



Rockdale County Public Schools

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

June 30, 2021

Meeting with the Board of Education

Presented by:

Hope Pendergrass, CPA

**MAULDIN
& JENKINS**
CPAs & ADVISORS

Over 600 Governments Served Annually

Fulton County Schools

Butts County Schools

Bartow County Schools

Lee County Schools

Rome City Schools

Atlanta Public Schools

Twiggs County Schools

Troup County Schools

Ware County Schools

Marlboro County School District

Clayton County Schools

Thomas County Schools

Putnam County Schools

Baker County Schools

Gwinnett County Schools

Bleckley County Schools

Schools

Bristol City Schools

Sumter County Schools

Carrollton City Schools

Henry County Schools

Marietta City Schools

Camden County Schools

Buford City Schools

Clay County Schools

Carroll County Schools

Cobb County Schools

Hancock County Schools

Cartersville City Schools

Bibb County Schools

City Schools of Decatur



Polk County Schools

Gainesville City Schools

Dodge County Schools

Emanuel County Schools

Hamilton County Department of Ed.

Cherokee County Schools

Manatee County Schools

DeKalb County Schools

Jefferson City Schools

Fayette County Schools

Forsyth County Schools

Douglas County Schools

Richland County School District 1

Harris County Schools

Rockdale County Schools

School District 1

Glynn County Schools

Coweta County Schools

Walton County Schools

Savannah Chatham County Public School System

Lexington School District 4

Paulding County Schools

Public School System

Peach County Schools

Marion County Schools

Highland County Schools

Oconee County Schools

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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 Financial Statements, Footnotes, and Supplementary Information
 - Compliance Reports (Internal Controls and Laws & Regulations)
 - Audit Scopes and 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



CONSISTENTLY RANKED AS A TOP ACCOUNTING FIRM IN THE U.S.

100+ year

HISTORY
OF QUALITY SERVICE

Serve 565+

GOVERNMENT CLIENTS

GOVERNMENTAL
PARTNERS &
DIRECTORS

21



125+

TEAM MEMBERS DEDICATED
TO SERVING THE
GOVERNMENTAL INDUSTRY



5 STATES | **12** OFFICES



220+

SINGLE AUDITS PERFORMED LAST
YEAR COVERING OVER \$4 BILLION
OF FEDERAL GRANTS



120,000+

HOURS ANNUALLY
PROVIDED TO
GOVERNMENTAL CLIENTS

140+

CURRENT CLIENTS AWARDED
THE GFOA CERTIFICATE OF
EXCELLENCE



**NATIONALLY
RECOGNIZED**

Engagement Team Leaders for the Audit of the School System Include:

- Hope Pendergrass – Engagement Lead Partner – 19 years' experience
- Trey Scott – Quality Assurance Partner – 14 years' experience
- Demetria Fluellyn – Manager – 10 years' experience



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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 & 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.

School System's Responsibility for the Financial Statements

The financial statements are the responsibility of the Rockdale County Board of Education's (the "School System") management and the Board.

Auditor's Responsibility

Our responsibility, as external auditors, is to express 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, 2021.

Emphasis of Matter

The financial statements reflect the implementation of a new pronouncement, and our opinion(s) are not modified with respect to them.

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 FINANCIAL STATEMENTS, FOOTNOTES AND SUPPLEMENTARY INFORMATION

The Rockdale County Board of Education's (the "School System") financial report includes the basic financial statements, as well as Management's Discussion and Analysis as prepared by the School System's management.

Basic Financial Statements

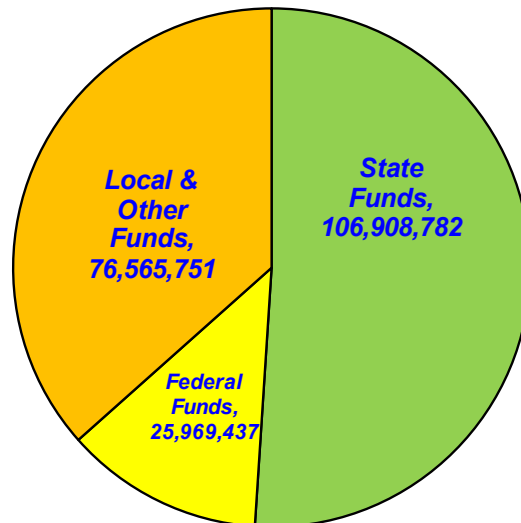
The **government-wide financial statements** provide a broad overview of all of the School System's funds. The *Statement of Net Position* presents information on all assets and liabilities of the School System, with the difference between the two reported as net position. The *Statement of Activities* presents information showing how the School System's net position changed during the most recent fiscal year. Revenues are categorized as program revenues or general revenues. Expenses are categorized by function.

The **fund financial statements** more closely resemble the financial statements as presented prior to the adoption of GASB Statement No. 34. All funds of the School System can be divided into three categories: governmental funds, business-type funds, and fiduciary funds. The School System has no business-type funds at June 30, 2021.

Governmental Funds

General Fund

Of primary interest to the School System is the **General Fund**, which accounts for the majority of revenues received and funds expended in the operations of the School System. **Total General Fund revenues for the fiscal year ended June 30, 2021 were \$209,443,970.**

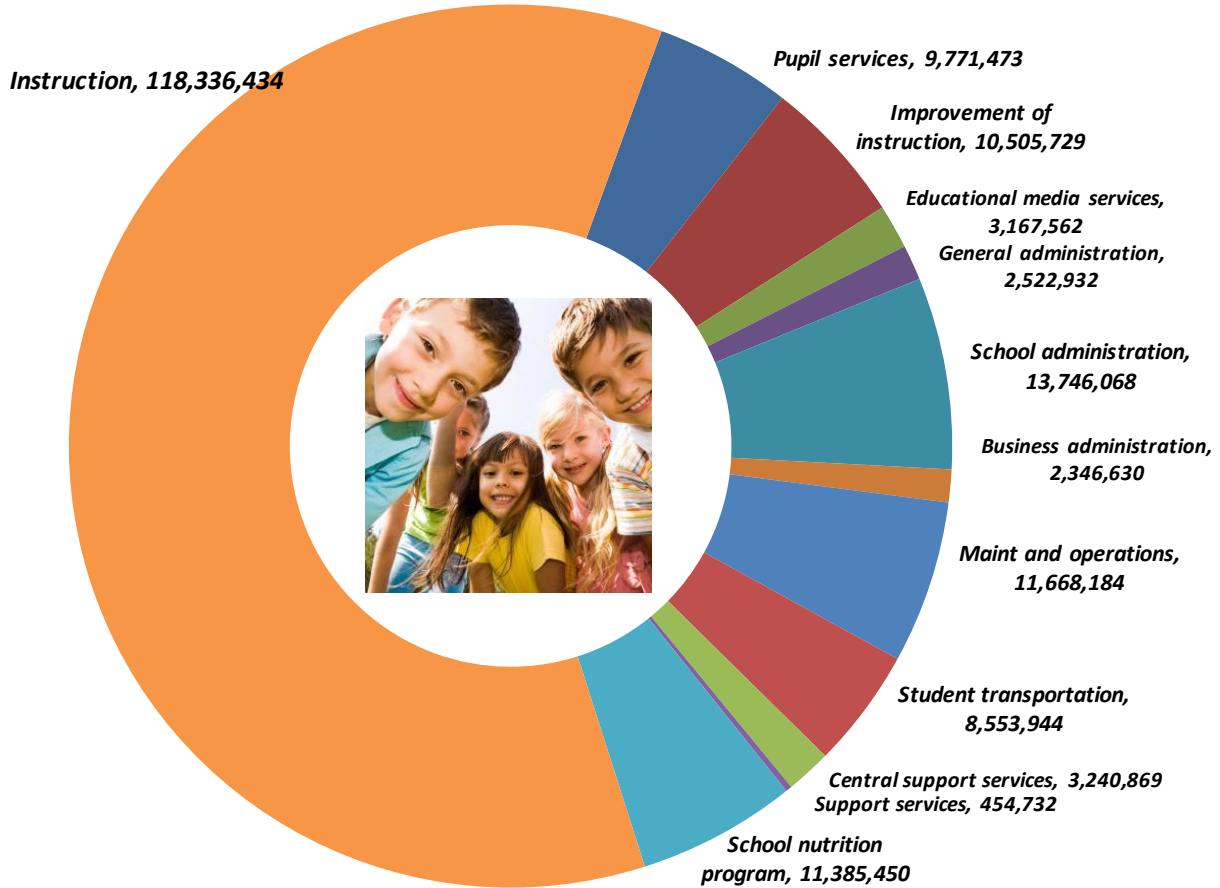


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Total expenditures during the year ended June 30, 2021 were \$195,700,007.



Other Governmental Funds

The School System also maintains *capital projects funds* which are used to account for revenues and expenditures related to the renovation and/or construction of major capital assets. The School System also maintains numerous *special revenue funds*. These funds account for revenues derived from specific sources which are legally restricted to finance particular functions or activities. The special revenue funds are combined with the General Fund for presentation purposes.

Fiduciary Funds

The School System maintains one *private purpose trust fund* – which is used to account for income and donations received and the expenditures of funds to provide college scholarships to students from Rockdale County. The School System also maintains a *custodial fund* – the Student Activities Fund – which is used to account for the collection and disbursement of money for various student groups at the individual schools.

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COMPLIANCE REPORTS

Two (2) reports on compliance and internal controls are also included.

Yellow Book Report – The compliance report is a report on our tests of the School System'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 School System'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 School System'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 School System's internal controls and compliance with laws, regulations, etc. relative to certain Federal grant programs and the respective expenditures. In accordance with the respective standards, we did provide an unmodified (or positive) opinion on the School System's compliance based on our audit. 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 programs were used in all areas.
2. We observed and made independent test counts of inventory at a sample of the School System's school nutrition locations. Our test counts consisted of approximately ten different inventory items. No differences were noted between our test counts and those of the School System's.
3. 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 recent history of the School System. We also reviewed subsequent collection activity.
4. We reviewed supporting documentation for a sample of additions to capital assets during the year ended June 30, 2021.
5. 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 Auditing Standards Generally Accepted in the United States of America

Our audit of the financial statements of the Rockdale County Board of Education (the "School System") for the year ended June 30, 2021 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 School System'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 School System. There are other 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 School System'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 School System'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 School System's significant accounting estimates. Estimates significant to the financial statements include such items as the estimate for allowances for uncollectible taxes receivable, the estimated incurred but not reported liability for workers' compensation claims payable, the estimated liability for other claims payable, 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

We had no audit adjustments.

Uncorrected Misstatements

No passed adjustments.

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.

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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 School System.

Independence

We are independent of the School System, 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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ACCOUNTING RECOMMENDATIONS AND RELATED MATTERS

Recommendations for Improvement

During our audit of the financial statements as of and for the year ended June 30, 2021, we noted some areas within the accounting and internal control systems that we believe can be improved.

Our recommendations (also commonly referred to as management points) are presented in the following paragraphs. We believe consideration of these recommendations will help provide proper control over financial activities, and add effectiveness and efficiency to overall operations.

Depreciable Lives of Capital Assets

During our audit procedures related to capital assets, we noted several assets which are fully depreciated, but continue to be included in active assets placed in service. This indicates that the asset lives used for recording depreciation for financial statement purposes are perhaps somewhat shorter than the actual useful life of the asset. We suggest management review this area and make adjustments in useful lives as deemed necessary, as well as consider revising its policy for capital assets.

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, 2021, we noted other matters which we wish to communicate to you in an effort to keep the School System abreast of accounting matters that could present challenges in financial reporting in future periods.

1) Retirement Pension Benefits

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 77%. (TRS is managing assets that are 79% of currently reported liabilities). The funding position for fiscal years 2021 and 2020 were reported to be 77% and 79%, respectively.

Over the past decade, school systems across the State of Georgia participating in TRS have seen their contribution rates continually rise and then decline in FY 2021. In FY 2022 and FY 2023, the School System's contribution will begin to rise again. The following table attempts to demonstrate this fact as well as expected rates for the 2022 and 2023 fiscal years:

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Fiscal Year	Employer Rate	Employee Rate
2012	10.28%	5.53%
2013	11.41%	6.00%
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%

Contributions by the School System to TRS as audited over the 2015-2021 fiscal years along with possible contributions for fiscal years 2022 and 2023 (based on rate increases noted in the above table) reflect the following approximations of the School System's contributions to TRS:

Fiscal Year	School District TRS Contributions	Annual Increases/(Decreases)
2015	11,000,000	
2016	13,000,000	2,000,000
2017	13,770,000	770,000
2018	16,710,000	2,940,000
2019	20,830,000	4,120,000
2020	22,229,000	1,399,000
2021	20,273,000	(1,956,000)
2022	21,070,000	797,000 (1)
2023	21,251,000	181,000 (1)

(1) Other factors could influence amounts

For governmental funds, this increase in funding will affect the *expenditures of the School System'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 School System's participation in TRS.*

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2) New Governmental Accounting Standards Board (GASB) Standards



As has been the case for the past 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. 87, Leases** was issued in June 2017 and is effective for the first reporting period beginning after December 15, 2019. 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. 87 to fiscal years beginning after June 15, 2021.

This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the principle that a lease is the financing of the right to use an underlying asset.

Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Definition of a Lease: A lease is defined as a contract that conveys control of the right to use another entity's non-financial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of non-financial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the lease's guidance, unless specifically excluded in this statement.

Lease Term: The lease term is defined as the period during which a lessee has a non-cancelable right to use an underlying asset, plus the following periods, if applicable:

- Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option;
- Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option;
- Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option;

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- Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option.

A fiscal funding or cancellation clause should affect the lease term only when it is reasonably certain that the clause will be exercised. Lessees and lessors should reassess the lease term only if one or more of the following occur:

- The lessee or lessor elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option;
- The lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option;
- An event specified in the lease contract that requires an extension or termination of the lease takes place.

Short-Term Leases: A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

Lessee Accounting: A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

Lessor Accounting: A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that

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transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

Contracts with Multiple Components and Contract Combinations: Generally, a government should account for the lease and non-lease components of a lease as separate contracts. If a lease involves multiple underlying assets, lessees and lessors in certain cases should account for each underlying asset as a separate lease contract. To allocate the contract price to different components, lessees and lessors should use contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment, or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable. If determining a best estimate is not practicable, multiple components in a lease contract should be accounted for as a single lease unit. Contracts that are entered into at or near the same time with the same counterparty and that meet certain criteria should be considered part of the same lease contract and should be evaluated in accordance with the guidance for contracts with multiple components.

Lease Modifications and Terminations: An *amendment* to a lease contract should be considered a lease modification, unless the lessee's right to use the underlying asset decreases, in which case it would be a partial or full lease termination. A lease termination should be accounted for by reducing the carrying values of the lease liability and lease asset by a lessee, or the lease receivable and deferred inflows of resources by the lessor, with any difference being recognized as a gain or loss. A lease modification that does not qualify as a separate lease should be accounted for by re-measuring the lease liability and adjusting the related lease asset by a lessee and re-measuring the lease receivable and adjusting the related deferred inflows of resources by a lessor.

Subleases and Leaseback Transactions: Subleases should be treated as transactions separate from the original lease. The original lessee that becomes the lessor in a sublease should account for the original lease and the sublease as separate transactions, as a lessee and lessor, respectively.

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A transaction qualifies for sale-leaseback accounting only if it includes a sale. Otherwise, it is a borrowing. The sale and lease portions of a transaction should be accounted for as separate sale and lease transactions, except that any difference between the carrying value of the capital asset that was sold and the net proceeds from the sale should be reported as a deferred inflow of resources or a deferred outflow of resources and recognized over the term of the lease.

A lease-leaseback transaction should be accounted for as a net transaction. The gross amounts of each portion of the transaction should be disclosed.

- b) **Statement 89, Accounting for Interest Cost Incurred Before the End of a Construction Period** was issued in June 2018 and is effective for reporting periods beginning after December 15, 2019 (meaning June 30, 2021). 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. 89 to reporting periods beginning after December 15, 2020.

This standard eliminates the requirement/ability to capitalize construction period interest costs as part of the cost of a capital asset in enterprise funds. This standard should be applied prospectively with no restatement. This standard can be early implemented as part of fiscal year 2021.

- c) **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.

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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;
- 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.

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- 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.

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.

d) **Statement No. 92, *Omnibus 2020*** was issued in January 2020 and because it is an omnibus standard, contains several different effective dates as follows (as amended by Statement No. 95 issued in May 2020):

- For fiscal years beginning after June 15, 2021 relative to the requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74.
- For reporting periods beginning after June 15, 2021 relative to the requirements related to application of Statement 84 to post-employment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities.
- For government acquisitions occurring in reporting periods beginning after June 15, 2021. The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition.
- Other items addressed by this omnibus statement (requirements related to Statement No. 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments) were effective upon issuance.

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The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports.
 - Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other post-employment benefit (OPEB) plan.
 - The applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for post-employment benefits.
 - The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to post-employment benefit arrangements.
 - Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition.
 - Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers.
 - Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature.
 - Terminology used to refer to derivative instruments.
- e) **Statement No. 93, *Replacement of Interbank Offered Rates*** was issued in March 2020 and contains two (2) different effective dates. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this statement are effective for reporting periods beginning after June 15, 2020.

As a result of global reference rate reform, the London Interbank Offered Rate (“LIBOR”) is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other

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reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

The objective of this statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.
- Clarifying the definition of reference rate, as it is used in Statement 53, as amended.

f) **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.

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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 non-financial 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.

- g) 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.

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

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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.

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.

- h) Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*** was issued in June 2020 and is effective for fiscal years beginning after June 15, 2021 (year ends of June 30, 2022 and following).

The primary objectives of this statement are to: 1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; 2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other post-employment benefit ("OPEB") plans, and employee benefit plans

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other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and 3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code ("IRC") Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

This statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or an other employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform. This statement also requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts.

This statement: 1) requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan, and 2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities.

- i) **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 mid-2022.
 - **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 late 2024/early 2025.
 - **Compensated Absences** is a technical topic being examined by the GASB currently due to significant changes in benefits offered by governmental employers. Current GAAP does not address certain items such as paid time off ("PTO") and there is a wide divergence in practice when it comes to the accounting treatment afforded

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the different types of paid leave. A final standard on this topic is expected by the end of 2021.

- **Prior-Period Adjustments, Accounting Changes, and Error Corrections** is a technical topic being examined by the GASB due to a wide diversity in practice regarding required presentation on the face of the financial statements, disclosures, etc. A final standard on this topic is expected by mid-2022.

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



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)

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- 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



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:

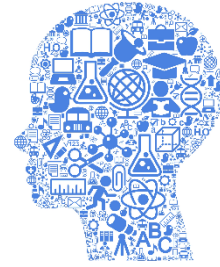
- Are Your Government's Funds Secure?
- CARES Act (several)

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- 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
- 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



"You are the best auditors I have ever worked with over my career. It is a big difference having a group that is dedicated to governmental accounting."

**Wesley Ropp,
Charleston Water
System, Chief
Financial Officer**

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Communication. In an effort to better communicate our free continuing education plans and newsletters, please email Paige Vercoe at pvercoe@mjcpa.com (send corresponding copy to hpendergrass@mjcpa.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 School System's management, and others within the School System'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 Rockdale County Board of Education and look forward to serving the School System in the future. Thank you.

