

A grayscale photograph of the Georgia State Capitol building, showing its grand dome and classical architectural details like columns and arches. The image is semi-transparent, allowing the text to be overlaid.

Georgia FMC Annual Conference

October 13, 2020



Accounting Humor?



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BCR Reminders



BCR Reminders



- ✓ **Email sent from SAO_Reporting once the FY2020 BCR is published (November 2020)**
 - Entries to tie in FY2021 beginning fund balance can be posted:
 - Record any FY2020 PCAs into TeamWorks (typically adjustment is to DR/CR 390001 and the offset is to either Asset or Liability accounts)
 - Record carryover (DR 337001/390001 and CR 492001)
 - Record Return of Surplus (DR 390104 and CR Applicable Asset Account)
 - Agencies do NOT need to wait until SAO reaches out in Jan/Feb to record adjustments



SAO Update CAFR, GASB, Other.....



GFOA Certificate (YEAH)



FOR IMMEDIATE RELEASE

10/12/2020

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(Chicago, Illinois)—Government Finance Officers Association of the United States and Canada (GFOA) has awarded the Certificate of Achievement for Excellence in Financial Reporting to **State of Georgia** for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2019. The CAFR has been judged by an impartial panel to meet the high standards of the program, which includes demonstrating a constructive "spirit of full disclosure" to clearly communicate its financial story and motivate potential users and user groups to read the CAFR.

The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management.

Government Finance Officers Association (GFOA) advances excellence in government finance by providing best practices, professional development, resources, and practical research for more than 21,000 members and the communities they serve.

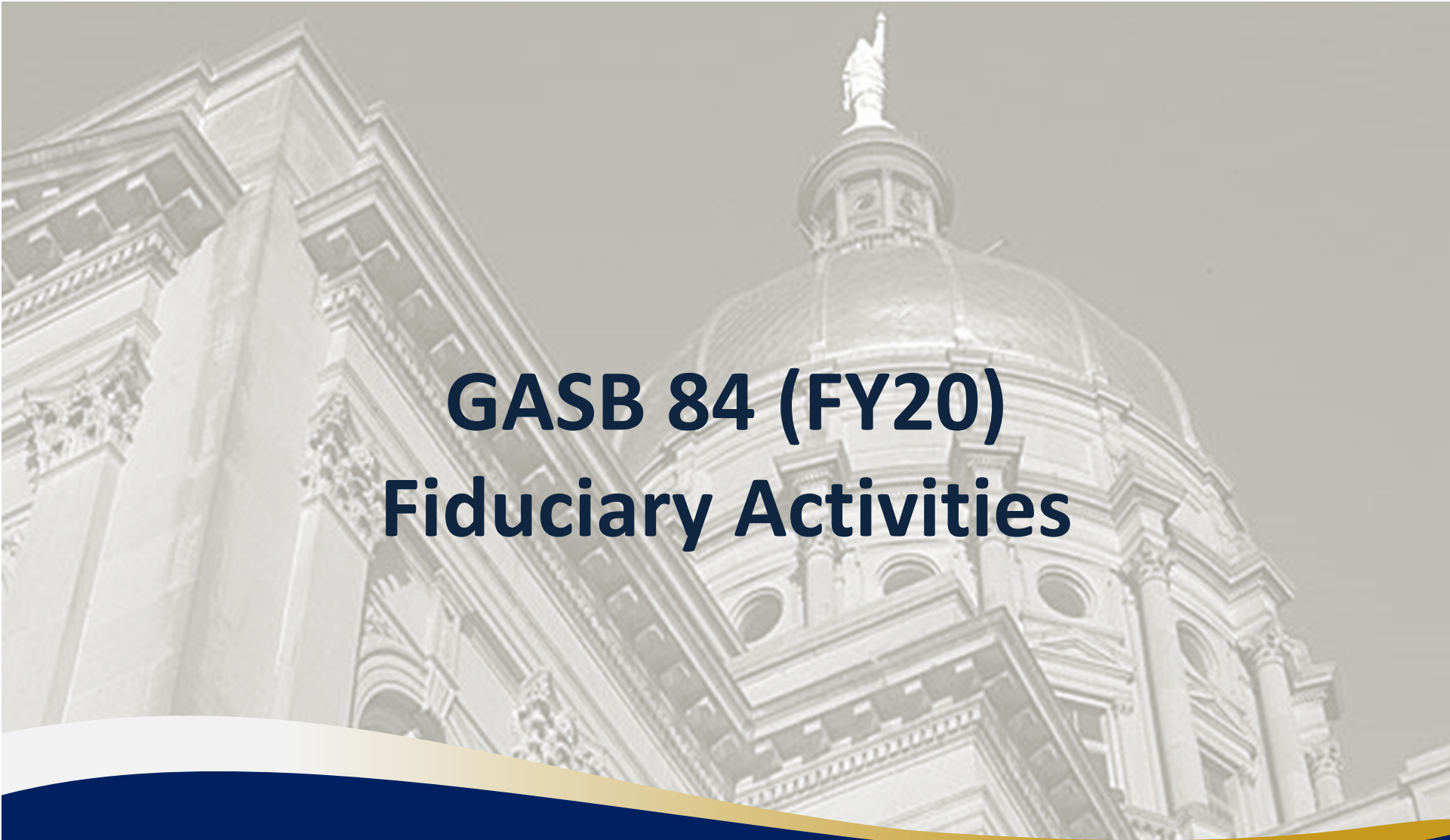
Upcoming GASB



- FY 2020
 - GASB Statement No. 84 “Fiduciary Activities”
 - GASB Statement No. 90 “Majority Equity Interests...”
- FY 2021
 - GASB Statement No. 87 “Leases”
 - GASB Statement No. 89 “Accounting for Interest Costs.....”
- FY 2022
 - GASB Statement No. 91 “Conduit Debt Obligations”
 - GASB Statement No. 92, “*Omnibus 2020*”
 - GASB Statement No. 93, “Replacement of LIBOR”
- FY 2023
 - GASB Statement No. 94, “*Public-Private and Public-Public Partnerships and Availability Payment Arrangements*”
 - GASB Statement No. 96, “*SBITA*”

✓ Postponement of the Effective Dates

- Effective dates postponed by one year:
 - Statement No. 83, *Certain Asset Retirement Obligations*
 - Statement No. 84, *Fiduciary Activities*
 - Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
 - Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
 - Statement No. 90, *Majority Equity Interests*
 - Statement No. 91, *Conduit Debt Obligations*
 - Statement No. 92, *Omnibus 2020*
 - Statement No. 93, *Replacement of Interbank Offered Rates*
 - Implementation Guide No. 2017-3, 2018-1, 2019-1, and 2019-2
- Statement No. 87, *Leases delayed 18 months*



GASB 84 (FY20) Fiduciary Activities



GASB 84



✓ **I though you just said this was delayed one year.**

- You are right!
- With your assistance SAO had already done 90% of the investigation related to this standard before GASB announced the delay.
- As a result SAO has decided to implement this

GASB 84 – GA Activities



✓ KEY AREAS TO REMEMBER GOING FORWARD

- Funds Held for Others (Account 262xxx) CANNOT be used for fiduciary funds (Fund 6xxxx, excluding Fund 69999)
- Revenue and Expenditure accounts MUST be used
- New account requests can be submitted as needed
- Net Position (i.e. Fund Balance) will be reported

GASB 84 – GA Activities



- ✓ **Custodial funds do not include transactions that are only reported in the Budget Fund:**
 - Return of Surplus (390104)
 - Carryover (492001)
 - Reserves (390110/337001)

GASB 84 – GA Activities



✓ **NEW PROCESS:**

- When requesting new fund sources for custodial (formerly agency funds) activity. You must either:
 - Update a former survey to include new fund source
 - Or provide new evaluation for the new activity
- Must be submitted with tree maintenance form.
- Fund source will not be approved until this is completed and reviewed.
 - If an agency needs previous surveys to resubmit please contact SAO_Reporting@sao.ga.gov and use subject line “(Agency number) XXX-Fiduciary Survey Request for Resubmission”.
 - New evaluation located on GASB 84 Implementation page [Fiduciary Activities Evaluation](#)

GASB 84 – GA Activities



✓ **NEW PROCESS:**

- Use 06xxx fund sources for custodial funds.
- If SAO sees activity in a fund source that is not an 06xxx fund source during monitoring agencies will receive an inquiry.
- If you are currently using fund sources other than 06xxx in custodial funds, please implement a plan to switch to 06xxx fund sources and ensure the surveys we have on file are updated.


GASB 84 – GA Activities



✓ SAO GASB Implementation Page:

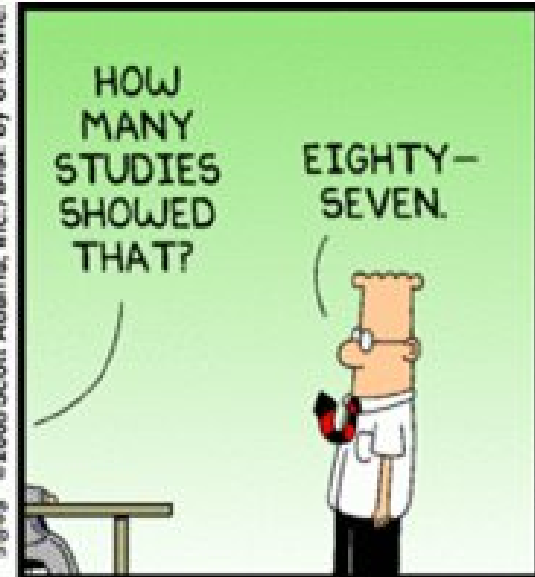
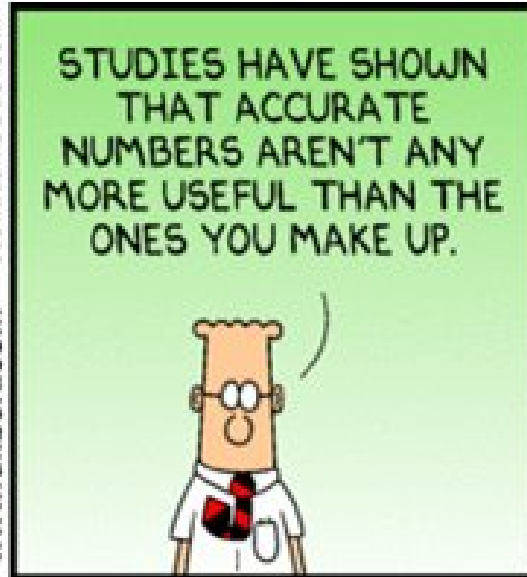
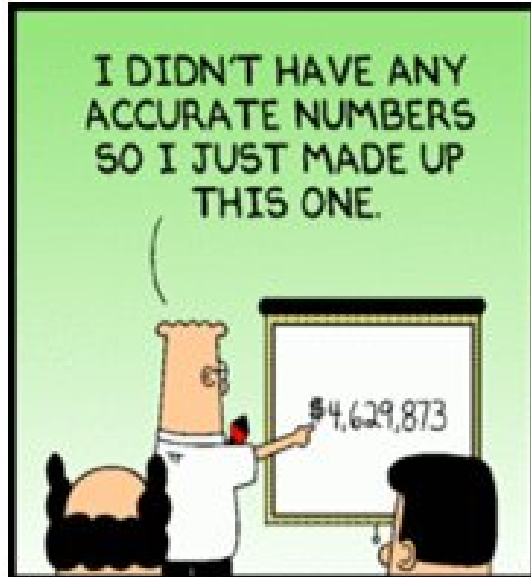
■ GASB 84 Fiduciary Activities

- Links to GASB Information
- Training resources given by SAO
- Evaluation for new potential fiduciary activity



GASB 87 (FY21) Leases

Accounting Humor?





GASB 87 Overview



GASB 87 – Overview



✓ So why did we need another new standard?

- Lease guidance predated GASB and didn't take the board's conceptual framework into consideration.
- Previous standards allow a lease to be structured in a manner that avoids reporting the economic substance of the transaction.
- Summed up by a quote from Chairman Vaudt:
 - “The new single model for reporting governmental leasing agreements is designed to result in greater transparency and usefulness for financial statement users. It also is meant to reduce complexity in application for preparers and auditors of governmental financial statements.”

GASB 87 - Overview



✓ On June 28, 2017, the GASB issued Statement No. 87, *Leases*. What does it provide?

- Establishes a single approach to accounting for leases where **ALL** leases are recognized by lessees on their balance sheet through a lease asset and corresponding lease liability
 - Currently, lessee entities are required to recognize capital leases with an asset and liability on the balance sheet and only disclose future obligations resulting from operating leases.
- The new standard also modifies a lessor's accounting for leases to align with the new lessee accounting.

GASB 87 – Overview



- ✓ **GASB 87 is based on the principle that *a lease finances the right to use an underlying asset.***
 - Offers guidance for nonfinancial assets, including vehicles, heavy equipment, and buildings
- ✓ **The standard does *NOT* apply to:**
 - It excludes nonexchange transactions—including donated assets
 - Intangible assets, biological assets, inventory, service concession arrangements, assets financed with conduit debt

GASB 87 - Overview



✓ In addition,

- A high capitalization threshold policy for leases should not result in a lack of reporting assets and liabilities that are material collectively.
- Fiscal funding/cancellation clauses that should not be taken into consideration unless the clause is reasonably certain of being exercised.
- Gone are the days of circumventing the reporting of capital leases by including the funding / cancellation clause.



Classification Measurement



Classification and Measurement



- ✓ **To qualify as a lease under the new standard a contract must “convey control of the right to use another entity’s nonfinancial asset for a period of time in an exchange or exchange-like transaction,”**
- ✓ **Two exceptions to this rule:**
 - Short-term leases (those with a maximum possible term of 12 months or less, including any extension options)
 - Leases that transfer ownership of a leased asset at the end of the term

Classification and Measurement



✓ For short-term leases

- Lessees are required to recognize payments made as outflows of resources while lessors should recognize payments received as inflows of resources based on the payment provisions of the contract.

✓ For contracts that transfer ownership of the leased asset without a termination clause,

- Lessees should record the contract as a financed purchase of an asset and lessors should record the sale of an asset.

Classification and Measurement



✓ Lessee will also report:

- Amortization expense of the intangible asset over the shorter of the life of the asset or the lease
- Interest expense on the lease liability
- Footnote disclosures about the lease.

✓ What is required?

- Upon commencement of a lease (the date the underlying asset is made available for use to the lessee) a lessee should recognize a lease liability and an intangible right-to-use lease asset:
 - Lease liability is initially measured at the present value of the lease payments, as described in the standard, over the lease term.
 - Lease asset is initially measured as the total of the initial lease liability; lease payments made to the lessor at or before the commencement date, net of any lease incentives received from the lessor; and initial direct costs to place the lease asset into service.

✓ What is required?

- The subsequent measurement of the lease liability and lease asset is similar to existing standards for capital leases:
 - Lease liability is increased for interest accrual and reduced when lease payments are made.
 - Lease asset is amortized on a systematic and rational basis over the shorter of the lease term or the lease asset's estimated useful life.
- A lessee's lease asset is subject to existing impairment guidance in GASB Statement No. 42.

✓ What is required?

- Lessee will also report amortization expense of the intangible asset over the shorter of the life of the asset or the lease, and will report interest expense on the lease liability and provide footnote disclosures about the lease.

Lessor



✓ What is required?

- Unless an underlying lease asset is reported as an investment in accordance with GASB 72 or the lease is subject to external laws, regulations, or legal rulings that meet certain conditions contained in the standard, a lessor is required to recognize a lease receivable and a deferred inflow of resources upon the commencement date of the lease:
 - Lease receivable is initially measured using the present value of the lease payments over the lease term, reduced by any provision for estimated uncollectible amounts.
 - Deferred inflow of resources is measured at the amount of the initial measurement of the lease receivable, plus any payments received at or before the commencement date that relate to future periods, less any incentives paid. A lessor records an inflow of resources—interest revenue, for example—on a systematic and rational basis over the lease term.

- A lessor isn't allowed to derecognize an underlying asset in any case.

Other Key Provisions



✓ Lease Term

- Included in the lease term is the noncancelable portion of the lease plus those periods the lessee and lessor are reasonably certain will remain in the lease. This includes:
 - Periods the lessee or lessor is able to extend to the lease and is reasonably certain to do
 - Periods when the lessee or lessor is able to but is reasonably certain not to terminate the lease

Other Key Provisions



✓ If the lease term changes

- A lessee remeasures the lease liability using revised inputs at the reassessment date and adjusts the lease asset accordingly.
 - However, if the lease asset is reduced to zero, a lessee recognizes any remaining amount in the resource flows statement—a gain, for example—in the period in which the lease term is reassessed.
- Similarly, a lessor remeasures the lease receivable and adjusts the deferred inflow of resources accordingly.

Lease Payments



- ✓ **The lessee or lessor should reassess variable lease payments that depend on an index or a rate only when the lease liability or lease receivable is reassessed for other reasons as discussed above.**
 - Reassessment isn't required solely because of changes to the index or rate.
- ✓ **A lessor should recognize payments for the exercise of a purchase option and lease termination penalties upon exercise.**

Lease Payments



- ✓ The lease payments included in a lessee's calculation of its lease liability and a lessor's calculation of its lease receivable should consist of....

LESSEE'S LEASE LIABILITY	LESSOR'S LEASE RECEIVABLE
Fixed payments	Fixed payments
Variable payments that depend on an index or rate	Variable payments that depend on an index or rate
Variable payments that are in-substance fixed payments	Variable payments that are in-substance fixed payments
Lease incentives receivable from the lessor	Lease incentives payable to the lessee
Amounts that are reasonably certain to be required to be paid by the lessee under a residual value guarantee	Residual value guarantee payments that are fixed in substance
Exercise price of a purchase option the lessee is reasonably certain to exercise	
Payments for lease termination penalties if the lease term reflects the lessee exercising an option to terminate the lease or a fiscal funding or cancellation clause	
Any other payments that are reasonably certain of being required	

Discount Rate



- ✓ **The discount rate used should be the rate charged by the lessor.**
 - When a lessee can't determine that rate, the lessee should use its incremental borrowing rate.
 - Discount rates should only be reassessed in the following instances:
 - Lessee. Upon a change in the lease term or a change in determination as to whether the lessee is reasonably certain to exercise a purchase option.
 - Lessor. Upon a change in lease term or a change in interest rate charged to the lessee.

Multiple Components



- ✓ **A government should account for contracts with lease and non-lease components, such as CAM services, as separate contracts.**
 - If a lease contains multiple underlying assets with different lease terms or in different major classes of assets, each underlying asset should be accounted for as a separate lease contract.
 - Contract price should be allocated to each component based on the prices for the individual components included in the contract.

Multiple Components



- If the contract doesn't include individual prices or the prices are unreasonable, contract price should be allocated using a best estimate, maximizing the use of observable information.
- If this isn't practicable, the components should be accounted for as a single lease component based on the terms of the primary lease component within the contract.

✓ **Will require a change to the form.**

Disclosures



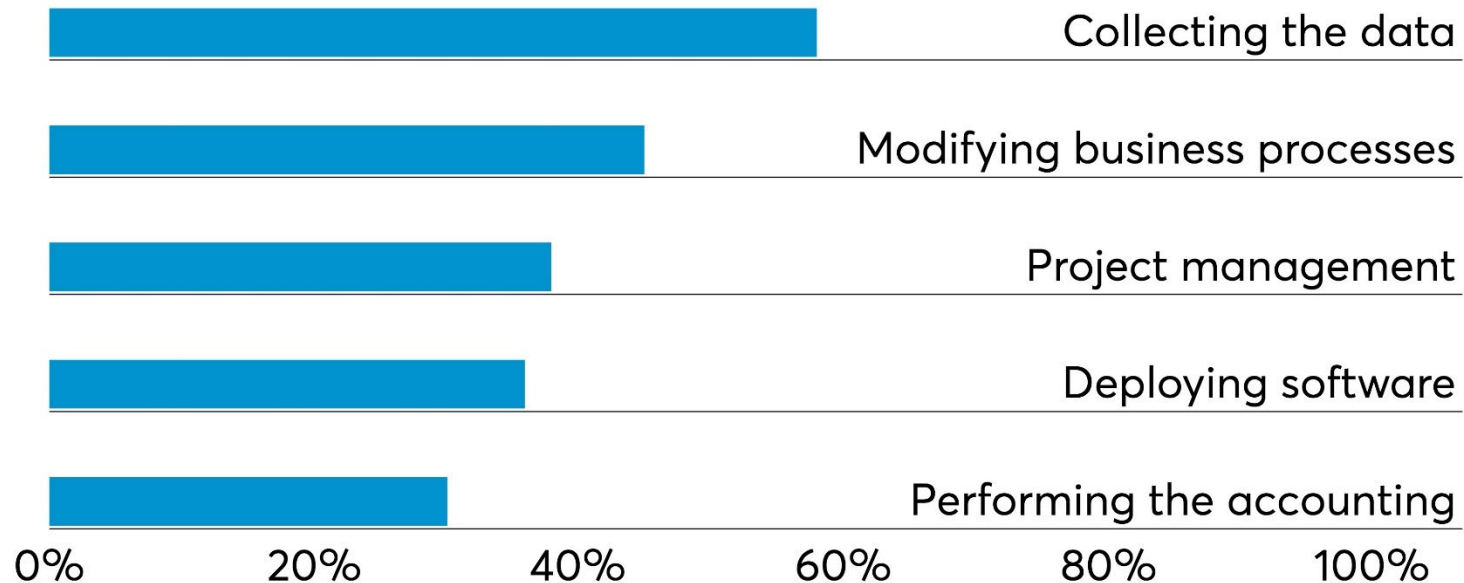
✓ Lessees and lessors are both required to provide a general description of their leasing arrangement. They're also obligated to disclose additional items.

LESSEES	LESSORS
Total amount of lease assets and related accumulated amortization	Inflows of resources recognized in a reporting period from leases
Lease assets by major class of underlying assets	Inflows of resources recognized in a reporting period for variable payments and other payments not previously included in the measurement of the lease receivable
Outflows of resources recognized in a reporting period for variable payments and other payments not previously included in the measurement of the lease liability	Existence, terms, and conditions of lessee options to terminate a lease or abate payments if the lessor has issued debt secured by the lease payments
Principal and interest requirements to maturity for each of the five subsequent fiscal years and in five-year increments thereafter	Relevant disclosures for: <ul style="list-style-type: none"> • Leases of assets that are investments • Certain regulated leases • Subleases • Sale-leasebacks • Lease-leaseback transactions
Commitments under leases before the commencement of a lease term	
Components of any loss associated with an impairment	
Relevant disclosures for: <ul style="list-style-type: none"> • Subleases • Sale-leasebacks • Lease-leaseback transactions 	

What's the problem?

Companies share their biggest obstacles to implementation of the new lease accounting standard.

● Percent



Source: LeaseAccelerator

GASB 87 - Leases



✓ The following steps should be taken soon.

- Determine if bond covenants or debt limit provisions need to be modified.
- Establish policies that can be applied to current leases being created and will be in effect when GASB-87 is implemented.
 - Identify capitalization thresholds for reporting leases.
 - Provide a framework that addresses “reasonably certain.”
 - Develop a framework that addresses the allocation process and procedures dealing with non-lease components of the lease agreement (maintenance, utilities, repairs, etc.)
 - Develop a system to capture the data related to lease terms, estimated lease payments and other components.

GASB 87 – Leases – Georgia Activities



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**
- ✓ **Surveys will be updated for FY20 lease data**
- ✓ **Due back to SAO after fiscal year 2021 year-end close**
- ✓ **Training and Implementation activities**
 - [GASB 87 Workshop \(6/6/19\)](#)
 - [GASB 87 Survey Workshop \(6/16/20\)](#)
 - [Links to GASB 87 training materials can be found on SAO's website:](#)
 - [https://sao.georgia.gov/policies-and-procedures/gasb-
implementations-0/leases](https://sao.georgia.gov/policies-and-procedures/gasb-implementations-0/leases)

GASB 87 – Leases – Georgia Activities



Key changes to expect in FY22:

- ✓ **Upcoming changes to the lease agreement data form for FY22**
- ✓ **Lessor reporting changes**
- ✓ **Copiers & postage meters WILL be reported as capital leases**
- ✓ **Accounting policies updates on SAO's Website**
 - <https://sao.georgia.gov/accounting-policy-manual>



GASB 96

GASB 96



- ✓ **On June 5, 2020, GASB released new reporting guidance for state and local governments that have subscription-based information technology (IT) arrangements.**
 - GASB 96 was created in response to questions that were left unanswered by GASB 87. The lease standard had a major impact on the public sector, requiring many entities to report leases on their balance sheets as “right-to-use assets” rather than sequester leasing activity to the income statement. The lease standard did not address how to record IT subscriptions.

✓ Why This Guidance Was Necessary

- Cloud computing has become ubiquitous in almost all areas of business. But cloud computing is often left out of the narrative. The accounting standards released by the GASB and those released by FASB have not always addressed cloud technology, and when software or data solutions are mentioned, the guidance often focuses on internally-developed software or perpetual licensing agreements. When software is purchased using a subscription, the standards fall short.

GASB 96



✓ Basics of the New Standard

- Governmental entities that utilize subscription-based information technology arrangements (SBITAs) or have plans to purchase subscription-based software in the future can learn the following from GASB 96:

✓ What Are SBITAs?

- “A SBITA is defined as a contract that conveys control of the right to use another party’s (a 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.”

GASB 96



- SBITAs are contracts that give governmental entities the right to use a vendor's IT software for a specified time in exchange for payment.
- For arrangements to qualify under GASB 96, the contract cannot be cancellable, and if there is a termination option at the end of the subscription term, it must be reasonably certain that neither the vendor nor the entity will exercise that option.
- SBITAs with terms of 12 months or less are excluded from these new reporting requirements and can be expensed as the IT services are utilized.

✓ How Should I Record SBITAs?

- If the software subscription meets the definition of a SBITA, the government should record a right-to-use intangible asset and a corresponding subscription liability at the present value of future subscription payments. They should discount their subscription payments using the stated or implied interest rate, or – if the interest rate is unavailable – at their incremental borrowing rate.

✓ Which Costs Should I Capitalize?

- All costs associated with the subscription service should be grouped into one of the following three categories.
 - Preliminary Product Stage (e.g. costs of evaluating SBITA vendors, assessing technology needs, etc.)
 - Initial Implementation Stage (e.g. installation fees, introductory training costs, etc.)
 - Operational and Additional Implementation Stage (e.g. IT system maintenance costs, ongoing training costs, etc.)
- In general, only expenses incurred in the Initial Implementation Stage (Stage 2) should be capitalized into the right-to-use subscription asset.

✓ What Else Should I Disclose?

- In addition to the terms and subscription values themselves, governments should disclose:
 - Information about contracts that include both SBITA and non-SBITA components and how the contract price was allocated between the two
 - Accumulated amortization for each right-to-use subscription asset
 - Principal and interest split for subscription payments
 - Payments to be made to the vendor not already reflected in the subscription liability



Internal Controls

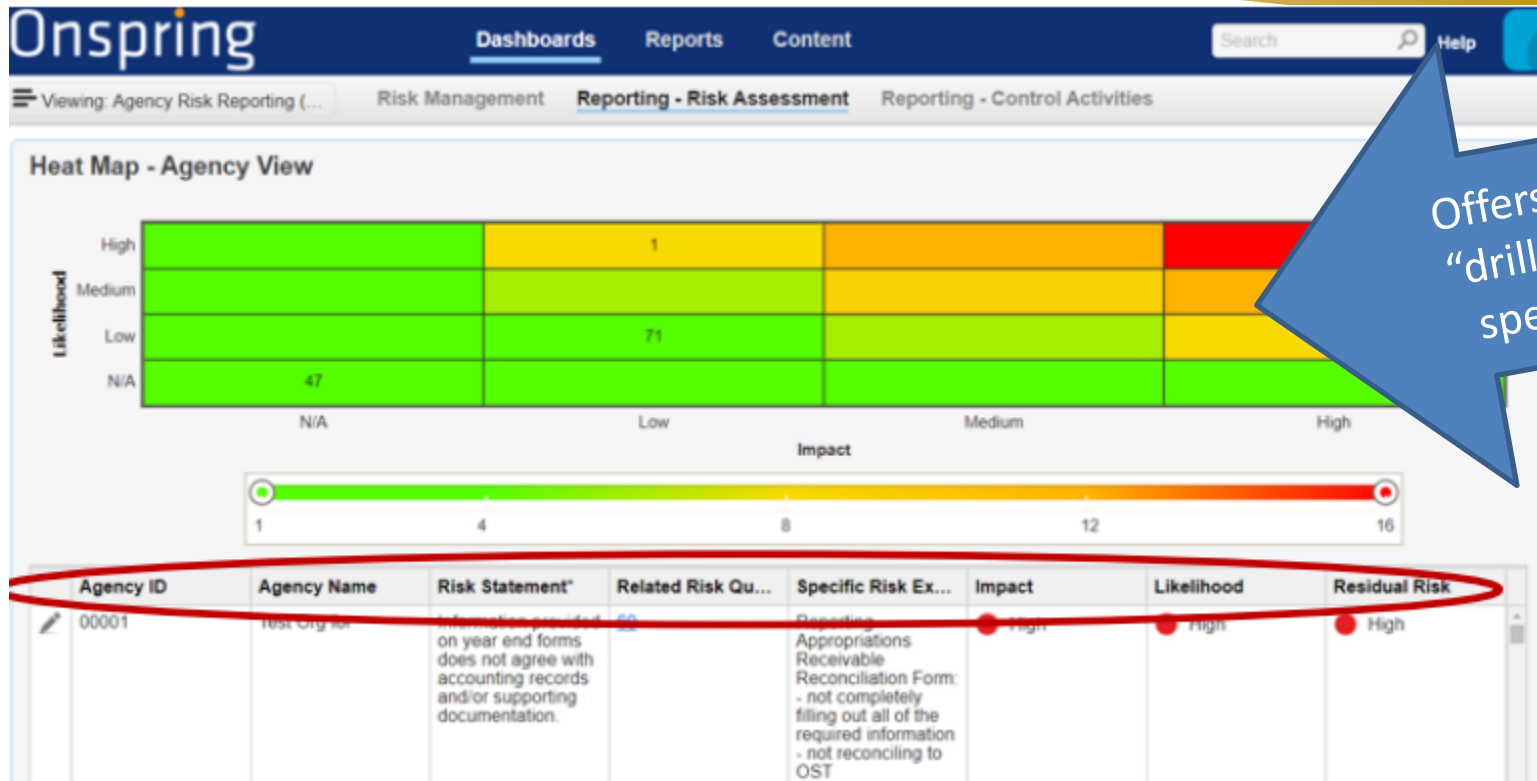


Internal Controls Reminder



- **Internal controls is an integral part of the operational processes and not a separate system.**
- **Onspring data and reports are accessible all year.**
 - Ongoing review for where internal controls could be improved, by analyzing various Onspring reports.

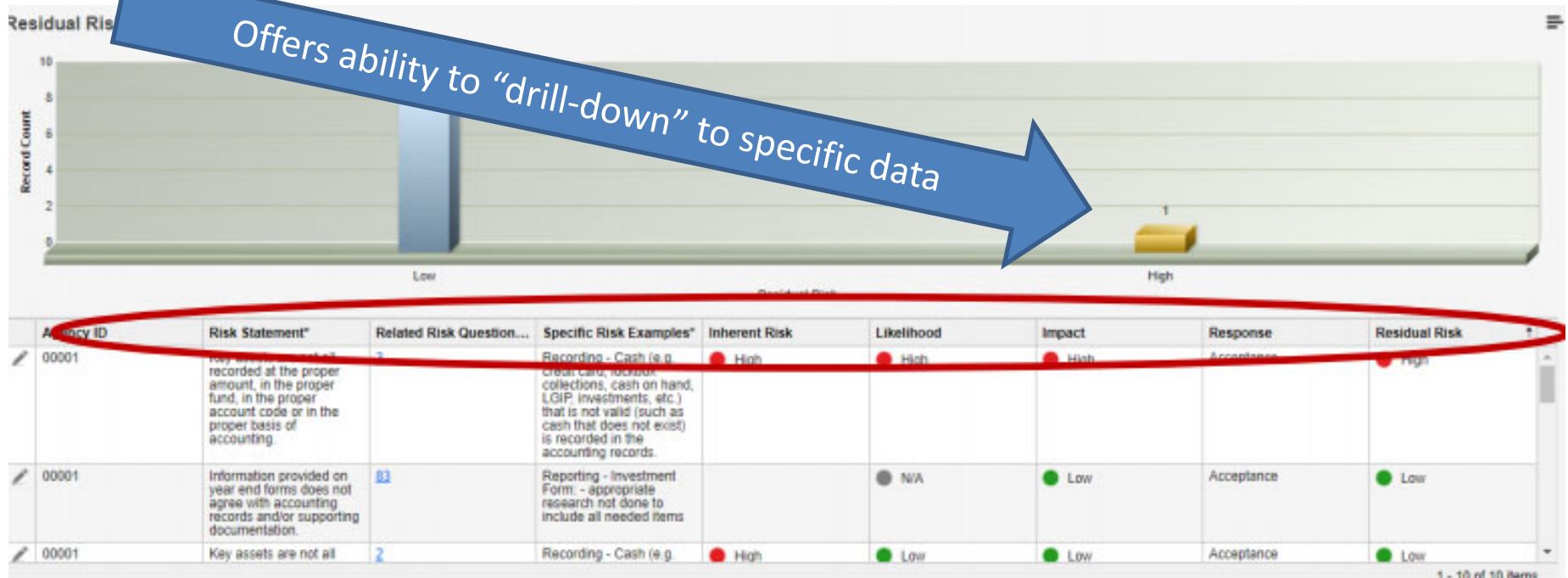
Reporting – Risk Likelihood/Impact report



Offers ability to “drill-down” to specific data

“Drill-down” in red or orange areas, and look for ways to reduce risk to green (lower risk level).

Reporting – Residual Risk report



“Drill-down” for steps with high residual risk, and consider implementing additional control activities to reduce to medium or low.

- Control activity libraries are a good place to review for controls to be implemented.

Control Activity Library report



Review Steps with "no" for Control Utilized

Onspring

Viewing: Control Activity Library S... Risk Management Reporting - Risk Assessment

Control Exceptions - Recording

<input type="checkbox"/>	Agency/Organization ID	Agency/Organization Name	Risk Statement	Control ID	Control Name	Detailed Description	Control Utilized?
<input type="checkbox"/>			Recording - Receivables are not recorded at the correct amounts in the accounting records.	ALL1	Written Procedures	Written procedures are established and regularly updated to ensure that knowledge is shared and retained. Procedures are included for all aspects, such as: accounting for transactions, financial close, reporting, etc.	<input checked="" type="checkbox"/> No
<input type="checkbox"/>			Recording - Receivables are not recorded at the correct amounts in the accounting records.	ALL2	Cross-Training	Cross-training of staff to ensure there is backup for critical departmental functions.	<input checked="" type="checkbox"/> No
<input type="checkbox"/>			Recording - Receivables that are not valid (such as receivables that are no longer collectible) are recorded in the accounting records (note: also consider State write-off limits).	ALL1	Written Procedures	Written procedures are established and regularly updated to ensure that knowledge is shared and retained. Procedures are included for all aspects, such as: accounting for transactions, financial close, reporting, etc.	<input checked="" type="checkbox"/> No

Review steps from library with no answers, and consider implementing these control activities to reduce risks.

Upcoming Submission to SAO



Control Environment due again **Fall:**

- Foundation for an internal control system.
- Overall, it establishes and documents the tone that personnel should “do the right thing”.

Prior to submission consider:

- Any changes?
 - Changes in leadership
 - Changes in policies (internal and statewide)
- Is it detailed?
- Do the answers tie to the Principle/Attribute?
- Is it complete?
 - Are all applicable Principles/Attributes addressed?

Questions?

