

GASB Update

Public Sector CPE

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GASB Statements

- Six GASB Statements issued in the first half of 2020
 - No. 92, *Omnibus 2020* (01/2020)
 - No. 93, *Replacement of Interbank Offered Rates* (03/2020)
 - No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (03/2020)
 - No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (05/2020)
 - No. 96, *Subscription-Based Information Technology Arrangements* (05/2020)
 - No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* (06/2020)

GASB Statements

- One GASB Statement issued in 2021
 - No. 98, *The Annual Comprehensive Financial Report* (10/21)
- Effective for fiscal years beginning after June 15, 2021:
 - No. 87, *Leases*
 - No. 92, Omnibus 2020
 - Paragraphs 6-7 - Intra-entity Transfers of Assets; DB Pension and OPEB Plans Not Administered through a Trust
 - Paragraphs 8, 9, and 12 - Pension and OPEB reported as Fiduciary Activities and Nonrecurring Fair Value Measurements
 - Paragraph 10 - Government Acquisitions

GASB Statements

- Effective for fiscal years beginning after June 15, 2021:
 - No. 93, *Replacement of Interbank Offered Rates*
 - Paragraphs 13-14 - Lease Modifications
 - No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*
- Effective for reporting periods beginning after December 15, 2021:
 - No. 91, *Conduit Debt Obligations*

Current Projects

- Conceptual Framework
 - Disclosures
 - Recognition
- Comprehensive Projects
 - Financial Reporting Model
 - Revenue and Expense Recognition
- Major Project
 - Going Concern Uncertainties and Severe Financial Stress

Current Projects

- Practice Issues
 - Classification of Nonfinancial Assets
 - Compensated Absences – Reexamination of Statement No. 16
 - Implementation Guidance – 2022 Update
 - Omnibus
 - Prior-period Adjustments, Accounting Changes, and Error Corrections – Reexamination of Statement No. 62

“Government accountants procrastinating on GASB leases standard”

Accounting Today – April 1, 2022

Control

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset for a period of time in an exchange or exchange-like transaction

- 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:
 - The right to obtain the present service capacity from use of the underlying asset as specified in the contract
 - The right to determine the nature and manner of use of the underlying asset as specified in the contract

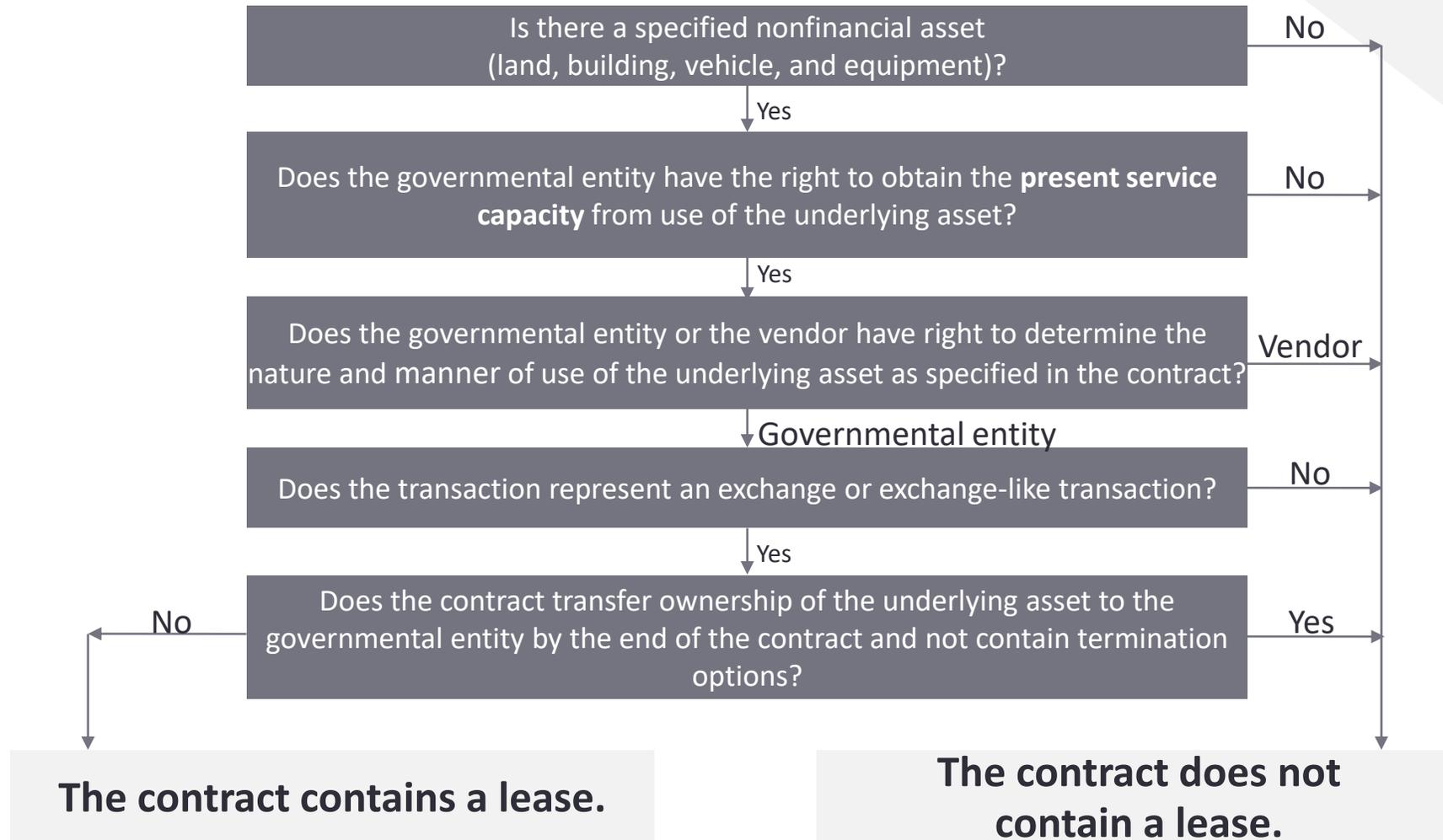
Embedded Leases

Contracts could contain both a lease component and a service component

- Advertising
- Information technology
- Transportation
- Construction

Contracts that Transfer Ownership

- A contract that:
 - Transfers ownership of the underlying asset to the lessee by the end of the contract
 - Does not contain termination options
 - May contain a fiscal funding or cancellation clause that is not reasonably certain of being exercised
- Should be reported as a financed purchase of the underlying asset by the lessee or sale of the asset by the lessor



Lease Term

Is the period during which a lessee has a noncancelable right to use an underlying asset (referred to as the noncancelable period), plus the following periods:

- 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
- 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

Short-term Leases

A lease with 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.**

- For a lease that is cancellable by either the lessee or the lessor, such as a rolling month-to-month lease, the maximum possible term is the noncancelable period, including any notice periods

Accounting for Lessees

	Right-to-Use Lease Asset	Lease Liability
Initial Recognition and Measurement	Recognize an intangible RTU lease asset measured as the sum of the lease liability, plus lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives, plus certain initial direct costs	Recognize a lease liability measured at the present value of lease payments expected to be made during the lease term using the applicable discount rate
Subsequent Measurement	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, subject to impairment	Lessee should calculate the amortization of the discount on the lease liability. Payments made should be allocated first to the accrued interest liability and then to the lease liability
Statement of Activities	Amortization of lease asset should be reported as an outflow of resources (e.g., amortization expense)	Report amortization of lease liability as an outflow of resources (e.g., interest expense)
Statement of Cash Flows	N/A	Cash flows including interest to be included within capital and related financing activities category as an outflow Cash payments on short-term leases should be presented as an outflow within operating activities

Accounting for Lessees

AMORTIZATION								
	Lease Liability					Right of Use Asset		
Month	Beginning Lease Liability	Payments	Interest	Reduction of Liability	Ending Lease Liability	Beginning ROU Asset	Amortization	Ending ROU Asset
1	\$43,007.48	\$ 763.18	\$92.53	\$ 670.65	\$42,336.83	\$43,007.48	\$716.79	\$42,290.69
2	\$42,336.83	763.18	\$91.09	\$672.09	\$41,664.74	\$42,290.69	\$716.79	\$41,573.90
3	\$41,664.74	763.18	\$89.64	\$673.54	\$40,991.21	\$41,573.90	\$716.79	\$40,857.11
4	\$40,991.21	763.18	\$88.19	\$674.99	\$40,316.22	\$40,857.11	\$716.79	\$40,140.32
5	\$40,316.22	763.18	\$86.74	\$676.44	\$39,639.78	\$40,140.32	\$716.79	\$39,423.53
6	\$39,639.78	763.18	\$85.29	\$677.89	\$38,961.89	\$39,423.53	\$716.79	\$38,706.73
7	\$38,961.89	763.18	\$83.83	\$679.35	\$38,282.53	\$38,706.73	\$716.79	\$37,989.94
8	\$38,282.53	763.18	\$82.37	\$680.81	\$37,601.72	\$37,989.94	\$716.79	\$37,273.15
9	\$37,601.72	763.18	\$80.90	\$682.28	\$36,919.44	\$37,273.15	\$716.79	\$36,556.36
10	\$36,919.44	763.18	\$79.43	\$683.75	\$36,235.69	\$36,556.36	\$716.79	\$35,839.57
11	\$36,235.69	763.18	\$77.96	\$685.22	\$35,550.47	\$35,839.57	\$716.79	\$35,122.78
12	\$35,550.47	763.18	\$76.49	\$686.69	\$34,863.78	\$35,122.78	\$716.79	\$34,405.99
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Accounting for Lessees

- Governmental Fund Financial Statements
 - An expenditure and other financing source should be reported in the period the lease is initially recognized.
 - Subsequent governmental fund lease payments should be accounted for consistent with principles for **debt service payments** on long-term debt.
- Note: Be aware of any budget amendments you may need to make before your fiscal year is over.

Accounting for Lessees

General Fund Journal Entries			
		DR	CR
199-51-6631	Vehicles	\$ 43,007	
199-00-7913	Other Financing Sources - Lease Proceeds		43,007
		\$ 43,007	\$ 43,007
<i>To record lease in the General Fund at inception.</i>			
199-71-6512	Principal on Lease Payments	\$ 8,143.70	
199-71-6522	Interest on Lease	\$1,014.46	
199-00-1110	Cash		\$9,158.16
		\$ 9,158.16	\$ 9,158.16
<i>To record principal and interest payments in the general fund from July 1, 2021 through June 20, 2022</i>			

Accounting for Lessors

	Lease Receivable	Deferred Inflow of Resources
Initial Recognition and Measurement	Recognize and measure the lease receivable at the present value of lease payments expected to be received during the lease term using the applicable discount rate, less any provision for uncollectible amounts	Recognize and measure the deferred inflow of resources at the amount of the lease receivable, plus lease payments received from the lessee at or before commencement that relate to future periods, less any lease incentives
Subsequent Measurement	Calculate the amortization of the discount on the lease receivable. Any payments received should be allocated first to the accrued interest receivable and then to the lease receivable.	Subsequently recognize decreases in the deferred inflow of resources in a systematic and rational manner over the lease term (e.g., straight-line)
Statement of Activities	Amortization of discount on lease receivable to be reported as an inflow of resources (e.g., interest revenue) Report any initial direct costs as outflows of resources (for example, expense) in the period incurred	Recognize the deferred inflow of resources as inflows of resources (e.g., revenue) in a systematic and rational manner over the term of the lease
Statement of Cash Flows	Classify the inflows consistent with how the underlying asset is classified on the statement of net position, that is, as an investing or capital and related financing activity Receipts on short-term leases normally should be presented as operating activities unless factors indicate classification as an investing activities inflow	N/A

Lease Recognition Threshold

- Must be adopted by each governmental entity
- GASB likens this to your threshold for capitalizing assets
- Materiality individually and in the aggregate should be considered
 - Right-to-use Asset
 - Lease Liability
- Consider the effect of threshold on note disclosures

Interest Rate

Explicit Rate, Implicit Rate, and Incremental Borrowing Rate

- The GASB concluded that the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease, is preferable because it is the rate at which the transaction is made.
- The GASB also concluded that if the interest rate implicit in the lease is not readily determinable, the lessee's estimated incremental borrowing rate is an acceptable alternative.
- Incremental borrowing rate = an estimate of the interest rate that would be charged for borrowing the lease payment amounts during the lease term

Comparative Financial Statements

Community Colleges

- Leases should be recognized and measured using the facts and circumstances that existed at the beginning of the period of implementation
- Implementation has to be as of the earliest period presented in the financial statements
- Does not refer to the comparative schedules in the MD&A
- Community Colleges in Texas will need to implement as of 9/1/2020
 - Financial statements presented are as of 8/31/2022 and 8/31/2021

What is Excluded?

- Biological assets
- Conduit debt financings
- Inventory
- Intangible assets (ex. Licensing contracts for computer software)
- Service concession arrangements (Statement No. 60)
- Short-Term Leases
- Supply contracts (ex. power purchase contracts)

Audit Requests (i.e. PBC List)

- Inventory of all leases that includes start date, end date, present value of future lease payments, payment schedule, interest rate
- Lease agreements and contracts
- Support for interest rate used (explicit, implicit, or incremental borrowing rate)
- Lease accounting policy and procedures, including your lease recognition threshold
- Journal entries to establish right-to-use assets and lease liabilities
- Lessors: Schedules for lease receivables and deferred inflow of resources
- Lessees: Amortization schedules for right-to-use assets and lease liabilities
- Lessees: Leased asset roll forward schedule, including current year amortization and accumulated amortization

Statement No. 96, Subscription-Based Information Technology Arrangements

- Issued in May 2020
- Defines a SBITA, establishes that a SBITA would result in a right-to-use asset and a corresponding liability, provides capitalization criteria, and requires new note disclosures
- Effective for fiscal years beginning after June 15, 2022

Definition of a SBITA Under Statement No. 96

- 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
- Examples include
 - Software as a Service (SaaS)
 - Platform as a Service (Paas)
 - Infrastructure as a Service (IaaS)

GASB 96 is similar to GASB 87

- The standards for SBITAs are based on the standards established in Statement No. 87, *Leases*
 - Conveys control, right to use
 - Exchange or exchange-like transaction
 - Right-to-use subscription asset, subscription liability
 - Subscription term
 - Short-term exception

Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

- Issued in June 2020
- Clarifies which entities should be included in a set of financial statements
 - A financial reporting entity is a stand-alone government and all entities for which it is financially accountable, known as component units
 - Entities with no governing bodies is the same as if the stand-alone government appointed a voting majority of the hypothetical governing body
 - Exception was provided for defined contribution pension plans, defined contribution OPEB plans, and certain Section 457 plans
 - No financial burden for DC pension plans and DC OPEB plans administered through a trust

Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

- Section 457 plans that meet the definition of a pension plan must apply the appropriate pension standards (GASB 67/68)
 - Included in the financial statements of another government or
 - Issue stand-alone financial statements
- In most cases, 457 plans will be determined to be defined contribution pension plans. Defined contribution pension plans:
 - Provide individual accounts for each plan member
 - Define required employer contributions, and
 - Provide pension distributions to plan members which depend only on the contributions to and investment earnings of the plan member's account

GASB Implementation Guide No. 2021-1, Implementation Guidance Update – 2021

Capitalization Policy

- Should a government's capitalization policy be applied only to individual assets or can it be applied to a group of assets acquired together?
- Consider a government that has established a capitalization threshold of \$5,000 for equipment. If the government purchases 100 computers costing \$1,500 each, should the computers be capitalized?

GFOA Certificate of Achievement for Excellence in Financial Reporting

Net Investment in Capital Assets

- Beginning March 1, 2022, applications submitted will require an additional uploaded document (PDF or Excel) containing the calculations of net investment in capital assets reported on government-wide statements of net position for both governmental and business-type activities, as applicable.
- There is no required format for this calculation but, if desired, applicants may access GFOA's template to use as a guide.



Questions? Thank you!



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