

Changes to Financial Reporting Requirements for Certain NYS Contracts

(Leases, Public-Private Partnership Agreements, Subscription-based IT Arrangements)

Identifying and Reporting Information to OSC

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Agenda

- Overview of the New Reporting Requirements
 - Where did it come from and why must we comply?
 - Timeline for Implementation and Where We Are Now
- Define Types of Contracts
 - Leases
 - Public-Private Partnership Agreements
 - Subscription-based IT Arrangements
- Agency Role for Identifying and Reporting to OSC
 - Steps Needed to Identify All Contracts
 - Required Elements to be Reported



Overview



GASB's Recent Activity

- What is GASB?
 - The accounting and financial reporting standard setting body for State and local governments
- Why must we adopt these standards?
 - Increased transparency to financial statements users
 - Unmodified audit opinion



New Accounting and Reporting Requirements

Leases (GASB 87)

- Implementation Date
 - Year-end
3/31/2023
- Lessee Accounting
 - Lease Liability
 - Intangible Right-To-Use Asset
- Lessor Accounting
 - Lease Receivable
 - Deferred Inflow of Resources

Public-Private Partnerships (GASB 94)

- Implementation Date
 - Year-end
3/31/2024
- Operator
 - Liability
 - Intangible Right-To-Use Asset
- Transferor
 - Receivable
 - Deferred Inflow of Resources

Subscription-Based IT Arrangements (GASB 96)

- Implementation Date
 - Year-end
3/31/2024
- Subscriber
 - Subscription Liability
 - Intangible Right-To-Use Subscription Asset

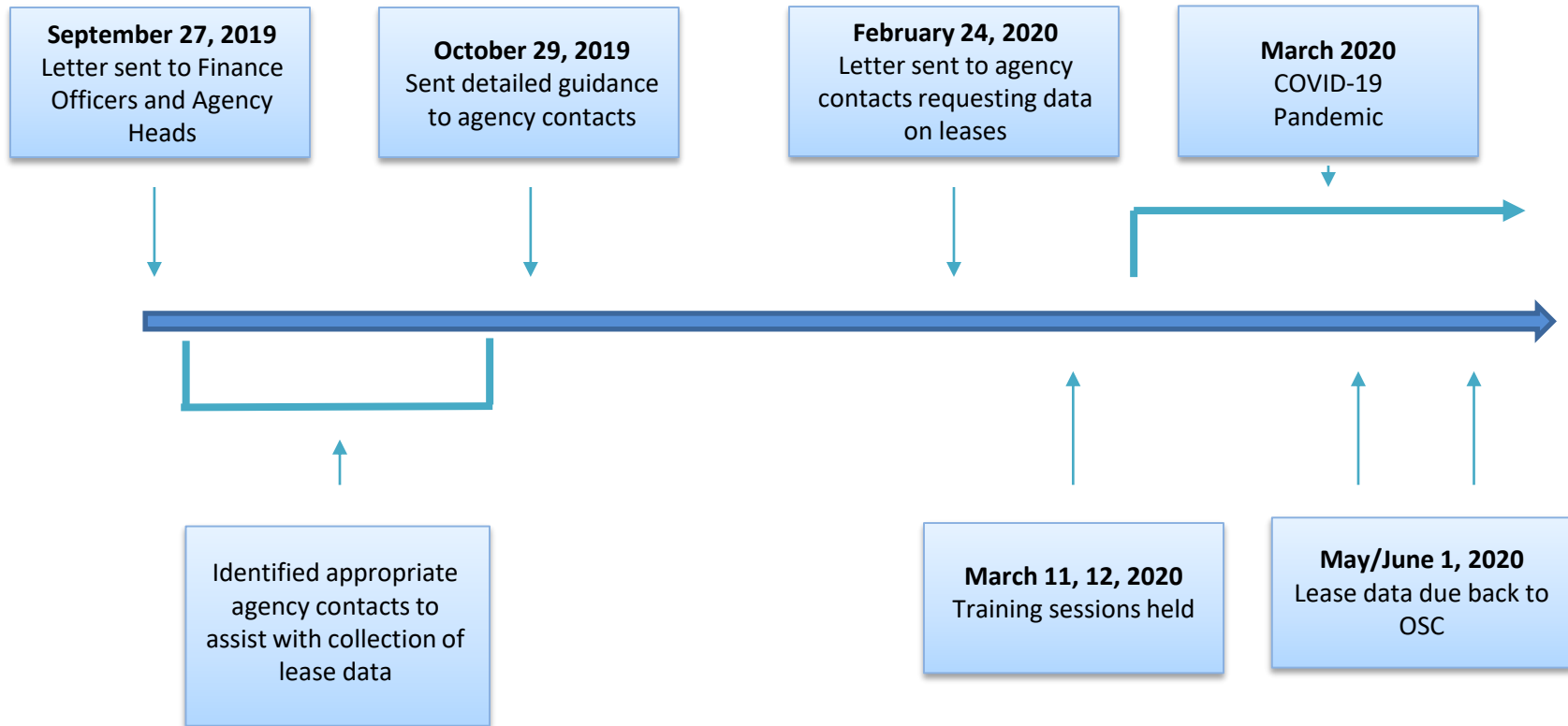


What does this mean for your agency?

- Contract execution is decentralized – agency staff will need to understand the new requirements to analyze contracts and determine applicability on an ongoing basis.
- Business processes will need to be refined so leases and modifications can be identified and analyzed going forward.
- A complete population of contracts will be required to be evaluated to determine whether they will meet definitions of leases, public-private partnerships, or subscription-based IT arrangements



Implementation Timeline



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.*



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)

- Examples

- 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.
- 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.
- The State enters into an agreement with a building authority to design/construct/operate a toll bridge.



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.
- If an SCA is identified, you should start reporting it under GASB 60 immediately.
- 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)

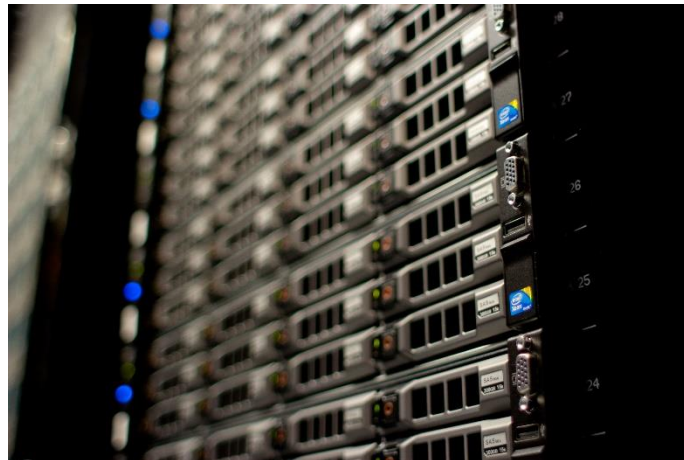
- Definition

- 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 94.



Agency Role

Identifying Contracts and Reporting to OSC

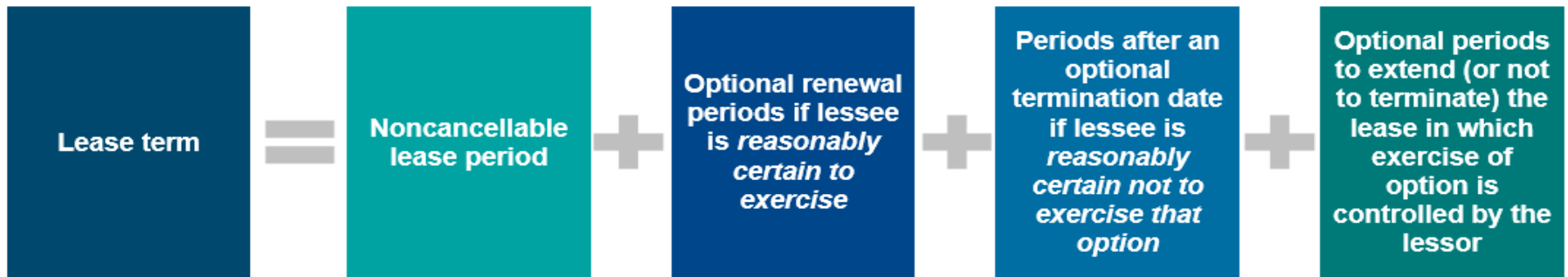


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For example... Determining Lease Term



The lease term is determined at the commencement date (i.e. the date the underlying asset is available to the lessee)!



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						



Next Steps and Additional Resources

- Agencies
 - Upon receiving guidance and instructions from OSC, take a second look at contracts
 - Identify those contracts that fit into the three types of contracts discussed (leases, PPPs, SBITA)
 - Submit information on lease population to OSC
 - Develop an internal process to identify new contracts that meet these definitions
- OSC
 - Provide a template and additional guidance to agencies for identification of population
 - Explore options for system to properly record lease information and calculate correct valuations
 - Update our web site to provide helpful resources and tools



Questions?

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