

Welcome to Financial Reporting Updates – New GASB Standards

Our presentation will begin at the top of the hour

Housekeeping Notes

- Attendees are automatically muted for audio quality.
- Please direct technical questions to outreach@osc.ny.gov.
- This class is being recorded for future on-demand viewing.
- Please complete the post-conference survey you receive to help us improve your OOO Fall Conference experience.



Financial Reporting Updates - New GASB Standards

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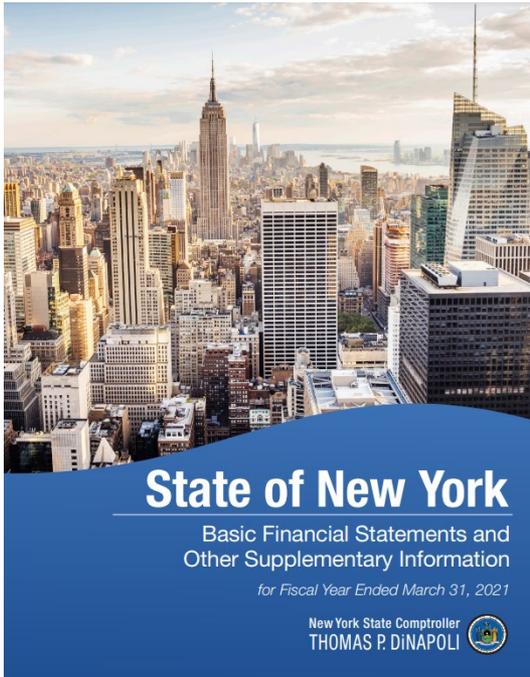
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NYS COMPTROLLER
THOMAS P. DiNAPOLI

Why These Projects are Important



- Annually, the State Comptroller is required to compile financial statements.
- These are audited to determine their conformity to GAAP.
- Based upon the data in the financial statements, as well as the audit opinion, credit rating agencies will make determinations on the riskiness of NY State debt.



GASB's Recent Activity

- Governmental Accounting Standards Board (GASB) has had an increased tempo in major accounting pronouncements
 - GASB 83 Asset Retirement Obligations (effective FY 21)
 - GASB 84 Fiduciary Activities (effective FY 21)
 - GASB 87 Leases (effective FY 23)
 - GASB 94 Public-Private Partnership Agreements (effective FY 24)
 - GASB 96 Subscription-Based IT Arrangements (SBITA) (effective FY 24)



New Accounting and Reporting Requirements for Lease and Lease-like Agreements

Leases (GASB 87)

- Implementation Date
 - Year-end 3/31/2023
- All land, building, equipment, vehicle and embedded leases

Public-Private Partnership Agreements (GASB 94)

- Implementation Date
 - Year-end 3/31/2024
- Agreements between a government and an operator to provide public service by conveying control of an asset

Subscription-Based IT Arrangements (GASB 96)

- Implementation Date
 - Year-end 3/31/2024
- All agreements for government use of IT software on a subscription basis, similar to a lease

**We're all still
in this together!**



What does this mean for your agency?

- Since last winter, we have been working with every agency to identify all applicable agreements related to GASB's statements on leases, public-private partnerships, and subscription-based IT arrangements.
 - Currently wrapping up our work and will pass the information over to our auditors for them to review.
 - May have follow-up questions.
 - Based upon our work, we will be able to update our materiality threshold.
- Early in 2022, we will be hosting additional training on how to review the applicable agreements that are above our new threshold.
 - Many crucial data points require agency knowledge.
 - We will train and provide templates to aid agencies in their decision making and documentation process.
- Later in 2022 and 2023, we will work with agencies to implement GASB statements on public-private partnerships and subscription-based IT arrangements.



Types of Contracts



Leases

(GASB Statement 87)

- Definition
 - A contract (e.g., an agreement between two or more parties that creates enforceable rights and obligations) 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.
- How is this definition any different than the existing definition?



Leases

(GASB Statement 87)

Included*	Not Included*
<ul style="list-style-type: none"> • Real Property 	<ul style="list-style-type: none"> • Short-term leases (12 months or less)
<ul style="list-style-type: none"> • Equipment 	<ul style="list-style-type: none"> • Leases that transfer ownership
<ul style="list-style-type: none"> • Vehicles 	<ul style="list-style-type: none"> • Leases of intangible assets
<ul style="list-style-type: none"> • Servers 	<ul style="list-style-type: none"> • Leases of biological assets
<ul style="list-style-type: none"> • Printers/Copiers 	<ul style="list-style-type: none"> • Leases of Inventory
<ul style="list-style-type: none"> • Watercoolers 	<ul style="list-style-type: none"> • Supply Contracts (purchase power agreements)

**This is not an exhaustive list of examples.*



Leases

Embedded Leases

A lease agreement that exists within a contract conveying the right to control the identified asset for an agreed-upon time period.

- Example
 - Server and/or warehouse storage space within a GASB 96 SBITA contract.



Leases

Updates

- New dollar threshold
- BFR Review Timeline
 - Completeness to be finished by the end of October.
 - BFR completeness to be reviewed by external auditors.
 - Implementation of technological solutions around the corner. (SFS and third-party)



Public-Private Partnership (GASB Statement 94)

- Definitions

- **Public-private and public-public partnership arrangements (PPPs):** An arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right-to-operate or -use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.
- **Availability payment arrangement (APA):** An arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. APAs are considered a financing transaction.

**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.*



Public-Private Partnership (GASB Statement 94)

- Definitions (continued)
 - **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.



Public-Private Partnership (GASB Statement 94)

- Types of agreements we have found so far
 - SCA agreements are the most common
 - Agreement is between a NYS agency (transferor) and another entity, PBC or private company (operator) to manage a physical asset of NYS
 - NYS receives significant compensation: monetary, construction or improvement of a physical asset
 - APA agreements
 - Payments to a firm to design and construct a physical asset
 - Payments over time and beyond the completion of the building



Public-Private Partnership (GASB Statement 94)

- OSC is not expecting agencies to make a final determination as to the applicability of GASB 94, but only to identify arrangements that could meet the definition of a PPP or APA, and identifying those arrangements on the contract evaluation template.
- Agencies should retain documentation in the GASB 87 contract evaluation template to identify arrangements that are subject to GASB 94.



Subscription-Based IT Arrangements (GASB Statement 96)

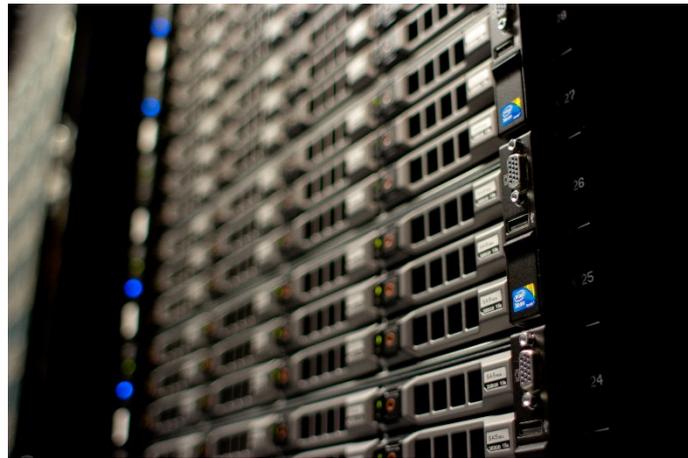
- Definition

- 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.



Subscription-Based IT Arrangements (GASB Statement 96)

- Hardware components and subscription-based components must be separated, which may require allocation of costs.
- Agencies should retain documentation in the GASB 87 contract evaluation template to identify arrangements that are subject to GASB 96.



Subscription-Based IT Arrangements (GASB Statement 96)

- Types of agreements we have found so far
 - Some have unlimited renewals
 - Very large software agreements (perpetual or subscription) frequently have lease components
 - If the software license is perpetual, it is not a SBITA, but may be an intangible asset



Intangible Assets



Intangible Assets

Have the following characteristics:

Lack of physical substance

Nonfinancial Nature

Initial useful life extending beyond a single reporting period

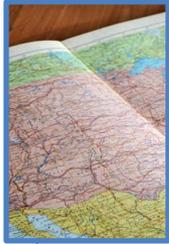
Must be Identifiable:

Asset must be capable of being separated or divided from the government, or

The asset arises from contractual or other legal rights.



Intangible Asset Examples



Easements and other land use rights.



Copyrights, patents, and trademarks.



Certain purchased, licensed, or internally-generated software and agency-owned websites.

Please refer to the following *Guide to Financial Operations* (GFO) section for more information about capitalization of costs related to internally generated intangible assets:

XVI. Financial Reporting > 4. Accounting Policies and Principles Applicable to Agencies > H. Intangible Assets



Intangible Asset Reporting

Additions Criteria

Increase in Functionality

- Computer software can perform new tasks it was previously incapable of performing.

Increase in Efficiency

- Level of service provided by the computer software increases.

Extends Useful Life

- Modifications to defer obsolescence.



Agency Role

Identifying Contracts and Reporting to OSC



Outline of Major Steps

- ~~Initial agreement inventory (GASBS 87, 94 & 96)~~
- Review and analysis of GASB 87 contracts
- Implementation of new policies and procedures
- Reporting of agreement activity
- Review of assumptions



Next Steps:

- Remember to track all new agreements that fall under these standards and are above the established materiality on an ongoing basis.
- The analysis of GASB 94 & 96 will be done at a later date.
- For agreements applicable to GASB 87.
 - We will provide instruction on how to capture data needed as well as to document your reasonably certain positions.



Reasonably Certain – Agency Responsibility

- Reasonably certain is a high threshold of probability that must be met to include optional lessee payments in the measurement of lease assets and lease liabilities.
- Lessee has a compelling economic reason to exercise the renewal or purchase option (or not to exercise a termination option).
- Consider all economic factors relevant to the assessment.
 - Significant economic incentive (market rates)
 - Significant economic disincentive (cost to terminate)
 - Abandonment of significant leasehold improvements
 - Costs of identifying another suitable underlying asset
 - Costs of returning the underlying asset in a contractually specified condition or location
 - Condition of the asset
 - History of exercising the options to extend or terminate
 - The extent to which the asset underlying the lease is essential to the provision of government services



Reasonably Certain – Agency Responsibility

- Utilize a format that includes a structured and documented process
- OSC Resources – Reasonably Certain Template



Reasonably Certain Template

	A	B	C	D	E	F
3					Reasonably Certain Criteria - higher threshold than "more	
4	Reasonably Certain Yes - reasonably certain to exercise No - reasonably certain to not exercise	Type	Definition	Lease Component	Market-based factors, i.e. option period amounts are favorable with current market rates	Contract-based factors, i.e. Costs to terminate the lease (negotiation costs, relocation costs, substantial cancellation penalty, etc.) are a disincentive to negotiate another lease)
5	Yes - we are reasonably certain to exercise the option period and extend the lease term beyond the initial period	Option periods	Periods in a lease agreement that extend the lease beyond the initial lease period	Lease term	Rent costs during option period are 50% lower than current market rates	
6	No - we are reasonably certain to stay through the lease term and will not exercise the cancellation clause	Cancellation clause	A clause in a lease agreement that allows termination by either the lessee, the lessor, or both	Lease term		The termination penalty exceeds remaining rent payments owed.
7						



Other GASB Pronouncements



GASB 83 – Certain Asset Retirement Obligations (AROs)

ARO Definition

- A **legally enforceable** liability associated with the retirement of a tangible capital asset

This includes liabilities related to:

- Retirement of a tangible capital asset
- Disposal of a replaced part of a tangible capital asset
- Environmental remediation associated with the retirement of a tangible capital asset



Asset Retirement Obligations

AROs are **legally** enforceable.



Approval of Federal, State, or local laws or regulations



Creation of a legally binding contract



Issuance of a court judgement



Asset Retirement Obligations

Examples of assets that may have associated AROs:	Examples of items which do not fall under the scope of GASB 83:
<ul style="list-style-type: none">Nuclear reactors	<ul style="list-style-type: none">Obligations that arise solely from a plan to dispose of a tangible capital asset
<ul style="list-style-type: none">X-ray machines and certain laboratory equipment	<ul style="list-style-type: none">Landfill closure and postclosure care obligations
<ul style="list-style-type: none">Sewage treatment plants and water treatment plants	<ul style="list-style-type: none">Obligations associated with capital asset maintenance
<ul style="list-style-type: none">Dams	<ul style="list-style-type: none">Obligations related to pollution remediation, such as asbestos removal, due to other-than-normal operation of an asset



Measurement of AROs

- AROs should be recognized when the liability is incurred (when there is an external obligating and internal obligating event) and reasonably estimable.
- AROs should initially be valued at the “best estimate of the current value of outlays expected to be incurred” and thereafter evaluated annually for adjustments.

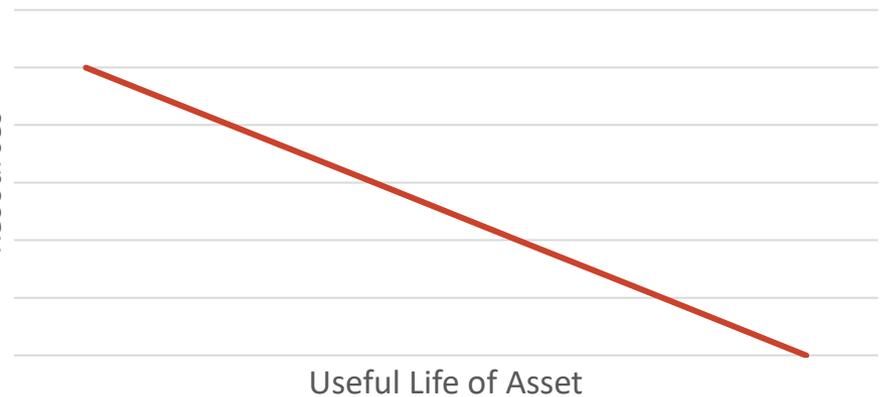
Initial Measurement 4/1/XX (Current Value)

Deferred Outflow (ARO)	XXX	
ARO Liability		XXX
<i>Initial Measurement</i>		

Amortization of Deferred Outflow over Life of Asset

Expense	XXX	
Deferred Outflow (ARO)		XXX
<i>Write down of Deferred Outflow</i>		

Deferred Outflows of Resources



Reporting an ARO to OSC

We collect the following information about AROs:

- Asset and asset description
- The external obligating event (what is the legal requirement to retire the asset?)
- Statutory reference (if required by State, Federal, Local Law or regulation)
- Asset's estimated remaining useful life
- Estimated cost to retire
- Method used to estimate cost
- Any funding or assurance provisions (if applicable)



GASB 84 – Fiduciary Activities

- GASB 84 enhanced guidance regarding identification and reporting of fiduciary activities.
- Due to the implementation of GASB 84, some former agency funds are now reported with the governmental funds.

Example

Pre-GASB 84*

Agency Funds

60150

60801

60901

Post-GASB 84*

General Fund

60901

Special Revenue Funds

60801

Custodial Funds

60150

* Not inclusive of all funds that have moved due to the implementation of GASB 84



GASB 84 – Fiduciary Activities

- We may need to know if there are any **changes in processes** that affect movement between a fund beginning with a “6” (6XXXX) and a governmental fund (for example, fund 10050).



Questions?

Contact Us:

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