



mGO.

2024 GFOAT FALL CONFERENCE

Tales from the Crypt: Lessons Learned from the Haunting of Leases and SBITA

Presented by
Philip Stringer, CPA
Assurance Senior Manager

October 31, 2024

Introduction

Philip Stringer, CPA | State and Local Government Senior Manager

Philip is an assurance senior manager in MGO's State and Local Government practice. He has more than 18 years of professional experience primarily providing auditing, accounting, and consulting services to the public sector. Philip is focused on an array of auditing, accounting, financial, and operational assignments for large state and local government clients of all types and sizes at both the state and local level. He is privileged to serve rapidly growing urban counties, cities, and other municipalities. Philip also serves as a member of the GFOA Special Review Committee for Certificate of Achievement for Excellence in Financial Reporting Program.

Before joining MGO, Philip was a managing senior auditor in the Texas State Auditor's Office. There, he served the state of Texas by focusing on the annual audit of the state's Annual Comprehensive Financial Report which included audits of the largest state agencies.

A native Texan born in Tyler, Philip has seen miles and miles of Texas. He knows all the words to Texas, Our Texas (but will not sing it), and he currently resides in College Station.



Reflection

In general, GASB is busy!

Today's focus is "recent standards"

- GASB 87 = Implementation FYE 2022
- GASB 96 = Implementation FYE 2023
- Omnibus
- Implementation Guides



Agenda

01 Accounting

02 Presentation

03 Disclosures



Polling Question

For your organization or as an auditor, the leases and subscriptions are being managed and tracked, as follows:

- A. Financial Statement Preparer – using software designed for lease and subscription management.
- B. Financial Statement Preparer – using excel and/or other manual methods.
- C. Auditor – my clients are primarily (greater than 50%) using software designed for lease and subscription management.
- D. Auditor – my clients are primarily (greater than 50%) using excel and/or other manual methods.
- E. Other



Accounting

Accounting



POLICIES AND PROCEDURES



CALCULATION

Accounting – Policies and Procedures

Identifying New Lease Contracts

- Know where to go for contracts - Larger governments are more decentralized!
- Developing a good “decision model”
- Educating finance staff, especially departmental finance staff in larger governments, on how to identify potential leases/subscriptions.
- GASB Implementation Guide No. 2023-1 (#4.8 SaaS, PaaS, IaaS)
- Difficulties with older contracts and poor file management. Especially property management.
- Auditor’s perspective: Management’s assertion over “completeness”

Accounting – Policies and Procedures

Materiality Thresholds for Applying Principles?

- Many ranges of “thresholds” being used ... no real consistency.
- Much larger thresholds for leases and subscriptions, than typical capital assets.
- Raising the threshold to reduce accounting burden.
- Auditor’s perspective: be weary of possible misstatements and consider impact by “opinion unit”.

Accounting – Policies and Procedures

How do you define “exchange or exchange-like”

- Lack of guidance. The typical example of \$1/year lease payment between a City and School District doesn't reflect real world questions.
- What about below market lease provisions?
- Consider materiality and other qualities?
- Auditor's perspective: document relevant considerations and government should consider disclosure.

Accounting – Policies and Procedures

Amendments - What process do you have to identify and evaluate impact of changes?

- Seeing more frequency of “amendments” on the real estate side.
- When does a change cause a modification or termination?
- What about other changes that cause remeasurement?
- Auditor’s perspective: audit risk increases with changes to contracts and accuracy of reflecting changes. Risk further increases in a manual environment.

Accounting – Calculations

Lease Term?

- Most people seem to be getting this right.
- Management should memorialize decisions.
- GASB Implementation Guide No. 2023-1 (#4.7 auto renew for subscriptions)
- Auditor's perspective: The lease term is significant to the calculation!

Accounting – Calculations

IBR – How will the interest rate be determined at commencement of lease?

- IBR = Incremental Borrowing Rate (vs explicit or implied rates)
- This continues to be an issue!
- Commencement of lease/subscription! Not a one-time rate.
- Auditor's perspective: reasonableness ... what is source and is the correct facts being used ... date, duration, credit spread, etc.

Accounting – Calculations

Other Calculation Considerations

- Multiple-components continues to be challenging.
- Determining the fixed and variable components to calculation.
- Auditor's perspective: Impact to liability and proper classifications/disclosures.

Accounting – Calculations

Determine Carrying Value of Leased Asset and Amortization

- Costs to place asset into service for leases.
- Subscriptions are different than leases in this regard!
- Stage 2: Outlays associated with activities in the initial implementation stage generally should be capitalized as part of the subscription asset ... WIP.
- While in WIP ... when does term commence?
- GASB Implementation Guide No. 2023-1 (#4.9 commence after initial implementation stage)
- Auditor's perspective: existence and accuracy

Accounting – Calculations

Receivables/Deferred Inflows of Resources

- Seeing less consistency on applying amortization to deferred inflows of resources.
- Straight line vs effective interest method.
- Auditor's perspective: Not a significant audit risk



Polling Question

GASB “Implementation Guides”, under current hierarchy of generally accepted accounting principles (GAAP), are considered what?

- A. Authoritative GAAP, Category A
- B. Authoritative GAAP, Category B
- C. Other sources

Polling Question Answer

GASB “Implementation Guides”, under current hierarchy of generally accepted accounting principles (GAAP), are considered what?

- Authoritative GAAP, Category A
- Authoritative GAAP, Category B
- Other sources

- a. Officially established accounting principles—Governmental Accounting Standards Board (GASB) Statements (Category A)¹
- b. GASB Technical Bulletins; GASB Implementation Guides;² and literature of the AICPA cleared by the GASB³ (Category B).



Presentation

Presentation

Governmental Funds – Modified Accrual

- Long-term receivable is different than long-term liability.
- Classification of lease revenues and interest.
- Classification of rental expenditures and the amounts treated as debt service.
- Conversion to government-wide is still a challenge.
- Don't forget about capital outlay and other financing sources!
- Auditor's perspective: high risk for missing amounts and improper classifications

Presentation

Proprietary Funds

- Same treatment as government-wide, full accrual.
- Primarily non-operating interest expense and related cash flow statement impacts.
- Missing non-cash items for acquisition.
- GASB Implementation Guide No. 2023-1 (4.6 operating revenue)
- Also, many BTAs utilize a two-year presentation ... so earliest year presented was a challenge
- Auditor's perspective: higher risk for missing amounts and improper classifications

Presentation

Do you have a discretely presented component unit? Making sure the DPCU implemented correctly and mapping the changes.

- Timing issues when DPCU does not implement on primary government's timeline.
- Lack of information ... communicate early.
- Auditor's perspective: higher risk for proper presentation

A crow is perched on the top edge of a wooden sign. The sign is made of several horizontal planks and is mounted on a single vertical post. The word "Disclosures" is written in a yellow, handwritten-style font on the middle plank. The background is a dark blue, cloudy sky with a large, bright, circular moon or sun partially obscured by the sign. The overall mood is mysterious and somber.

Disclosures

Disclosures

MD&A

- Good guidance from GASB Statement 100! Do not restate years prior to implementation ... instead, footnote the restatement and explain.
- Include the leases and subscription activity in capital assets and long-term financing sections.
- Auditor's perspective: low risk for RSI

Disclosures

Summary of Significant Accounting Policies

- Deficiencies of reporting restatements
- Deficiencies of disclosure related to capital assets, long-term obligations and deferred inflows of resources.
- Auditor's perspective: omission of disclosures?

Disclosures

Reference to restatement – impact of implementation of GASB 87/96

- Net position and fund balance
- Capital assets
- Long-term obligations
- Auditor's perspective: completeness and accuracy of disclosure

Disclosures

How to incorporate lease activity into Capital Assets/Long-term Debt and Receivables notes

- Lots of preferences, diversity in practice.
- Total lease revenues for variable amounts continues to be a challenge to accumulate.
- Auditor's perspective: completeness and accuracy of disclosure.

The End.

Questions
Philip Stringer
PStringer@mgocpa.com