location, which made up almost 1% of the total inventory of the District at June 30, 2023. Our test counts were performed using a representative sample of inventory. There were no material differences noted between our test counts and the District's.
- 3) We confirmed certain receivables, and analytically tested others.
- 4) For purposes of assessing the adequacy of the allowance for doubtful accounts, we reviewed the aging of accounts receivable, and considered the current economic environment coupled with the recent history of the District. We also reviewed subsequent collection activity.
- 5) We evaluated the assumptions used by actuaries relative to the District's various benefit plans, and tested the respective valuations associated with these plans.
- 6) We reviewed supporting documentation for a sample of additions to capital assets during the year ended June 30, 2023.
- 7) We performed a search for unrecorded liabilities via review of unpaid vouchers and subsequent disbursements.

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REQUIRED COMMUNICATIONS

The Auditor's Responsibility Under Government Auditing Standards ("GAS") and Auditing Standards Generally Accepted in the United States of America

Our audit of the financial statements of the Bibb County School District (the "District") for the year ended June 30, 2023 was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe our audit accomplishes that objective.

In accordance with *Government Auditing Standards*, we have also performed tests of controls and compliance with laws and regulations that contribute to the evidence supporting our opinion on the financial statements. However, they do not provide a basis for opining on the District's internal control or compliance with laws and regulations.

Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the District. During the current year, the District implemented GASB Statement No. 87. In addition, there are new accounting standards which will be required to be implemented in the coming years. These are discussed later in this document.

In considering the qualitative aspects of the District's accounting policies, we did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. The District's policies relative to the timing of recording of transactions are consistent with GAAP and typical government organizations.

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Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us they used all the relevant facts available to them at the time to make the best judgments about accounting estimates and we considered this information in the scope of our audit. We considered this information and the qualitative aspects of management's calculations in evaluating the District's significant accounting estimates. Estimates significant to the financial statements include such items as the estimated allowance for uncollectible accounts receivable, and the estimated lives of capital assets.

Financial Statement Disclosures

The footnote disclosures to the financial statements are also an integral part of the financial statements. The process used by management to accumulate the information included in the disclosures was the same process used in accumulating the financial statements and the accounting policies described above are included in those disclosures. The overall neutrality, consistency, and clarity of the disclosures was considered as part of our audit and in forming our opinion on the financial statements.

Significant Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management relating to the performance of the audit.

Audit Adjustments

During our audit of the District's basic financial statements as of and for the year ended June 30, 2023, there were adjustments proposed to the funds of the District. All adjustments have been discussed with management.

Uncorrected Misstatements

We proposed and passed on two audit adjustments. The proposed adjustment was to increase assets related to subscription-based information technology assets in the amount of \$1,046,481. The second proposed adjustment was to adjust accumulated depreciation and recognize depreciation expense to agree to the District's detail capital asset listing in the amount of \$674,237. The proposed adjustments were considered to be immaterial and were not required to be recorded. No other uncorrected misstatements noted.

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Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Representation from Management

We requested written representations from management relating to the accuracy of information included in the financial statements and the completeness and accuracy of various information requested by us, during the audit. Management provided those written representations without a problem.

Management's Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed with Management

There were no significant issues discussed with management related to business conditions, plans, or strategies that may have affected the risk of material misstatement of the financial statements. We are not aware of any consultations management had with us or other accountants about accounting or auditing matters. No major issues were discussed with management prior to our retention to perform the aforementioned audit.

Other Information in Documents Containing Audited Financial Statements

We are not aware of any other documents that contain the audited basic financial statements. If such documents were to be published, we would have a responsibility to determine that such financial information was not materially inconsistent with the audited statements of the District.

Independence

We are independent of the District, and all related organizations, in accordance with auditing standards promulgated by the American Institute of Public Accountants and *Government Auditing Standards*, issued by the Comptroller General of the United States.

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We are not aware of any other documents that contain the audited basic financial statements. If such documents were to be published, we would have a responsibility to determine that such financial information was not materially inconsistent with the audited statements of the District.

Required Supplementary Information

We applied certain limited procedures to the schedules of proportionate share for net pension liability and OPEB, schedules of contributions for net pension liability and OPEB, and notes to required supplementary information ("RSI"). These schedules supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Supplementary Information

We were engaged to report on the combining and individual fund statements and schedules for the nonmajor funds, as well as the statistical tables, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America. The method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

RECOMMENDATIONS & RELATED MATTERS

Recommendations for Improvement and Other Matters

During our audit of the financial statements as of and for the year ended June 30, 2023, we noted areas within the accounting and internal control systems that we believe can be improved. Additionally, we noted certain items management should consider as part of its decision making process. Further, we noted other matters which we wish to communicate to you in an effort to keep the District abreast of accounting matters that could present challenges in financial reporting in future periods. Our recommendations and proactive thoughts and communications are presented in the following paragraphs.

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Management Points for Communication to the Board

1) School Discretionary Funds – Deficit Balances

During our review of cash, we noted instances in which a particular school or activity of the school discretionary funds carried a deficit balance. While the total balance in the school activity account (which includes all schools of the District) was not a deficit, some schools and activities are essentially covering the deficits of other schools and activities. We recommend the District monitor these funds more closely and work with the affected schools to eliminate these deficits.

2) General Fund Unrestricted Fund Balance – State Compliance

The Official Code of Georgia Annotated ("O.C.G.A.") §20-2-167 relates to the District's ability to retain spendable, unrestricted fund balance each year to pay future expenditures. The spendable, unrestricted fund balance at June 30th for the General Fund shall not exceed 15% of the subsequent period's budgeted expenditures. During our review of State Compliance, we noted the District's unrestricted fund balance for the General Fund (Fund 100) at June 30, 2023 exceeded 15% of the fiscal year 2024 budgeted General Fund expenditures. We recommend the District strengthen internal controls over its budgeting process to ensure that State Compliance requirements relating to O.C.G.A. §20-2-167 are met.

3) Capital Assets

During our testing of capital assets, we noted immaterial differences in beginning balances, current year additions, and current year depreciation expense when agreeing detail listings to summary totals. We recommend management strengthen internal controls over the capital assets cycle to ensure balances roll forward from year to year and detail listings agree to summary totals.

4) Credit Card Transactions

During our testing of credit card transactions, we noted one transaction that did not have a supporting invoice. We recommend management strengthen internal controls over credit card purchases to ensure purchases are properly supported by invoices and all purchasing policies and procedures are followed.

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5) ESSER – Indirect Cost

During our testing of the indirect cost rate for the ESSER funds, we noted an immaterial overage in the amount of allowable indirect costs charged to the grant versus the amount as calculated using the approved indirect cost rate. We recommend the School System establish and implement procedures to ensure the indirect costs are correctly calculated and recorded each year.

6) Capital Assets – Bulk Purchases

During our testing of capital asset additions and review of the Board minutes, we noted that a large purchase of technology items that was not added to the capital asset listing. We recommend the District establish and implement procedures to ensure large purchases are reviewed to ensure that they are added to the capital asset listing and capitalized when necessary.

7) Completion Reports

During our testing of the grant drawdowns and reconciling these amounts to the Schedule of Expenditures of Federal Awards (SEFA), we noted the breakdown of the expenditures on the completion reports did not match the expenditures from July 1, 2022 to June 30, 2023. Although the expenditures correctly totaled by grant years, they should also total correctly by fiscal years. We recommend management implement a process to correctly show expenditures for reporting between fiscal years, as well as grant years.

OTHER MATTERS FOR COMMUNICATION TO THE BOARD AND MANAGEMENT

During our audit of the financial statements as of and for the year ended June 30, 2023, we noted other matters which we wish to communicate to you in an effort to keep the District abreast of accounting matters that could present challenges in financial reporting in future periods.

1) Funding of the Teachers' Retirement System ("TRS")

The Teachers' Retirement System of Georgia's defined benefit plan (herein referred to as "TRS") has reported a declining financial funding position since the June 30, 2015 inception date of GASB No. 68, *Accounting and Financial Reporting for Pensions*. The most current reporting of the TRS funding position is approximately 73%. (TRS is managing assets that are 73% of currently reported liabilities). The funding position for fiscal years 2023 and 2022 were reported to be 73% and 92%, respectively.

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Over the past decade, school systems across the State of Georgia participating in TRS have seen their contribution rates continually rise, with the exception of the decline in fiscal year 2021. In fiscal year 2024 and fiscal year 2025, the District's contribution will remain the same for fiscal year 2024 and will rise again in fiscal year 2025. The following table attempts to demonstrate this fact as well as expected rates for the 2024 and 2025 fiscal years:

Fiscal Year	Employer Rate	Employee Rate
2014	12.28%	6.00%
2015	13.15%	6.00%
2016	14.27%	6.00%
2017	14.27%	6.00%
2018	16.81%	6.00%
2019	20.90%	6.00%
2020	21.14%	6.00%
2021	19.06%	6.00%
2022	19.81%	6.00%
2023	19.98%	6.00%
2024	19.98%	6.00%
2025	20.78%	6.00%

Contributions by the District to TRS as audited over the past 2016-2023 fiscal years along with possible contributions for fiscal years 2024 and 2025 (based on rate changes noted in the above table) reflect the following approximations of the District's contributions to TRS:

Fiscal Year	School District TRS Contributions	Annual Increases/(Decreases)
2016	16,600,000	
2017	16,800,000	200,000
2018	20,900,000	4,100,000
2019	26,148,000	5,248,000
2020	27,935,000	1,787,000
2021	25,020,000	(2,915,000)
2022	27,643,000	2,623,000
2023	28,822,000	1,179,000
2024	28,822,000	- (1)
2025	29,976,034	1,154,034 (1)

(1) Other factors could influence amounts

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For governmental funds, this increase in funding will affect the expenditures of the District's operations and will represent additional cash flows required to be used to fund the future retirements of employees. We simply wanted to share with you some past history as well as the prospects of additional cash flows relative to the District's participation in TRS.

2) Looking Forward: New Governmental Accounting Standards Board ("GASB") Standards



As has been the case for the past ten (10) years, GASB has issued several other new pronouncements which will be effective in future years. The following is a brief summary of the new standards:

- a) **Statement No. 91, *Conduit Debt Obligations*** was issued in May 2019 and is effective for the first reporting period beginning after December 15, 2020, meaning for those with year ends of December 31, 2021 and beyond. However, in light of the COVID-19 Pandemic, in May 2020 the GASB issued Statement No. 95 (*Postponement of the Effective Dates of Certain Authoritative Guidance*) which changed the effective date of Statement No. 91 to reporting periods beginning after December 15, 2021.

The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with: 1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and 3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument meeting **all** of the following characteristics:

- There are at least three parties involved: 1) an issuer, 2) a third-party obligor, and 3) a debt holder (or a debt trustee);
- The issuer and the third-party obligor are not within the same financial reporting entity;
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer;
- The third-party obligor (or its agent), not the issuer, ultimately receives the proceeds from the debt issuance;

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- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third-party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate, at least annually, whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should **not** recognize a capital asset.
- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should **not** recognize a capital asset until the arrangement ends.
- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer should recognize the entire capital asset and a deferred inflow of resources at the inception of the arrangement. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

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This statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

- b) **Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*** was issued in March 2020 and is effective for fiscal years beginning after June 15, 2022 which means year ends of June 30, 2023 and following.

This statement was issued by the GASB to address a gap in generally accepted accounting principles: how do we account for these type arrangements that do not meet the definition of a service concession arrangement ("SCA") covered by GASB Statement No. 60?

Statement No. 94 requires that Public-Private Partnerships and Public-Public Partnerships ("PPPs") that meet the definition of a lease apply the guidance in Statement No. 87, *Leases*, if: (a) existing assets of the transferor are the only underlying PPP assets, (b) improvements are not required to be made by the operator to those existing assets as part of the PPP arrangement, and (c) the PPP does not meet the definition of an SCA. All other PPPs that will not apply the guidance in Statement No. 87 will generally use the accounting guidance contained in Statement No. 60 which was superseded by this new standard.

Statement No. 94 also establishes accounting and financial reporting requirements for availability payment arrangements ("APA"s). As defined in this statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying non-financial asset for a period of time in an exchange or exchange-like transaction. An APA that is related to designing, constructing, and financing a nonfinancial asset in which ownership of the asset transfers by the end of the contract should be accounted for by the government as a financed purchase of the underlying asset.

- c) **Statement No. 96, *Subscription-Based Information Technology Arrangements*** was issued in May 2020 and is effective for fiscal years beginning after June 15, 2022 which means year ends of June 30, 2023 and following.

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This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements ("SBITA"s) for government end users (governments). This statement: 1) defines an SBITA; 2) establishes that an SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; 3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of an SBITA; and 4) requires note disclosures regarding an SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

An SBITA is defined as a contract that conveys control of the right to use another party's (an SBITA vendor's) information technology ("IT") software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

The subscription term includes the period during which a government has a non-cancellable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend (if it is reasonably certain that the government or SBITA vendor will exercise that option) or to terminate (if it is reasonably certain that the government or SBITA vendor will not exercise that option).

Under this statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

The subscription asset should be initially measured as the sum of: 1) the initial subscription liability amount, 2) payments made to the SBITA vendor before commencement of the subscription term, and 3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. A government should recognize amortization of the subscription asset as an outflow of resources over the subscription term.

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Activities associated with an SBITA, other than making subscription payments, should be grouped into the following three stages, and their costs should be accounted for accordingly:

- Preliminary Project Stage, including activities such as evaluating alternatives, determining needed technology, and selecting an SBITA vendor. Outlays in this stage should be expensed as incurred.
- Initial Implementation Stage, including all ancillary charges necessary to place the subscription asset into service. Outlays in this stage generally should be capitalized as an addition to the subscription asset.
- Operation and Additional Implementation Stage, including activities such as subsequent implementation activities, maintenance, and other activities for a government's ongoing operations related to an SBITA. Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria.

In classifying certain outlays into the appropriate stage, the nature of the activity should be the determining factor. Training costs should be expensed as incurred, regardless of the stage in which they are incurred.

d) **Statement No. 99, *Omnibus 2022*** was issued in April 2022 and contains multiple different effective dates for the guidance based on the differing topics. The practice issues addressed by this statement are as follows:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to the determination of the public-private and public-public partnership ("PPP") term and recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement ("SBITA") term, classification of an SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.

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- Extension of the period during which the London Interbank Offered Rate (“LIBOR”) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (“SNAP”).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of Statement 99 are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
 - The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
 - The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter
- e) **Statement No. 100, *Accounting Changes and Error Corrections*** was issued in June 2022 and is effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

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The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for: 1) certain changes in accounting principles, and 2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This statement also addresses corrections of errors in previously issued financial statements.

This statement prescribes the accounting and financial reporting for: 1) each type of accounting change, and 2) error corrections. This statement requires that: (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information ("RSI") and supplementary information ("SI"). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

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- f) **Statement No. 101, *Compensated Absences*** was issued in June 2022 and is effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter.

This statement requires that liabilities for compensated absences be recognized for: 1) leave that has not been used, and 2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if: (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit post-employment benefits should not be included in a liability for compensated absences.

This statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

This statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

- g) **Other Pending or Current GASB Projects.** As noted by the numerous pronouncements issued by GASB over the past decade, the GASB continues to research various projects of interest to governmental units. Subjects of note include:

- **Re-Examination of the Financial Reporting Model.** GASB has added this project to its technical agenda to make improvements to the existing financial reporting model (established via GASB 34). Improvements are meant to enhance the effectiveness of the model in providing information for decision-making and assessing a government's accountability. GASB anticipates issuance of a final standard in late 2023 or early 2024.

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- **Revenue and Expense Recognition** is another long-term project where the GASB is working to develop a comprehensive application model for recognition of revenues and expenses from non-exchange, exchange, and exchange-like transactions. The final standard is expected in mid-2027.
- **Going Concern Uncertainties and Severe Financial Stress** is a major project where the goal is address issues related to disclosures regarding going concern uncertainties and severe financial stress. This project will consider: 1) improvements to existing guidance for going concern considerations to address diversity in practice and clarify the circumstances under which disclosure is appropriate, 2) developing a definition of severe financial stress and criteria for identifying when governments should disclose their exposure to severe financial stress, and 3) what information about a government's exposure to severe financial stress is necessary to disclose. This technical topic is being examined by the GASB due to a wide diversity in practice regarding required presentation on the face of the financial statements, disclosures, etc. An exposure draft on this topic is expected by mid-2025.

Summations of Thoughts Noted Above

We believe the implementation of these suggestions will enhance both the control environment and the financial reporting process, making both more effective. We also believe these recommendations can be easily implemented, and all problems resolved quite timely should management elect to employ the corrective measures.

FREE QUARTERLY CONTINUING EDUCATION AND NEWSLETTERS FOR GOVERNMENTAL CLIENTS

Free Continuing Education. We provide free quarterly continuing education for all of our governmental clients. Each quarter, we pick a couple of significant topics tailored to be of interest to governmental entities, and offer the sessions several times per quarter at a variety of client provided locations resulting in greater networking among our governmental clients. We normally see approximately 100 people per quarter. We obtain the input and services of experienced outside speakers along with our in-house professionals.

"I've been a CPA for 32 years. Today's CPE class by Mauldin & Jenkins has been the best of my career". Terry Nall, CPA, City of Dunwoody (GA) Council Member

"They are always on top of new accounting pronouncements and provide training well before implementation deadlines. This is a very valuable resource for our organization". Laurie Puckett, CPA, CPFO, Gwinnett County (GA), Accounting Director



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Examples of subjects addressed in past quarters include:

- Accounting for Debt Issuances
- Achieving Excellence in Financial Reporting
- Best Budgeting Practices, Policies and Processes
- Best Practices in Banking
- Budget Preparation
- ACFR Preparation (several times including a two (2) day hands-on course)
- Capital Asset Accounting Processes and Controls
- Closing Out and Audit Preparation
- Collateralization of Deposits and Investments
- Component Units
- Cybersecurity Risk Management
- Evaluating Financial and Non-Financial Health of a Local Government
- Financial Report Card – Where Does Your Government Stand?
- Financial Reporting Model Improvements
- GASB No. 74 & 75, New OPEB Standards
- GASB No. 77, Tax Abatement Disclosures
- GASB No. 84, Fiduciary Activities
- GASB No. 87, Leases
- GASB Projects & Updates (ongoing and several sessions)
- Grant Accounting Processes and Controls
- Human Capital Management
- Information Technology (IT) Risk Management
- Internal Controls Over Accounts Payable, Payroll and Cash Disbursements
- Internal Controls Over Receivables & the Revenue Cycle
- Internal Revenue Service (IRS) Compliance Issues, Primarily Payroll Matters
- Legal Considerations for Debt Issuances & Disclosure Requirements
- Policies and Procedures Manuals
- Presenting Financial Information to Non-Financial People
- Procurement Card Red Flags
- Segregation of Duties
- Single Audits for Auditees
- SPLOST Accounting, Reporting & Compliance
- Uniform Grant Guidance



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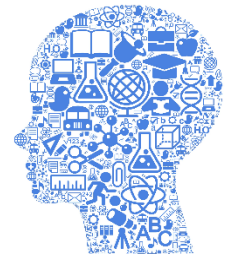
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Governmental Newsletters. We periodically produce newsletters tailored to meet the needs of governments. The newsletters have addressed a variety of subjects and are intended to be timely in their subject matter. The newsletters are authored by Mauldin & Jenkins partners and managers, and are not purchased from an outside agency. The newsletters are intended to keep you informed of current developments in the government finance environment.

In the past several years, the following topics have been addressed in our monthly newsletters:

- Are Your Government's Funds Secure?
- CARES Act (several)
- Cybersecurity Awareness
- Deposit Collateralization
- Employee vs Independent Contractor
- Escheat Laws on Unclaimed Property
- Federal Funding and Accountability Transparency Act
- Forensic Audit or Financial Audit?
- Form PT 440
- GASB Invitation to Comment – the New Financial Reporting Model
- GASB No. 72, Fair Value, It is Not Totally About Disclosure
- GASB No.'s 74 & 75, Other Post-Employment Benefits (OPEB)
- GASB No. 77, Abatements – Go Viral with GASB 77
- GASB No. 84 Fiduciary Activities (Series)
- GASB No. 87, Leases
- GASB No. 89, Accounting for Interest Cost Incurred Before the End of Construction
- GASB No. 91, Conduit Debt Obligations
- General Data Protection Regulation (GDPR)
- Grants Management
- OMB Compliance Supplements
- OPEB, What You Need to Know
- Public Funds and Secure Deposit Program
- Rotating or Not Rotating Auditors
- Property Tax Assessments
- Remote Auditing Best Practices
- Refunding Debt
- Sales & Use Taxes on Retail Sales of Jet Fuel
- Sales Tax Collections and Remittances by the State



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**Wesley Ropp, CFO
Charleston Water System**

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- SAS Clarity Standards and Group Audits
- Single Audit, including Uniform Guidance (several)
- Social Security Administration (SSA) Incentive Payments
- Special Purpose Local Option Sales Taxes (SPLOST) Expenditures
- Supplemental Social Security for Inmates
- The New Tax Cuts and Jobs Act – Impact on Bond Refunding
- The Return of the Component Unit – GASB 61
- Uniform Guidance & New Procurement Requirements
- What's Happening with Property Tax Assessments

Communication. In an effort to better communicate our free continuing education plans and newsletters, please email Paige Vercoe at pvercoe@micpa.com (send corresponding copy to hpendergass@micpa.com), and provide individual names, mailing addresses, email addresses and phone numbers of anyone you wish to participate and be included in our database.

CLOSING

We believe the implementation of these suggestions will enhance both the control environment and the financial reporting process, making both more effective. We also believe these recommendations can be easily implemented, and all problems resolved quite timely should management elect to employ the corrective measures. If you have any questions regarding any comments, suggestions or recommendations set forth in this memorandum, we will be pleased to discuss it with you at your convenience.

This information is intended solely for the use of the District's management, and others within the District's organization and is not intended to be and should not be used by anyone other than these specified parties. We appreciate the opportunity to serve Bibb County Board of Education and look forward to serving the District in the future. Thank you.

