

FMC Presentation

May 26, 2022



Agenda

- ✓ BCR Reminders
- ✓ Capital Projects Funds
- ✓ Revenue Collections
- ✓ Custodial Funds
- ✓ ACFR Forms
- ✓ Single Audit
- ✓ Post-Closing Adjustments (PCA) Tips
- ✓ Miscellaneous Items
- ✓ Other Items Noted from ACFR Process
- ✓ GASB Updates

Note – items in the purple font are new items added to the FY22 training

BCR Reminders

Common BCR Issues

- ✓ Entries aren't being posted to tie in fund balance until files are received from SAO
- ✓ Entries posted to fund balance accounts after tied in (especially during 998)
- ✓ Budget variances not corrected prior to OPB budget system closing
 - Note: Budget amounts in SAO's Final BCR come from OPB's PBCS budget system, not TeamWorks.
- ✓ **Post Closing Adjustments (PCA) form does not match BCR form**
- ✓ **Reserve requests to OPB not matching what agencies provided as reserved fund balance on the BCR**

Entries Posted to Fund Balance Accounts After Being Tied In to the PY BCR

- ✓ **Once Beginning Fund Balance is tied in, NO entries should be posted to any of those accounts at any point during the year, except for account 337xxx, which establishes Current Fiscal Year reserves. Offset to reserve establishment is always 390110.**
- ✓ **Any entries posted to account 390001, 390104, or 492xxx will cause beginning fund balance to no longer tie to the prior year BCR.**

Non-Compliance with Budget

- ✓ **SAO will be sending draft BCRs as follows:**
 - Last week of period 12 close: Monday and Wednesday
 - Week of 998 close: Monday and Thursday
- ✓ **Goal of this exercise:**
 - (A) To avoid agencies having more expenditures than revenue and to give agencies a chance to review data in SAO format and make necessary adjustments in TeamWorks before 998 close
 - (B) Reduce the number of PCAs

Capital Projects Funds

AGENCY MANAGED PROJECTS

- ✓ **On-behalf payments:** If payments are made directly to a vendor in an **agency managed** GSFIC project, the agency is still responsible for recording transfers in and expenses/expenditures, as if the payment was made to the vendor by the agency, and then the agency was reimbursed by GSFIC (on-behalf payments).
- ✓ Agency managed projects must be recorded in a CPF (e.g. 5xxxx fund)

GSFIC MANAGED PROJECTS

- ✓ Any activity related to a GSFIC managed project should be recorded in the BUDGET FUND (10100)
 - Record in an interagency funding source
 - Example: an agency buys good/services for the project, then GSFIC reimburses them
 - If these items are booked to a Capital Project Fund (i.e. fund 5xxxx), both the agency and GSFIC are expensing these items in the CPF.

Revenue Collections

- ✓ When confirming transfers with OST in mid July, ensure account 750001 ties to the amount confirmed. Or provide PCA's to aide in tying out (not preferable).
- ✓ **If during YE closeout, the amount changes from what was confirmed in mid July with OST, reach back out to OST to notify them of the change.**
 - Appropriations Receivable
 - Appropriations Revenue
 - Return of Surplus
 - Transfers
 - Early Return of Surplus to OST.

Custodial Funds

✓ KEY AREAS TO REMEMBER

- ✓ Account 250xxx can NOT be used in a custodial fund.
- ✓ Custodial fund types should ONLY use fund source numbers beginning with 06xxxx.
- ✓ No Budget entries in Custodial fund (i.e. No Encumbrances, Revenues Based on Encumbrances, Surplus, Reserves etc.)
- ✓ Please do not use old fund sources in custodial funds that were moved to another fund in PY. You will be asked to move the activity again.

ACFR Forms

Capital Assets

- ✓ **Some common things noted during the review of the capital asset forms:**
 - Transfers
 - Transfers between agencies should be recorded at the same amounts at both agencies
 - Including Accumulated Depreciation
 - Review of Executive Order's will occur in FY22 for asset moves
 - Please refer to the *Transfer of Capital Assets* Policy at our website
 - <http://sao.georgia.gov/accounting-policy-manual>
- ✓ **We STILL have issues with capital asset transfers not tying between agencies. It is challenging to understand why this continues to be a problem**
- ✓ If agency's have information on asset transfers within other State agencies, send the information to SAO (SAO_reporting@sao.ga.gov) as soon as you get them
- ✓ That way we can communicate with the State agency that is involved in the transfer of assets to ensure that the asset transfers in and out match.

- ✓ SAO is implementing changes to agencies submitting the URP form
- ✓ SAO will ask only agencies over 10 Million to submit form
 - Additionally, 5 agencies will be required to submit every year
 - For SEFA reporting, if there are any federally significant amounts input these on the SEFA recon
- ✓ Agencies under 10 Million will be required to submit form every 5 years
- ✓ All agencies should make sure their URP are booked correctly in the G/L prior to year-end close

Reminder:

- ✓ Fund Sources for STATE should not be included in RBE form.

Reminder:

- ✓ **SAO only needs explanations for items that we do not get from other sources** (such as the Attorney General Office or DOAS Risk Management)
 - Example: Do NOT tell us about items that are covered by the Attorney General (AG) Office, we have note on the form "exclude items provided by AG".
 - It causes us more work to have to review responses and whittle down the list to those items which are truly things we need to evaluate.

SAO Forms

- ✓ Be sure to find the current forms for the applicable fiscal year on SAO's website. Do not copy and paste or use forms from prior years.



Reporting > Year-End Forms

Year-End Forms

The information on this page contains forms and additional information for use in the preparation of the State level year-end reports. To update contact information relating to SAO Financial Reporting communication, please [complete the Update Form](#) and email to sao_reporting@sao.ga.gov.

2021 Year - End Reporting Forms

- Entire Year-End Package
- General Information
 - [Entire Year-End Package \(zip\)](#)
 - [2021 Fiscal Year End Reporting Calendar](#)
 - [Forms Due by Entity List](#)
 - [Sample Collateralization Confirmation Letter](#)
 - [Fiscal Year-End Close Checklist](#)

FY22 year-end forms (not in Wdesk) should be posted to SAO's website by in early June. An email will be sent out once they are available.

Wdesk year-end form collection

- ✓ **Agency CFOs will be provided a login and will submit the following year end ACFR forms via a Wdesk reporting portal on the web for FY22:**
 1. Year-end Reporting Package Confirmation
 2. Service Concession Arrangements
 3. Deferred Outflows, Inflows of Resources and Nonexchange Financial Guarantees
 4. Pollution Remediation (PRO)
 5. Asset Retirement Obligation (ARO)
 6. Year-end Questionnaire
 7. Subsequent Events (ACFR and Single Audit)
 8. General Information*
 9. Allowance for Doubtful Accounts*
 10. Long-term Liabilities*
 11. Unrecorded Receivable/Payable (URP) form*
 12. Management Representation Letter

** New in Wdesk in 2022 -Organization will still submit the excel file if there is applicable data*
- ✓ **Following forms are in format of worksheet and can have multiple users:**
 1. Appropriations Receivable Reconciliation
 2. Inter-Organization Form (Due To/Due From) – new in Wdesk

ACFR Forms on SAO Website



- ✓ **Capital Assets**
- ✓ **Cash and Deposits Form**
- ✓ **Classification of Revenue**
- ✓ **CPA and DOAA Audited Form for Cash and Investments**
- ✓ **Investment Form**
- ✓ **Lease Agreement Data**
- ✓ **Not Applicable (*only for forms on SAO website*)**
- ✓ **Post Closing Adjustment form (optional)**
- ✓ **Revenues based on Encumbrances**
- ✓ **SEFA Reconciliation Form**

- ✓ There will not be year-end forms workshops this year
- ✓ If your organization has a need for training on specific form(s), please reach out to SAO_reporting@sao.ga.gov and we will set up time to meet with you.

Single Audit

Single Audit

- ✓ **Carefully read instructions every year – there is a lot of important information in there (and changes are made to them)**
- ✓ **SEFA webportal has many sets of instructions built into as denoted by**
 - **<https://sao.georgia.gov/federal-compliance-reporting>**
- ✓ **Remember: all Federal money must be reported (some Agencies may receive Federal COVID-19 moneys, but may not have reported anything in past years)**
 - **Federal COVID-19 amounts must be separately reported**
 - If a CFDA contains both COVID-19 and non COVID-19 amounts, must be separately reported in SEFA webportal

Single Audit

✓ SEFA webportal submission:

- For FY22 will no longer be reported under DUNS numbers, instead will be under a “Unique Entity Identifier (UEI)”.
 - More information to be provided later
- System will be updated to only allow active CFDA numbers to be used, but reach out to SAO with any questions or potential changes
 - Do not just pick a different CFDA
 - Monetary awards cannot be reported as nonmonetary

✓ Interagency pass thru:

- There are still issues with agencies not matching. Please remember “timing” is not an acceptable as both sides should match (may require URP adjustment).

Post-Closing Adjustments

PCA Tips

- ✓ **Make sure to record all PCAs in the following year (that affect Revenue and Expense) and not just the ones that have an impact to ending fund balance**
- ✓ **PCA entry form is filled out completely and correctly and entry is balanced. Make sure correct account, program, fund source and budget year data is provided.**
- ✓ **Program and fund source data on PCA form is reported properly on Fund Balance Appropriations form (FBAF) (e.g. PCA adjusts state funds but federal funds are adjusted on FBAF).**
- ✓ **Use one PCA form per entry, do not combine multiple PCAs onto one form.**
- ✓ **Do not add lines to PCA short form. If additional lines are needed, use PCA long form, or request assistance from SAO to add additional lines**

- ✓ **PCAs are processed in TeamWorks timely in subsequent fiscal year (do not wait for SAO's beginning fund balance recon exercise, PCAs should be posted prior).**
 - Use accounts indicated in the FY22 column of the form when posting FY21 PCAs to Teamworks in FY22 (as items recorded to a revenue/expense account on the FY21 PCA need to be posted to account 390001 in Teamworks in FY22).

- ✓ **Limit the number of PCAs submitted**
 - Non-recurring each year as recurring ones should be adjusted in the next year before 998 closes (e.g. PCAs should be non-routine and non-recurring)

Miscellaneous Items

- ✓ **Reminder: May FMC training presentations are out on SAO's website**
- ✓ **FY22 year-end timeline is not yet available, but will be similar to the FY21 timeline**
- ✓ **Fund/Funding Source confirmations due 5/27/22**
- ✓ **Governance (round #2) will start in mid-June**
- ✓ **Please submit Year-End forms (YEF) by due date: not submitting YEF by due date holds up SAO's work on the ACFR**
- ✓ **SAO works on improving our communications & processes every year. Please read our emails thoroughly and don't assume they are the same every year**
- ✓ **Onspring Internal Controls RA/CA submission is due on June 30, 2022**

Communications list



- ✓ **Reminder: SAO has a form for agencies to complete for updated agency contacts.**

STATE ACCOUNTING OFFICE

- TeamWorks
- Statewide Reporting
- Shared Services
- Policies and Procedures
- Travel
- Training & Calendars
- Internal Controls

Home > [Statewide Reporting](#) > Year-End Forms

- Statewide Reporting
 - Budgetary Compliance Report
 - Annual Comprehensive Financial Reports
 - Federal Compliance Reporting
 - > Reporting Structure and Chart of Accounts

Year-End Forms

The information on this page contains forms and additional information for use in the preparation of the State level year-end reports. To update contact information relating to SAO Financial Reporting communication, please [complete the Update Form](#) and email to sao_reporting@sao.ga.gov.

2021 Year - End Reporting Forms

- Entire Year-End Package
 - Entire Year-End Package (zip)

Question (P1)

For the annual submission in Onspring of Control Environment and RA/CA due June 30th, what should an organization do?

a) don't review prior year responses, CFO just certifies

b) review prior year responses, update for changes and then CFO certifies

Upcoming GASBs

Upcoming GASB's


GASB Statement		State of GA Implementation date
No. 87	Leases	2022
No. 89	Accounting for Interest Cost Incurred before the End of a Construction Period	2022
No. 92	Omnibus 2020	2022
No. 93	Replacement of Interbank Offered Rates	2022
No. 97	Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32	2022
No. 99	Omnibus 2022	2022, 2023 & 2024
No. 91	Conduit Debt Obligation	2023
No. 94	Public-Private and Public-Public Partnerships and Availability Payment Arrangements	2023
No. 96	Subscription-Based Information Technology Arrangements (SBITA)	2023

NOTE - CPA memo is important for applicable agencies: in a case that CPA implements GASB's differently, we need to know so we can adjust accordingly.

Upcoming key GASBs

- ✓ **GASB 87 - Leases**
- ✓ **GASB 96 – SBITA**
- ✓ **GASB 94 – P3 & APA**

Questions?



GASB 87 - Leases

May 26, 2022

Process of Implementation:

- ✓ **May 2020 – GASB issues Statement No. 95 – Postponement of Effective Dates**
 - Statement 87 and Implementation Guide 2019-3—fiscal years beginning after June 15, 2021, and all reporting periods thereafter
- ✓ **New Effective Date – July 1, 2021**
- ✓ **Training and Implementation activities**
 - SAO held GASB 87 Workshop on 6/6/19 & Survey Workshop on 6/16/20
 - Both trainings available on SAO's website
 - Agencies completed surveys spring of 2021
 - SPC Prolease vs EZLease comparison completed June 2021

Process of Implementation:

✓ Training and Implementation activities continued...

- SAO to update lease policy on SAO's website – lessee & lessor
- Upcoming changes to the lease agreement data form for FY22
- Lessor reporting changes – agencies will need to complete lessor lease agreement data form for FY2022
- SAO to confirm true beginning balances for GASB 87:
 - FY21 Confirmations were due back to SAO in March
- Agency to notify SAO if any lease that does not meet GASB 87 requirements (should be removed)
 - For example, intent to renew does not override what is in lease agreement. If lease is year-to-year & does not contain renewal options, then does not meet GASB 87 definition even if intent is renew for multiple years

Process of Implementation:

- ✓ **Training and Implementation activities continued...**
 - SAO to send out Wdesk survey confirming all agreements that meet the definition of a lease have been reported to SAO – **survey due back to SAO June 3, 2022**
 - Survey will provide assist agency in determining if agreement meets definition of a lease (GASB 87), SBITA (GASB 96) or P3 (GASB 94)
 - SAO to train on GASB 87 – Leases at the May 2022 FMC meeting

- As a reminder, definition under GASB 87:
 - A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.
 - To determine whether a contract conveys control of the right to use the underlying asset, a government should assess whether it has both of the following:
 - a. The right to obtain the present service capacity from use of the underlying asset as specified in the contract
 - b. The right to determine the nature and manner of use of the underlying asset as specified in the contract.
 - Typical leases are for items such as buildings, cars, land, equipment.
 - SAO WILL report copiers as leases under GASB 87

- **Embedded leases:**
 - A contract that is not traditionally thought of as a lease. Lease does not have to appear in the agreement to be considered a lease for lease purposes.

Potential Embedded Leases	
Advertising (including billboards)	Related party charges
Agriculture leases (crops, orchards, etc.)	Construction agreements
Cell towers	Transportation agreements
Land Easements	Service agreements

- Don't forget to review contracts for items such as medical equipment, advertising, IT/Office equipment (hardware), warehousing, service contracts (vending) that may also meet the definition of a lease.

GASB 87 - Leases



- ✓ Other Agreements that might meet the definition of a lease & are not being reported to SAO already in which agency has control of another entity's asset
- ✓ For example, leasing hardware not currently reported to SAO
- ✓ From SAO 2022 Wdesk survey:

2. Based on the information above, has your agency, as a LESSEE, reported all agreements to SAO that meet the criteria of a lease under GASB 87?

- Yes – by selecting this option you are confirming that all agreements meeting GASB 87 reporting requirements have been reported to SAO on either a prior year Lease Agreement Data Form or as part of the fiscal year 2021 lease confirmation process.
- No – discovered additional agreements that need to be reported to SAO on the fiscal year 2022 year-end Lease Agreement Data form. Please provide further explanation in the response section.

3. Based on the information above, has your agency, as a LESSOR, reported all agreements to SAO that meet the criteria of a lease under GASB 87?

Note – if your agency has agreements where the State is the lessor and the agreement meets the definition of a lease under GASB 87, you will be required to complete the new Lessor Lease Agreement Data form at fiscal year 2022 year-end.

- Yes – by selecting this option you are confirming that all agreements (where the agency is the lessor) that meet GASB 87 reporting requirements have been reported to SAO on the Year End Questionnaire or your agency is not a Lessor.
- No – discovered additional agreements that need to be reported to SAO on the new fiscal year 2022 year-end Lessor Lease Agreement Data form. Please provide further explanation in the response section.

4. Based on the information above, has your agency reported all agreements to SAO that meet the criteria of a SBITA under GASB 96?

- Yes – by selecting this option you are confirming that all agreements meeting GASB 96 reporting requirements have been reported to SAO on the survey submitted in the fall of 2021
- No – discovered additional agreements that need to be reported to SAO on the new fiscal year 2022 year-end SBITA form. Please provide further explanation in the response section.

Key considerations when reviewing contract:

Contract date	Termination clauses	Base rent
Commence date	Incentives	Additional rent
Underlying asset	Residual value guarantees	Payments made prior to commencement
Transfer of ownership	Penalties	Rent increases
Initial term	Multiple components	Payment schedules
Renewal term	Interest rate	Purchase options

✓ Lease term:

✓ Period during which a lessee has a noncancelable right to use an underlying asset

- **Plus the following periods if applicable:**
 - Lessee's option to extend if it is reasonably certain
 - Lessee's option to terminate the lease if it is reasonably certain
 - Lessor's option to extend the lease if it is reasonably certain
 - Lessor's option to terminate the lease if it is reasonably certain
- **Reassess term only if:**
 - the reasonably certain conclusion on options were wrong
 - An event that requires an extension or termination takes place
- **Fiscal Funding Clause** - only affect the lease term if it is reasonably certain that the clause will be exercised; if not reasonably certain of being exercised then *ignore* the fiscal funding clause.
- **Most importantly - Is lease term in compliance with GASB 87?**

✓ Short-term Leases (not considered a lease under GASB 87):

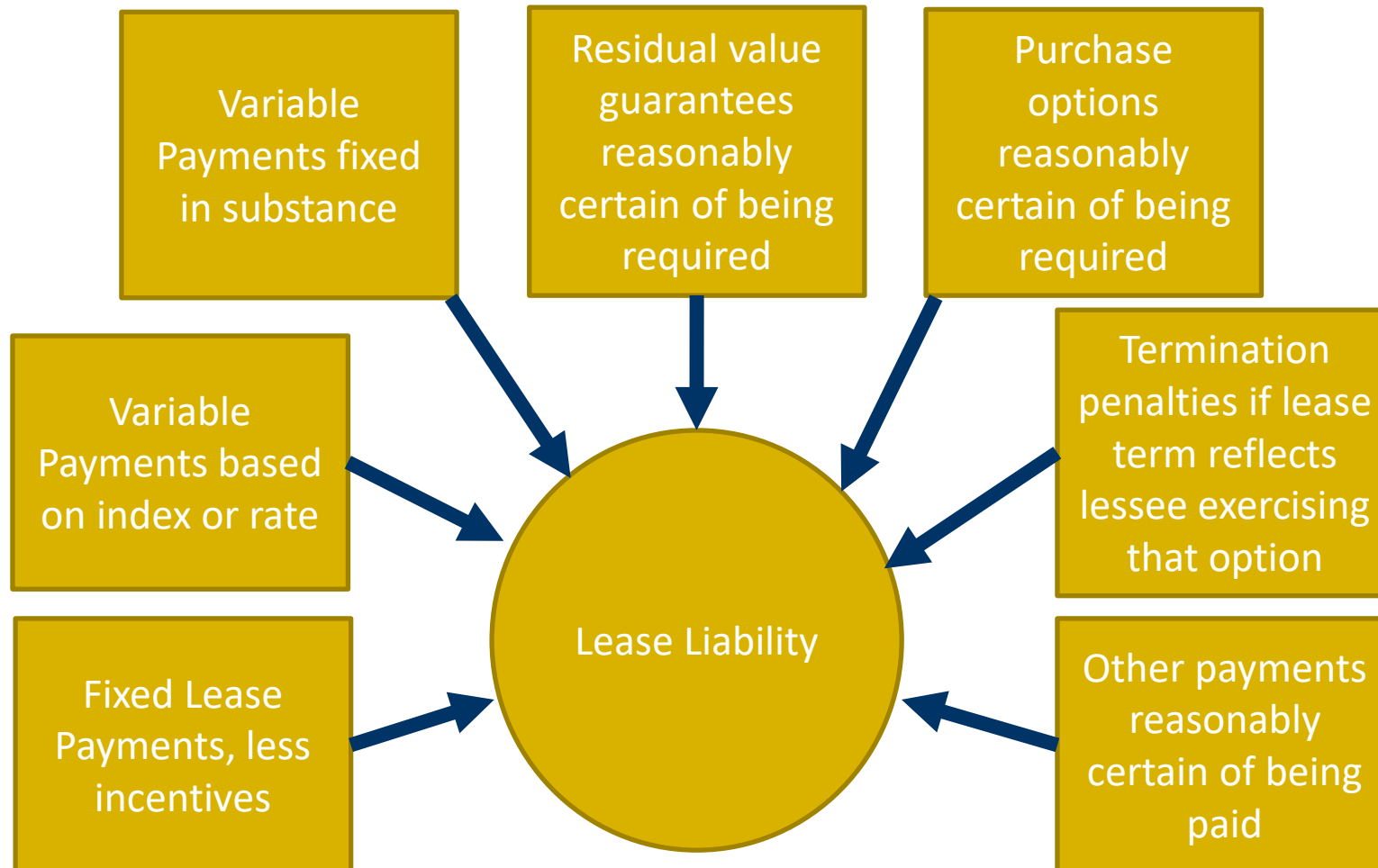
- A short-term lease is one that, at the beginning of the lease, has a “maximum possible term” under the contract, including any options to extend, of 12 months or less
- For a lease that is cancelable either by the lessee or lessor, such as month-to-month or year-to-year leases, the maximum possible term is the noncancelable period including any notice period
- LESSEE—lease payments recognized as expenses/expenditures based on the payment provisions of the contract
 - No recognition of assets or liabilities associated with the right to use the underlying asset for short-term leases
- LESSOR—lease payments recognized as revenue based on the payment provisions of the contract
 - No recognition of receivables or deferred inflows associated with the lease
- No resource flows recognized during rent holiday periods
- No required disclosures

✓ Initial Measurement –Lessee:

- Initial measurement of a lease liability includes:
 - Fixed payments (less lease incentives receivable from lessor)
 - Variable payments based on an index or rate (such as CPI), using the rate as of the beginning of lease
 - Variable payments that are fixed in substance
 - Residual value guarantees reasonably certain of being required
 - Purchase options reasonably certain of being exercised
 - Termination penalties, if lease term reflects lessee exercising termination options/fiscal funding clauses
 - Any other reasonably certain payments

✓ Initial Measurement –Lessee:

- Excludes lease payments dependent on lessee's future performance or usage of underlying asset and payments not for the right to use the underlying asset (ex: janitorial costs)



✓ Initial Measurement –Lessee Discount Rate:

- Lease liability payments discounted using the rate the lessor charges the lessee (may be implicit) or, if that rate cannot be readily determined, the lessee's incremental borrowing rate

✓ Lessee's right-to use asset:

- Initially measure intangible right to use lease asset as the sum of:
 - a. Initial lease liability (per previous slides)
 - b. Any prepayments (amounts paid for the lease prior to measuring the lease liability)
 - Less any incentives received from the lessor
 - c. Initial direct costs that are necessary ancillary charges to place the leased asset into use
 - i. Other initial direct costs (e.g., insurance, legal, administrative) should be expensed

✓ Purchase option:

- A lease asset should be amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset, except
 - If a lease contains a purchase option that the lessee has determined is reasonably certain of being exercised, the lease asset should be amortized over the useful life of the underlying
- Agency will need to report on Lease Agreement Data form if there is a purchase option that is reasonably certain of being exercised

GASB 87 - Leases

Recognition & Measurement - LESSEE:

	Assets	Liability	Deferred Inflow
Initial Reporting	Intangible asset (right to use underlying asset)—value of lease liability plus prepayments and initial direct costs that are ancillary to place asset in use	Present value of future lease payments (incl. fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.)	N/A
Subsequent Reporting	Amortize the intangible asset over shorter of useful life or lease term	Reduce by lease payments (less amount for interest expense)	N/A

✓ Variable Payments

- ✓ Payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the lease term.
- ✓ **Variable payments based on future performance of the lessee or usage of the underlying asset should NOT be included in the measurement of the lease liability.**
 - Should be recognized as outflows of resources (for example, expense) in the period in which the obligation for those payments is incurred.
 - However, any component of those variable payments that is fixed in substance should be included in the measurement of the lease liability.
 - Examples of variable payments; Copier toner, miles driven, oil changes
- ✓ **SAO will collect variable payments for new & existing leases on the FY22 Lease Agreement Data form**

✓ Lease Modifications & Terminations:

- Result from amendments to lease contract, not from exercising options in that contract
- Examples include changing the contract price, lengthening or shortening the lease term, and adding or removing an underlying asset.
- Considered a lease modification unless lessee's right to use underlying asset decreases
 - Accounted for by remeasuring the lease liability and adjusting the related lease asset by a lessee and remeasuring the lease receivable and adjusting the related deferred inflows of resources by a lessor
- Considered a partial or full lease termination if lessee's right to use underlying asset decreases
 - accounted for by reducing the carrying values of the lease liability and lease asset by a lessee
- Report as new lease by both lessor and lessee if:
 - New assets are added and not unreasonably priced
- **Modifications or terminations should be communicated to SAO on the revisions tab of the Lease Agreement Data form**

✓ **Multiple Components:**

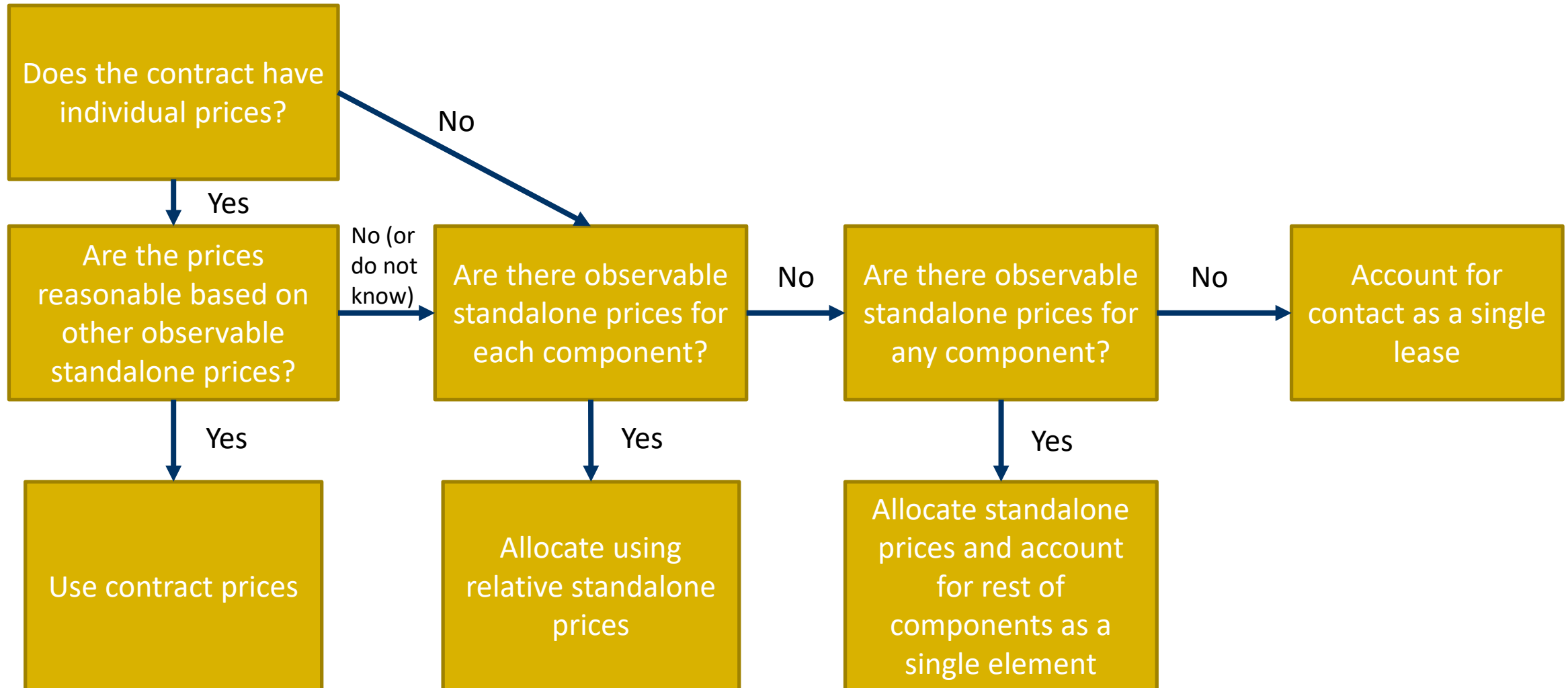
- Contract with lease and nonlease components
 - Separate lease component from nonlease component. Ex:
 - Allocate cost of toner vs copier
 - Allocate cost of vehicle vs oil changes or maintenance costs
 - Allocate cost of cleaning vs building rent
 - Treat as separate contracts
- Agreements that include hardware & software should be reported separately – hardware would be reported under GASB 87 & the software component under GASB 96

✓ **Multiple underlying assets in same lease and assets have different lease terms**

- Each underlying asset treated as separate component (lessee and lessor)
- Allocate contract price to each component using reasonableness and professional judgment
 - Prices for each component in the contract (if available)
 - Stand-alone prices for similar assets

✓ **If cannot determine allocation, treat as a single-lease unit**

✓ Multiple Components:



✓ Subleases - Treated as a separate transaction

- Lessee now also the lessor
- No offset of transactions
 - Original lessee
 - Right to use asset and liability (original lease)
 - Receivable and deferred inflow of resources (sublease)

✓ **Contracts that Transfer Ownership**

- A contract that:
 - Transfers ownership of the underlying asset to the lessee by the end of the contract **AND**
 - Does not contain termination options (see paragraph 12), but that may contain a fiscal funding or cancellation clause that is not reasonably certain of being exercised (see paragraph 13), does not meet the definition of a lease. Instead, these should be reported as a financed purchase of the underlying asset by the lessee or sale of the asset by the lessor.

✓ Reminders:

✓ Intergovernmental Agreements

✓ Primary Government (PG) to PG leases should NOT be reported

- Ex: agreements between Georgia Building Authority (GBA) and other organizations included in the State's primary government should not be reported as leases in the statewide ACFR.

✓ PG to Discretely Presented Component Unit (CU) should be reported

- If any State organization enters into a lease agreement where the lessor is either a) a discretely presented component unit or b) a public organization that is not part of the governmental unit entity for financial reporting purposes, then the lease should be treated in the same manner as any other lease agreement of the State

✓ Organization chart may be found on SAO's website

✓ True Multi Year Leases are reported by SPC & should not be reported to SAO

- ✓ A list was provided to agencies during the confirmation of fiscal year 2021 lease reporting

✓ Lessor -Initial Measurement

- Initial measurement of a lease receivable includes:
 - Fixed payments
 - Variable payments that depend on an index or rate (such as CPI) (Use the rate as of beginning of lease)
 - Variable payments that are fixed in substance (Exclude variable lease payments that are dependent on a lessee's performance or usage of an underlying asset)
 - Residual value guarantees that are fixed in substance
 - Less provision for uncollectible accounts

✓ Lessor - Initial Measurement

- Discount the lease receivable using the rate the lessor charges the lessee
 - Interest rate may be implicit in the lease
 - If Lessor's rate is unknown, use State's Incremental Borrowing Rate
- Initially excludes the following:
 - Residual value guarantees that are not fixed in substance should be recognized as a receivable when: (1) Payment is required, and (2) Amount can be reasonably estimated
- Purchase option payments or termination penalties
 - Recognized when exercised

✓ Lessor –Deferred Inflow of Resources:

- Deferred Inflow of Resources — Initial Measurement
 - Receivable amount (per previous slides), plus
 - Any cash received up front that relates to future periods (e.g., final month's rent)
- Recognize revenue in a systematic and rational manner over the term of the lease

GASB 87 - Leases

Recognition & Measurement - LESSOR:

	Assets	Liability	Deferred Inflow
Initial Reporting	<ul style="list-style-type: none">• Lease receivable (generally including same items as lessee liability)• Continue to report leased asset	N/A	Equal to lease receivable plus any cash received up front that relates to a future period
Subsequent Reporting	<ul style="list-style-type: none">• Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition)• Reduce receivable by lease payments (less payment needed to cover accrued interest)	N/A	Recognize revenue over the lease term in a systematic and rational manner

GASB 87 - Leases

✓ Internal controls:

- Risk Assessments – sound procedures to establish effective internal control will mitigate risk of error and misstatements from occurring
 - Preventative Control
 - Detective Controls
- **Preventative Control:**
 - Consider adding a workflow to the contracting process that includes lease determination to occur at the time of entering a contract
- **Detective Controls:**
 - Consider annually surveying departments for potential leases or significant changes to a lease
 - Consider scanning the trial balance for recurring monthly payments that may not have been reported as a lease
 - Reconcile lease expense or rent revenue to contracts identified as a lease

GASB 87 - Leases

✓ Internal controls continued:

■ Risks & best practices:

- Completeness – A major area of concern with regard to leases and the implementation of the new lease standards is asserting that all leases have been captured and properly capitalized in the Annual Comprehensive Financial Report (ACFR).
 - Best Practice(s): Ensure a full inventory of leases (considering embedded leases, IT leases, etc.) have been evaluated. This can be performed through a questionnaire, interviewing Purchasing and Legal personnel, and scanning the trial balance for possible leases.
- Existence/Occurrence – This assertion is related to leases that may be recorded that may not exist. Generally, this is a low inherent risk and not likely to occur.
 - Best Practice(s): To reduce the risk of recording a lease asset and lease liability that may not exist, consider reconciling the list of leases recorded throughout the year to the lease expense/revenue that is supported by a contract.

GASB 87 - Leases

✓ Internal controls continued:

■ Risks & best practices:

- Valuation/Allocation – In asserting that the present value calculation of leases is correct, the main focus of this calculation is ensuring the lease term and discount rates are properly assessed.
 - Best Practice(s): Ensure discount rates are adequately determined and documented to support the discount rate. Additionally, ensure the lease term is determined properly, paying close to the optional extended periods.
- Cut-off – Cutoff asserts whether or not the lease has been recorded in the correct accounting period.
 - Best Practices(s): It is important that leases are submitted to SAO in a timely manner and that the commencement date of the lease is properly provided to start the lease term.

GASB 87 - Leases

✓ Internal controls continued:

■ Risks & best practices:

- Rights and Obligations – Similar to existence/occurrence, rights and obligations is generally a lower risk related to lease liability and leased assets. This is the assertion that asserts assets are owned and that liabilities are owed.
 - Best Practices(s): See Existence and Occurrence.
- Classification/Presentation & Disclosure – Classification as it relates to leases and specifically, related to implementation of a new lease standard, affects the risk that a lease may be incorrectly classified as either a financed purchase or a short-term lease.
 - Best Practice(s): To reduce the risk of errors related to classification is to ensure staff are adequately trained in understanding GASB 87 lease determinations, develop a review process for the lease determination, and document your lease determination adequately.

Question (P2)

You enter into a 1-year lease for a building that also includes 4 renewal periods. The agreement has a fiscal funding clause, but you are unlikely to exercise it. Does this meet the definition of a lease (and thus need to be reported to SAO)?

No - is not a lease

Yes - meets the definition of a lease

Question (P3)



You have an agreement that meets the definition of a lease. You also have to make payments each quarter based on the prior quarter's usage of the asset (i.e. variable payment). Do you need to report this variable payment amount to SAO?

No - amount not known up front, do not report

Yes -SAO is required to report on variable payments made each year in the ACFR notes

Question (P4)

You have a lease for building space. Part of the monthly payment made includes janitorial services and taxes. Are these amounts included in the value of the lease (i.e. do you report these amounts in the monthly payment amount you put on the lease form)?

No - these are not included in the lease asset/liability

Yes - these are included in the lease asset/liability

Question (P5)

Is the state collecting lease information on copiers and postage meters to include in the GASB 87 calculations?

Yes - copiers and postage meter data is being collected and reported

No - do not report to SAO

Question (P6)

How does a fiscal funding clause impact a lease under GASB 87?

Not a lease because a fiscal finding clause means the lease is short term (exempt from 87)

The fiscal funding clause is taken into consideration in calculating the number of periods for the lease only if the organization is reasonably certain to exercise the fiscal funding clause

Question (P7)

An agency enters into a lease for a building, with the right to use, for 16 months. Both the lessee and the lessor have the option to cancel the lease after 6 months. Is this a short-term lease?

Yes –this is a short-term lease, and does not get reported to SAO

Periods for which both lessee and lessor have the option to terminate without permission are called cancelable periods and are excluded from the lease term

No – this is not a short-term lease, and should be reported to SAO



**GASB 96 – Subscription Based IT
Arrangements (SBITA)
May 26, 2022**

- ✓ **Subscription Based Information Technology Agreement:**
 - ✓ a SBITA is a contract that conveys control of the right to use another party's (a SBITA vendor's) 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.
 - ✓ There are multiple types of arrangements available—software as a service, infrastructure as a service and platform as a service.
 - ✓ SBITAs include contracts that, although not explicitly identified as a SBITA, meet the definition of a SBITA provided above. **That definition excludes contracts that solely provide IT support services but includes contracts that contain both a right-to-use IT asset component and an IT support services component.**
 - ✓ It is critical to look at agreements now that are both hardware/software because if they are **HARDWARE** they are GASB 87 which is already in effect (FY22)
 - ✓ Intergovernment agreements between agencies (which may also include Statewide contracts) would be reported by the agency that pays the 3rd party or vendor
 - ✓ **Potential Examples of SBITA include: Office365, Zoom, AWS, IBM, Concur (SAO to report)**

✓ This Statement does not apply to:

- a. **Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets that meets the definition of a lease in Statement No. 87, Leases, in which the software component is insignificant when compared to the cost of the underlying tangible capital asset** (*for example, a computer with operating software or a smart copier that is connected to an IT system would be considered a lease and not a SBITA*)
- b. Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs
- c. Contracts that meet the definition of a public-private and public-public partnership in paragraph 5 of Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements
- d. Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software, which are subject to Statement No. 51, Accounting and Financial Reporting for Intangible Assets, as amended

✓ **Subscription Term:**

- Similar to the lease accounting standard, Statement GASB 87, agreements that are 12 months or less (including options to renew) are considered short-term agreements. Short-term agreements do not meet the definition of a SBITA and therefore should not be included.
- Periods for which both the government and the SBITA vendor have an option to terminate the SBITA without permission from the other party (or if both parties have to agree to extend) are cancellable periods and are excluded from the subscription term
- For example, a rolling month-to-month SBITA, or a SBITA that continues into a holdover period until a new SBITA contract is entered into, would not be enforceable if both the government and the SBITA vendor have an option to terminate and, therefore, either could cancel the SBITA at any time.

✓ **Subscription Term continued:**

- INCLUDE - Agreements with terms greater than 12 months (including renewal terms). This includes any agreements that have options to extend beyond 12 months, but in which the agreement also contains a fiscal funding clause.
- EXCLUDE - Agreements with a term of 12 months or less (including options to renew).

✓ **Process of implementation:**

- Although not effective until fiscal year 2023, impact of this standard is HUGE
- SAO sent out a survey via Wdesk in August 2021
 - SAO to compare results of survey to list of agreements provided by GTA
- SAO sent another survey out regarding leases, SBITAs & P3 - **survey due back to SAO June 3, 2022**
- **FY22 Year End Form to collect opening balances**
- **SAO to train on GASB 96 – SBITA at the May 2022 FMC meeting**

GASB 96 - SBITA



Stage of Implementation	Activities Include:	Accounting for outlays:
Preliminary	<ul style="list-style-type: none"> • the conceptual formulation • evaluation of alternatives • determination of needed technology • selection of vendor 	<ul style="list-style-type: none"> • Expense as incurred
Initial Implementation	<ul style="list-style-type: none"> • Configuration • Coding • Testing • installation • Other ancillary charges necessary to place the subscription asset into service • Data conversion necessary to place the subscription asset into service 	<ul style="list-style-type: none"> • capitalized as part of the subscription asset • The initial implementation stage for the SBITA is completed when the subscription asset is placed into service
Operation & Additional Implementation	<ul style="list-style-type: none"> • Subsequent implementation activities • Maintenance • Trouble shooting • Other activities associated with ongoing access to the asset 	<ul style="list-style-type: none"> • Expense as incurred unless activity mets specific capitalization criteria
All Stages	<ul style="list-style-type: none"> • Training 	<ul style="list-style-type: none"> • Expense as incurred

- ✓ **Other than subscription payments for the right to use the underlying IT assets, outlays incurred prior to completing all of the following should be expensed as incurred:**
 - a. Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the subscription asset
 - b. Demonstration of the technical or technological feasibility such that the subscription asset will provide its expected service capacity
 - c. Demonstration of the current intention, ability, and presence of effort to enter into a SBITA contract.

- ✓ **The requirements above should be considered to be completed only when both of the following occur:**
 - a. The activities noted in the preliminary project stage are completed
 - b. Management implicitly or explicitly authorizes and commits to funding the SBITA, at least for the current fiscal year in the case of a multiyear project.

Question (P8)

An organization has agreement with a 3rd party vendor to use their ipads for 24 months. Would this qualify as:

GASB 87 - Lease (intangible asset)

GASB96 - SBITA (software)

Question (P9)

You have an agreement with another State agency (both entities are part of the primary government) to use their software that meets the definition of a SBITA. Do you report that agreement to SAO to be included in the SBITA numbers?

Yes - report to SAO

No - do not report to SAO

Question (P15)

Agency A uses Survey Monkey. There is not an agreement, it is just paid monthly. Does this meet the definition of a SBITA?

No

This is a short-term agreement and therefore not a SBITA

Yes

Question (P17)

Which stage of implementation would configuration, coding, testing, & installation of a subscription-based software be defined as and how would the cost be accounted for?

Preliminary - expense as incurred

Initial implementation - expense as incurred

Initial implementation - capitalize as part of the subscription asset



**GASB 94 - Public-Private and Public-
Public Partnerships and Availability
Payment Arrangements
May 26, 2022**

✓ Issue

- ✓ Current standards related to Service Concession Arrangements (SCAs) and leases do not adequately address certain types of public-private partnerships

✓ Objective:

- ✓ Addresses gap in current accounting guidance related to public-private and public-public partnerships (PPPs) that do not meet the definitions of SCAs.

✓ Applied Retroactively

✓ Effective July 1, 2022 (FY2023)

- ✓ **Public/Private or Public/Public Partnerships (PPP or P3s):**
 - Arrangements in which:
 - A government (the transferor)
 - Contracts with an operator/3rd party [governmental or nongovernmental] to provide public services:
 - By conveying control of the right to operate a nonfinancial assets, such as infrastructure or other capital asset (the underlying PPP asset),
 - For a period of time in an exchange or exchange-like transaction
- ✓ **A P3 that meets the definition of a lease in Statement 87 – but not the definition of a service concession arrangement (SCA) – would be reported under Statement 87 unless**
 - (a) the underlying P3 assets are not existing assets of the transferor or
 - (b) improvements are required to be made to those existing underlying P3 assets by the operator.

- ✓ **A service concession arrangement (SCA) is a type of PPP that meets all of the following conditions:**
 - The operator collects and is compensated by fees from third parties;
 - The transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and
 - The transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

Agencies should retain documentation when evaluating contracts to identify arrangements that are subject to GASB 94.

✓ Availability Payment Arrangements (APAs):

- Government contracts with another entity (third party) to operate or maintain the government's nonfinancial asset
 - Entity receives payments from the government based on the asset's availability for use
 - Asset's availability may be based on the physical condition of the asset or the achievement of certain performance measures
 - May include design, finance, construction, or service components

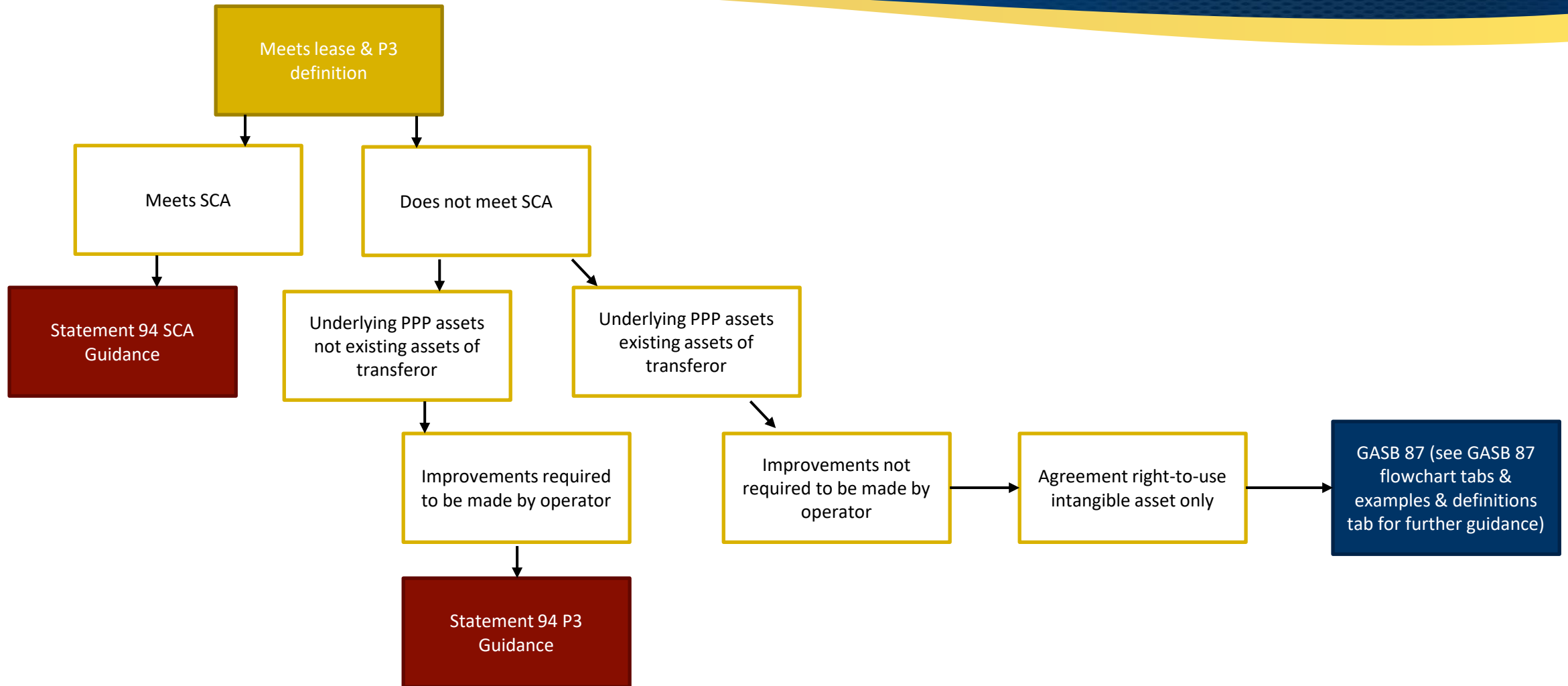
✓ Availability Payment Arrangements (APAs):

- An APA for design, finance or construction in which ownership of asset transfers by end of the contract is reported as a financed purchase.
- An APA for operations is to be treated as a flow of resources (i.e., expense) in the period payments relates.

APAs are different than PPPs in that the payments made by the government to an operator are based entirely on the asset's availability for use rather than on tolls, fees, or similar revenues or other measures of demand.

- ✓ **Some types of arrangements that could be subject to GASB 94 include:**
 - The State enters into an agreement with a developer to design/build/operate:
 - the construction of a building to be leased for office space for a period of time.
 - a transit system. Developer collects all fares for the period and remit to government. Government pays fixed payments based on certain milestones.
 - The State enters into an agreement with a developer to oversee/manage the construction of a building, and when completed the building ownership transfers back to the State.

GASB 94 – P3 & APAs



✓ Transferor Reporting:

- Receivable for installment payments to be received.
- Deferred inflows to be recorded for receivable and any initial cash payments received.
- Capital asset:
 - If a service concession arrangement (SCA), recognize the capital asset at acquisition value when placed into operation.
 - If NOT an SCA, recognize a receivable for the capital asset measured at the operator's carrying value as of the future date of the transfer of ownership.

✓ Operator Reporting:

- Liability for installment payments to be made
- Capital asset:
 - If an SCA, recognize an Intangible Right-to-Use asset.
 - If NOT an SCA, recognize:
 - the capital asset until ownership is transferred, and
 - a liability for the asset measured at the estimated carrying value as of the future date of the transfer of ownership.