



# 2021 Higher Education Virtual Conference

February 23, 2021

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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# New normal - Projecting Before, During, and After a Pandemic

A public institution panel

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# Session and Learning Objectives

- **Learn from experiences shared by higher education leaders during the pandemic and how it applies to your institution**
- **Identify strategies for budgeting and communication in higher education and how it has been impacted by the COVID-19 pandemic**



# Introductions



Dr. DeRionne Pollard, President  
Montgomery College



Dan Durbin, Vice President for  
Finance and Administration/CFO  
University of Louisville



Katrina Yoakum, Senior Director  
for Financial Analysis & Reporting  
University of Kansas



# Pre-pandemic pressures

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# “Current State”

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# Impact of COVID-19 on forecast development

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# Strategy for developing your model and communication

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# Distance Learning

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# Student assistance and impact on budget process

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# Shift in capital investment

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# Silver linings...

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# Questions and Answers



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# Shared Services and Centralization Considerations for Higher Education Institutions

CLA Higher Education Virtual Conference – February 23, 2021

Jean Bushong, Principal

Tim Warren, Principal

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# Learning Objectives

- Recognize the differences between shared services and centralized functions.
- Identify why institutions consider shared services/centralization and the functions most commonly included in such models.
- Review case studies to understand how other institutions have transformed their finance and similar functions into shared services/centralization.
- Identify steps to consider in creating shared services/centralized functions.



# Introductions

## Jennifer Bruntmyer, CPA

- Director of Financial Reporting Services
- University Shares Services Enterprises
- Service Provider to the Oregon Public Universities

## Bill Maki

- Vice Chancellor for Finance and Facilities
- Minnesota State Colleges and Universities



# Shared Services and Centralization - Introduction



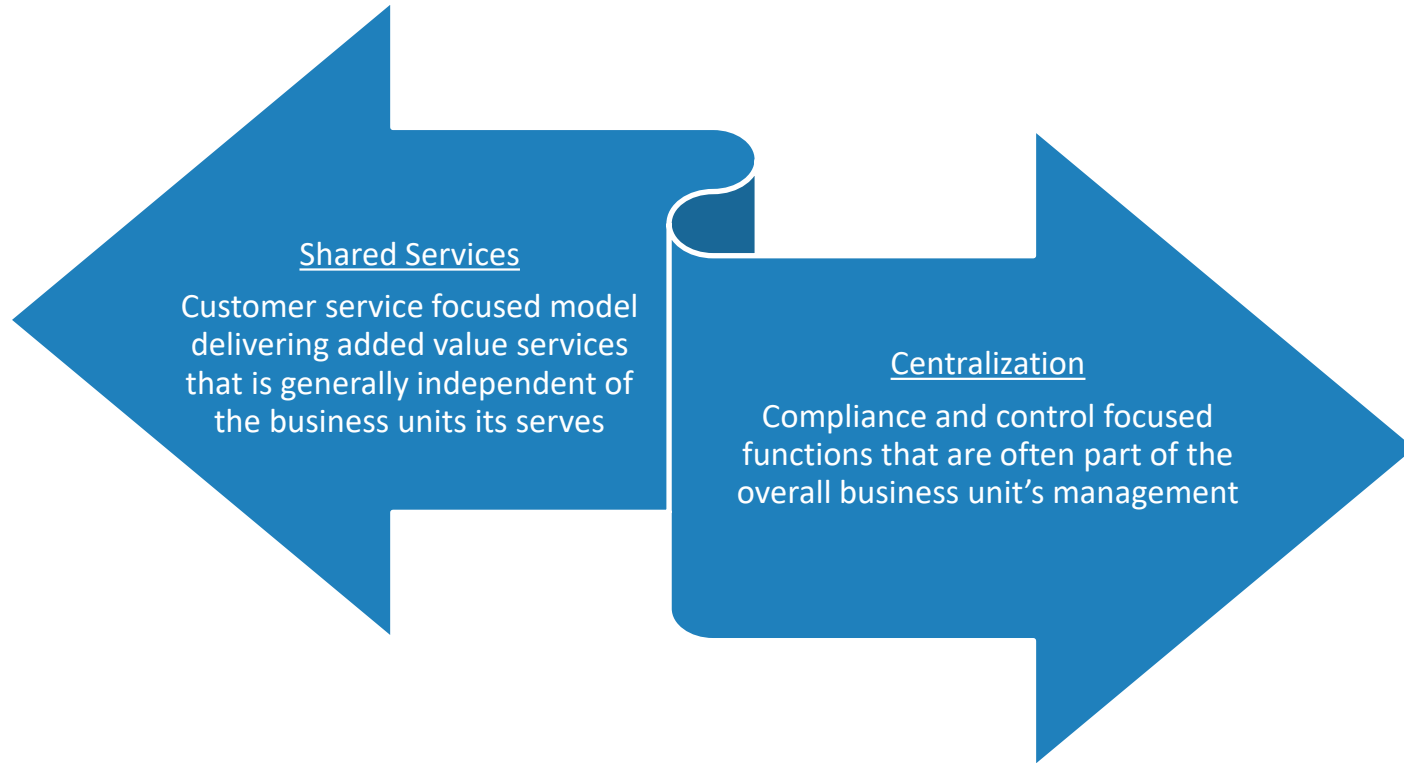
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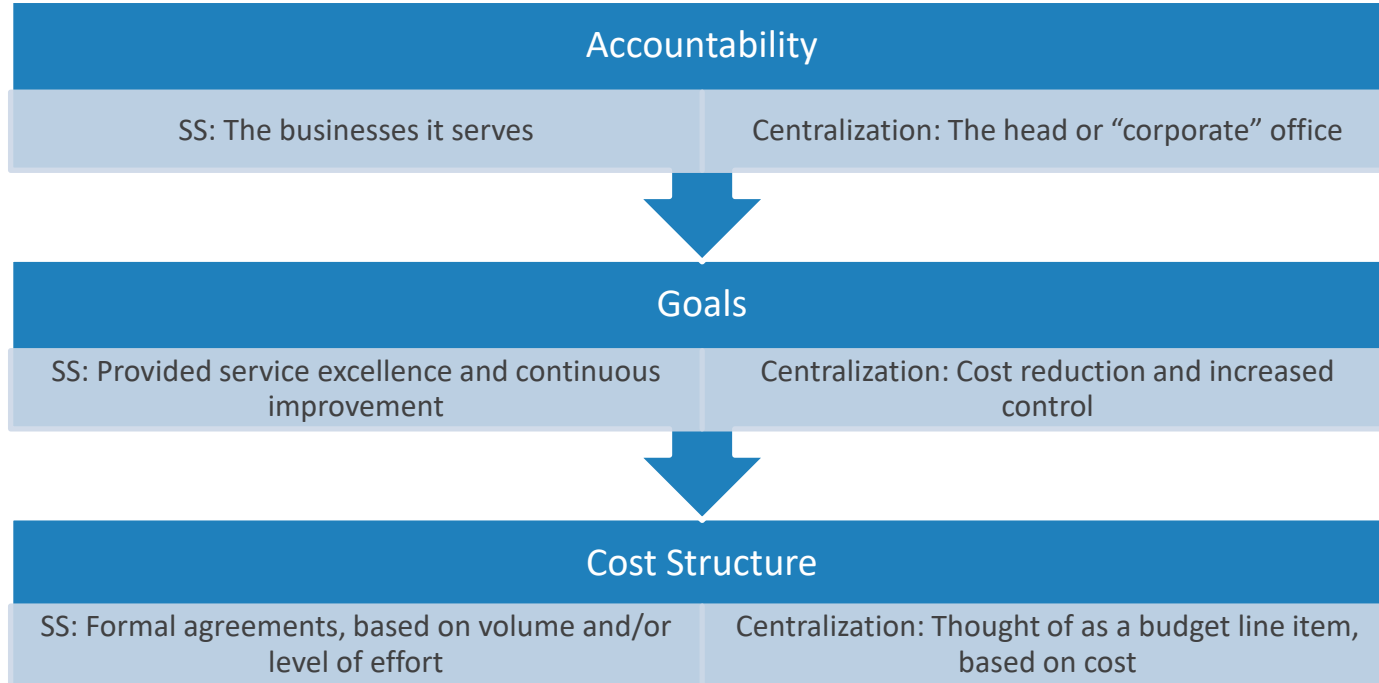
## Panel Question 1:

Describe your current Shared Services or Centralization arrangement.

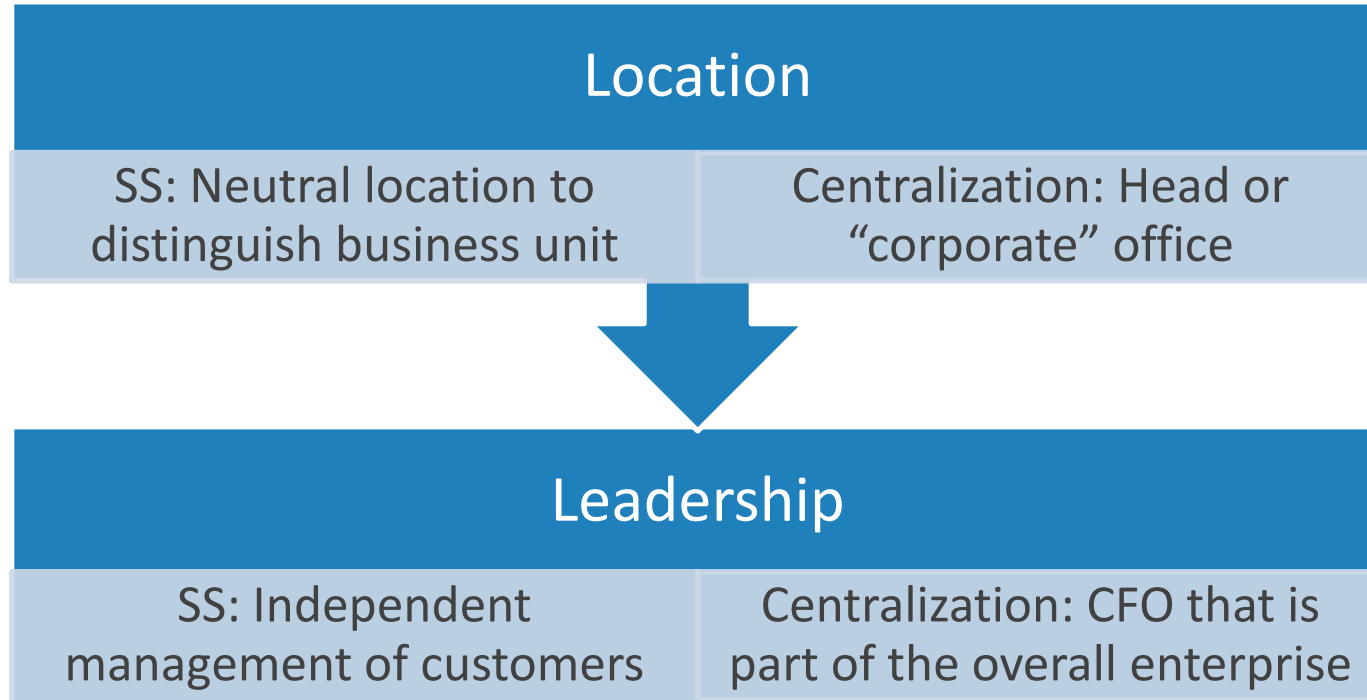
# Shared Services vs. Centralization



# Shared Services (SS) vs. Centralization



# Shared Services (SS)\* vs. Centralization



\*Note SS's can be further distinguished between in house vs. outsourced solutions



## Panel Question 2:

Why did your organization consider implementing either a Shared Services or Centralization model?



# Why Consider a Change?

## Top Considerations

- Lack of systems/processes that are standardized
- Insufficient access to financial information that is meaningful to management due to system limitations
- Optimizing the cost structure
- Enhance the capabilities of certain roles

## Who Benefits (Characteristics)

- Institutions with multiple/dispersed locations (but not limited to)
- Institutions that have costs rising faster than revenues
- Institutions that do not utilize best practices
- Institutions that have incompatible or limited technology
- Institutions that need to develop their financial reporting



### Panel Question 3:

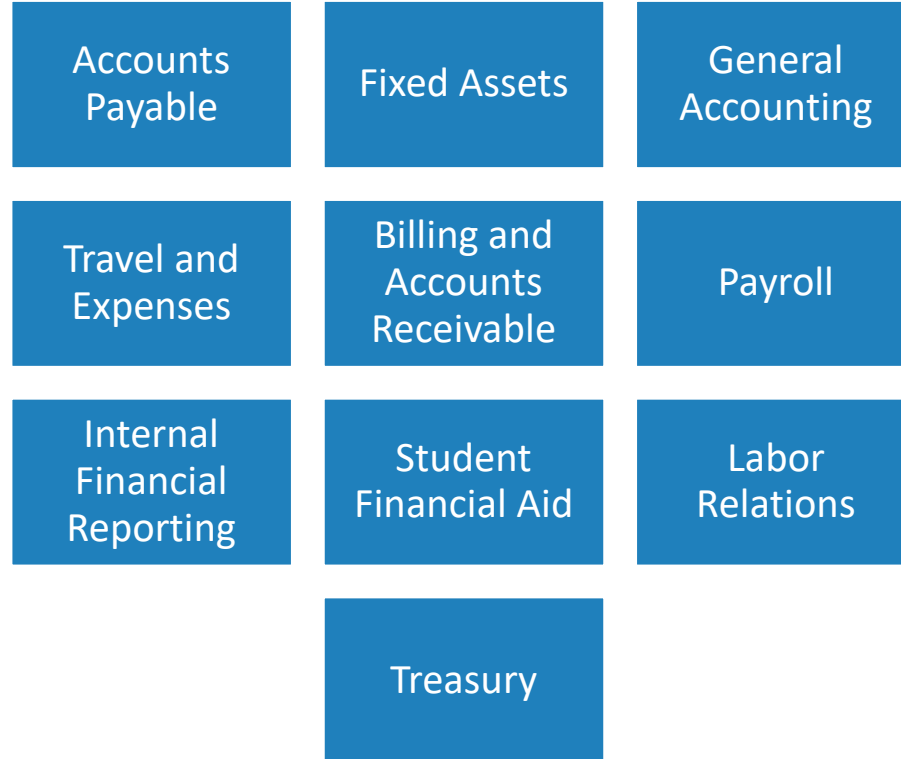
What functions are currently handled by Shared Services or Centralization?

Were there functions originally considered that were ultimately ruled out?

Are there any new functions being considered for future?



# Most Common Functions Shared/Centralized





# Process Model



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# Common Questions when Considering a Transformation

## Processes

- How will processes change?

## Value

- What value will be created?

## Project Management

- Who and how will the project be managed?

## System

- What systems and IT infrastructure will be necessary?

## Site

- Where will the people be located?

## Structure

- How will this be structured? Will this be a separate entity?

## Change Management

- How will we be able to facilitate a change mindset?

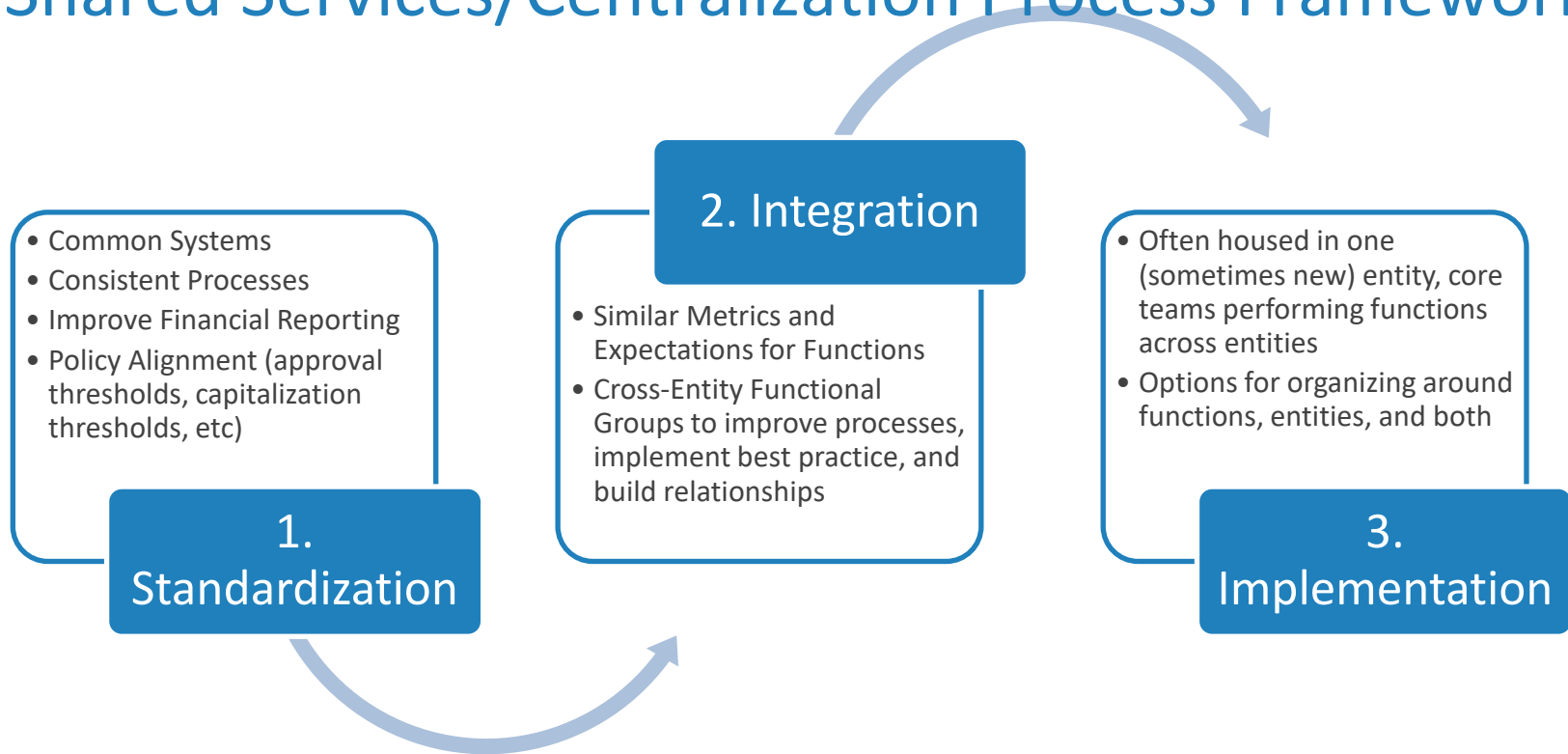


## Panel Question 4:

What process did your organization go through to get to your current Shared Services or Centralization model?



# Shared Services/Centralization Process Framework



## Panel Question 5:

Lessons Learned....If you had to do the process over again, what would you do differently?

# Lessons Learned

## Best Practices

- When centralizing functions create a consistent approach FIRST, then move to centralizing functions.
- Even with centralized or shared services, you still need people who know and understand the individual institutions. Often having staff assigned to support specific entities within a function enhances the services
- Procedural (step by step), not just process, is critical documentation for a centralized or shared service model

## Common Challenges

- Communication around the vision, objective and progress
- If staff reduction is part of the plan determining the staff structure
- Aligning a consistent approach to processes and procedures
- Losing autonomy within the finance function





# Shared Services: The Starting Point



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# Shared Services: Where to Start?

Develop a vision/consensus along with objectives for establishing shared services

Define and agree on processes that need to be performed individually vs. those that can be centralized

Inventory current technologies and identify potential opportunities/challenges

Develop a high level road map

Analyze cost/benefits and develop a business case



Panel Question 6:

Any advice to give on  
how to get started?





# Create Opportunities

CLA exists to  
create opportunities —  
for our clients, our people,  
and our communities.

# References

- University of Illinois at Chicago, Models of Shared Service Centers and How they Drive Administrative Efficiencies, 2010
- Deloitte, Shared Services – Hit the Road, 2011
- Luoma Leadership Academy, Minnesota State Colleges and Universities, 2015-2016
- University Business, Colleges connect once-decentralized functions to improve efficiencies, August 2013
- Genpact, Eight ways why centralization is not shared services, December 2014
- University Business Executive Roundtable, Making the Case for Shared Services, 2009





# GASB – Accounting and Regulatory Update

February 23, 2021

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# Learning Objectives

- **The objectives of this session are as follows:**
  - Describe updates to CARES Act compliance requirements.
  - Apply GASB guidance on how to account for leases under GASB 87
  - Explain the new requirements of GASB 94, Public Private Partnerships
  - Apply GASB guidance related to subscription-based information technology arrangements (GASB 96)





# CARES Act Update

Compliance Requirements

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# CARES Act- HEERF Compliance Supplement

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# What Programs Need to be Audited?

- **Generally for fiscal year ends June 30, 2020- if you expended more than \$750,000 for all awards under CFDA 84.425, this will require audit as a High Risk Type A program.**
- **For those with expenditures less than \$750,000, auditors will need to perform a risk assessment to determine if further testing is needed.**



# All Programs Under CFDA 84.425

Alpha characters required for SEFA presentation

CFDA No.	Program Name
ESF	See Section 1 (ESF) for compliance requirements and auditor guidance. See also other information below this table.
84.425A	Education Stabilization Fund–State Educational Agency (Outlying Areas) (ESF-SEA)
84.425C	Governor’s Emergency Education Relief (GEER) Fund
84.425D	Elementary and Secondary School Emergency Relief (ESSER) Fund
84.425H	Education Stabilization Fund–Governors (Outlying Areas) (ESF-Governors)
HEERF	See Section 2 (HEERF) for compliance requirements and auditor guidance. See also other information below this table.
84.425E	Higher Education Emergency Relief Fund (HEERF) Student Aid Portion
84.425F	HEERF Institutional Portion
84.425J	HEERF Historically Black Colleges and Universities (HBCUs)
84.425K	HEERF Tribally Controlled Colleges and Universities (TCCUs)
84.425L	HEERF Minority Serving Institutions (MSIs)
84.425M	HEERF Strengthening Institutions Program (SIP)
84.425N	HEERF Fund for the Improvement of Postsecondary Education (FIPSE) Formula Grant
Not Applicable	Neither Section 1 nor Section 2 include discussion of this program. See other information below this table.
84.425B	Discretionary Grants: Rethink K-12 Education Models Grants
84.425G	Discretionary Grants: Reimagining Workforce Preparation Grants
84.425P	Institutional Resilience and Expanded Postsecondary Opportunity

Expenditures under B and G are not subject to audit this year





# Compliance Testing

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# Matrix of Compliance Requirements- HEERF

A	B	C	E	F	G	H	I	J	L	M	N
Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	N	N	N	Y	Y	Y	N	Y	N	N

# Activities Allowed/Allowable Costs (AB)

Student Portion (section E)	Institutional Portion (section F)	HBCU/TCCU/MSI/SIP/FIPSE
Disbursements made directly to students for expenses related to the disruption of campus operations due to coronavirus	Costs associated with significant changes to the delivery of instruction due to the coronavirus	Lost revenues
Institution had a <b><u>documented</u></b> plan to distribute funds and did not place restrictions on the funds	Additional emergency grants to students	Payroll
	Reimburse itself for refunds made to students	



# Matching (G)

- 50% of the total received under Student + Institutional Portion must be spent directly for student grants
- Measured at the end of the Period of Performance. Order in which spent is not relevant for compliance in 2020
- Presentation in the SEFA may be different than presentation in the financial statements



# Period of Performance (H)

- One calendar year from the date of the Grant Award Notification (GAN)
- Certain pre-award costs if those expenditures would have been allowable if incurred after the GAN date
  - Institutional: From March 13, 2020 through date of GAN
  - Student: From March 27, 2020 through date of GAN



# Procurement, Suspension, Debarment (I)

- If you exercised the option to make sole source awards because the circumstance would not allow for a delay in the process, institution must have sufficiently documented this conclusion.



# Reporting (L)

- **Annual Report**
  - Subject to testing if submitted during the time the audit is conducted (extended due date of 2/8)
- **Quarterly Reporting (Institutional Portions)**
  - Posted to institution's website on the same page as reporting of student portion
  - Due 10 days after the end of each calendar quarter (except first report due 10/30/20)
- **Quarterly Reporting (Student Portion)**
  - 30 days after the date of award or after May 6 (whichever is later), then every 45 days thereafter (updated to every quarter starting 8/31/20)





# Education Stabilization Act – Higher Education Emergency Relief Funding

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# HEERF II Allocations

- **Higher Education Emergency Relief Funding - \$22.697 Billion**

89%	Private and Public Institutions	\$20.200 Billion
7.5%	HBCU's, TCCU's, MSI's, and SIP's	\$1.702 Billion
3%	Proprietary Institutions	\$681 Million
0.5%	FIPSE	\$114 Million
- **Private, Public and Proprietary allocations available now**



# Initial Awarding

## Application process

- Depends on CARES HEERF awarding
- Public/Private and Proprietary differences
- 90 Days

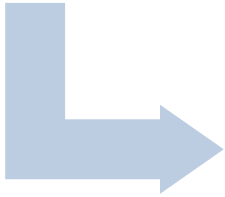
Compliant with HEERF reporting requirements

Excise tax on investment income during 2019 tax year

# Timing of Funding

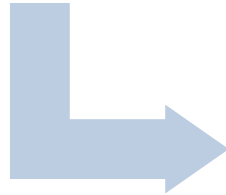
**30 Days**

- Public
- Private
- Proprietary



**60 Days**

- HBCU, TCCU, MSI, SIP



**120 Days**

- FIPSE



# Student Funding

- No Title IV requirement
- Distance Education students/programs eligible
- Purpose is same as CARES HEERF
- Minimum amount
- Can be applied to student account if **affirmative (written or electronic) consent** is provided and disclosed appropriately



# Student Funding (Continued)

- **Policy Considerations**

- MUST prioritize grants to students with exceptional [financial] need
- No conditions on funding allowed
- Recommended highest amount be maximum Pell Grant
- Recommended judgement by FA and Schools to remove grants from EFC on a case-by-case situation



# Institutional Funding

Only for private and public Institutions

Certain procurement policies waived

Purpose is same as CARES HEERF:  
Nexus to both pandemic and instruction medium change



# Institutional Funding (Continued)

- Allowable uses:
  - **Lost revenue**
  - Reimbursement for expenses already incurred
  - Technology costs associated with a transition to distance education
  - Student support activities
  - Additional financial aid grants to students
  - Indirect costs
  - Reasonable administrative costs
- Unallowable costs similar as CARES with few additions



# Special Provisions

- Institutions who paid (or will be paying) excise tax for the 2019 tax year
  - Only eligible for 50% of HEERF II allocation
  - MUST be used for:
    - ◇ Financial aid grants to students
    - ◇ Sanitation, personal protective equipment, or other expenses associated with the general health and safety of the campus environment related to the qualifying emergency
- All obligations under the grants must have been incurred on or after **December 27, 2020**
- Continue to pay its employees and contractors during the period



# Special Provisions (Continued)

- Exclusive distance education institutions must use funding for emergency student financial aid purposes

OPEID	Institution Name	School Type	State	Total Award	CARES Act Minimum Amount for Emergency Financial Aid Grants to Students	Section 314(a)(1)(E) & Section 314(a)(1)(F) Allocation	Minimum Amount for Student Aid Portion (CFDA 84.425E Allocation)	Maximum Amount for Institutional Portion (CFDA 84.425F Allocation)
00100200	Alabama Agricultural & Mechanical University	Public	AL	\$ 14,519,790	\$ 4,560,601	\$ 37,515	\$ 4,560,601	\$ 9,959,189
00100300	Faulkner University	Private Non-Profit	AL	\$ 4,333,744	\$ 1,211,489	\$ 239,004	\$ 1,211,489	\$ 3,122,255
00100400	University of Montevallo	Public	AL	\$ 4,041,651	\$ 1,280,001	\$ -	\$ 1,280,001	\$ 2,761,650
00100500	Alabama State University	Public	AL	\$ 10,072,950	\$ 3,142,232	\$ 174,255	\$ 3,142,232	\$ 6,930,718
00100700	Central Alabama Community College	Public	AL	\$ 2,380,348	\$ 611,026	\$ 32,512	\$ 611,026	\$ 1,769,322
00100800	Athens State University	Public	AL	\$ 2,140,301	\$ 422,517	\$ 492,066	\$ 492,066	\$ 1,648,235

- Proprietary institutions can only use funding for emergency financial aid grants to students
- Unused CARES funding as of December 27, 2020 can be used under the terms of the CRRSAA terms




# Cash Management/Grant Administration

- Minimize time between draw down in G5 and incurring eligible expense:
  - 15 days Student portion
  - 3 days Institutional portion
- One year period of performance from GAN
- Audit requirements
- Accounting treatment



# Reporting

Quarterly reporting (6 months after GAN)



Annual reporting



More information to be Provided





# GASB 87

## *Leases*



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# Polling Question

- **Where are you with GASB 87 implementation?**
  - Done!
  - I have inventoried my leases and started assessing the impact.
  - I created an implementation team and read the standard.
  - Have not started, there is still over a year to implement.



# Why GASB 87 Was Issued

- **Capital vs. operating lease – What is the difference?**
  - Both create the right of use of an asset
  - Both create a liability to be paid in the future
  - Capital normally allows for purchase at the end of lease
  - Convoluted criteria to distinguish between the two
    - ◇ 90% (minimum lease payments) & 75% (useful life) tests
    - ◇ Allowed for “creative arrangements” to classify as an operating lease
- **Convergence of international and US standards**
- **Consistency with private sector (FASB) standards**



# When is GASB 87 Effective?

- **Delayed implementation date**

- Fiscal years beginning after June 15, 2021
- June 30 fiscal institutions to adopt for the year ending June 30, 2022
- Early implementation encouraged!?!

- **Transition**

- Retroactively by restating financial statements of earliest period presented using facts and circumstances that existed at the beginning of the period
- Lessors should not restate the assets underlying their existing sales-type or direct-financing leases



# Definitions

- **Lease**
  - 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
  - Lease Term
    - ◇ Period during which a lessee has a noncancelable right to use an underlying asset, plus the following periods if applicable
      - Lessee extension option if reasonably certain the lessee will exercise the option
      - Lessee option to terminate if reasonably certain lessee will not exercise the option
      - Lessor extension option if reasonably certain the lessor will extend
      - Lessor termination option if reasonably certain lessor will not exercise
      - **Fiscal funding or cancellation clause only if it is reasonably certain the clause will be exercised**
  - Most leases will now fall under this rule except for truly short-term leases (e.g. rental car, storage unit, etc)



# Definitions *(continued)*

- **Lease Term (continued)**
  - Reassess if at least one of the following occurs
    - ◇ Lessee or lessor elect to exercise an option even though it was previously determined that it was reasonably certain that it would not exercise that option
    - ◇ Lessee or lessor elect not to exercise an option even though it was previously determined that it was reasonably certain that it would exercise that option
    - ◇ An event specified in the lease contract that requires an extension or termination of the lease takes place
  - Short Term Lease
    - ◇ Maximum lease term including extensions is 12 months or less
    - ◇ Most leases will now fall under this rule except for truly short-term leases (e.g. rental car, storage unit, etc)



# Implementation Tip

- **Completeness**
- **Imbedded leases**
  - Long-term contracts will need to be reviewed
  - Food service contracts?



# Implementation Tip



- **Sub-ledger**
  - Supporting amounts to be included on the financial statements
  - Excel?
  - Lease software
    - ◇ Decision needs to be made first

# Lease Accounting Basics

- **What do we have?**
- **Lessee**
  - Right of Use (asset)
  - Obligation of future payments (liability)
- **Lessor**
  - Future receipts
    - ◇ Receivable
    - ◇ Revenue stream



# How do we record?

- **Lessee**
  - Liability for **present value** of expected lease payments
    - ◊ Implies an interest component
  - **Intangible asset** for right to use the leased asset
    - ◊ Initial measurement of lease liability
    - ◊ Any additional payments made at the commencement of the lease
    - ◊ Certain direct costs
  - **Amortization expense** for recognizing the asset amount over the shorter of
    - ◊ Lease term
    - ◊ Useful life of the underlying asset
  - **Interest expense** related to difference between payment and lease liability reduction



# Lessee – What is Included in the Liability?

- **Payments Expected to be paid during the lease term**
  - Fixed payments
  - Variable payments fixed to an index or rate (use index/rate at inception)
  - Amounts expected to be paid as residual guarantees
  - Option price if reasonably anticipated to be exercised
  - Cancellation fee, if cancellation is likely
  - Lease incentives receivable from the lessor
  - Any other payments reasonably certain of payment



# Lease Accounting - Lessee

- **Liability for present value of expected lease payments**
- **Intangible asset for right to use the leased asset**
  - ◊ Initial measurement of lease liability
  - ◊ Any additional payments made at the commencement of the lease
  - ◊ Certain direct costs
  - Amortization expense for recognizing the asset amount over the shorter of
    - ◊ Lease term
    - ◊ Useful life of the underlying asset
- Interest expense related to difference between payment and lease liability reduction
- Note Disclosures



# Lease Accounting Lessor

- Receivable for the right to receive payments
- Deferred inflow to reflect resources related to future periods
- Lease revenue over the term of the lease
- Interest revenue related to lease receivable
- Note Disclosures



# Implementation Tip

- **Discount rate**
  - Rate provided by lessor (good luck)
  - Rate implicit in the lease (hard to find in real estate lease)
  - Lessee's incremental borrowing rate (probably will be most used)
- **Incremental borrowing rate**
  - Estimate of the interest rate that would be charged for borrowing the lease payment amounts (reflects credit risk, term, amount, economic environment)



# Financial Statement Notes

- Lessee
  - Description of the arrangement
  - Amount of leased assets recognized
  - Schedule of future payments
    - Principal and interest
    - 5 single years and 5 yr. increments through maturity
- Lessor
  - Description of the arrangement
  - Total amount of inflows recognized from leases



## How does this compare to current accounting

- **Currently we have lease expense related to the monthly payment**
- **Under the new standard as monthly payment is made, a portion will be interest expense and a portion will be amortization**
- **Should get to the same result or relatively close on a monthly basis**
  - Difference would be related to the interest component



# How does this compare to current accounting - lessee

- **Current accounting**

	<u>Dr</u>	<u>Cr</u>
1 Rent expense	XXX	
Cash		XXX
<i>To record lease payment</i>		

- **New standard**

	<u>Dr</u>	<u>Cr</u>
1 Lease Liability	XX	
Interest Expense	X	
Cash		XXX
<i>To record lease payment</i>		
2 Amortization expense	XX	
Intangible asset		XX
<i>To record amortization of intangible asset</i>		



# Lease Modifications and Terminations

- **Termination**
  - Reduce the lease asset and liability by lessee or receivable and deferred inflow by lessor
  - Recognize gain (loss) in the period of termination
- **Modification**
  - Adjust (re-measure) the various components of the lessee and lessor entries to coincide with the changes
  - Adjust amortization period as necessary



# Other Transactions

- **Sublease**
  - Treat as a separate lease transaction
  - Lessee in original lease becomes the lessor in a sublease
- **Sale-Leaseback**
  - Must include a valid sale component
  - Treat as 2 separate and distinct transactions
  - Difference between the carrying value of the assets sold and the net proceeds from the sale should be recognized as a deferred flow (in or out) and recognized over the life of the lease
  - Account for as a net transaction, but disclose the gross amounts of each portion



# Implementation Tip

- Identify project leader – timetable
- Capture all leases – inventory
- Solicit information from within your entity to complete the database
- Database or sub-ledger
  - Present value of lease payments
  - Liability amortization schedule
  - Intangible asset amortization schedule





# GASB 94

Public-Private and Public-Public Partnerships and  
Availability Payment Arrangements

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# Applicability and Effective Date

- **PPP arrangements which are not considered Service Concession Arrangements (SCA)**
  - Contract with an operator to provide services by conveying right to use or operate a non-financial asset for a period of time in an exchange or exchange-like transaction
- **Effective for fiscal years beginning after June 15, 2022**
  - Earlier adoption encouraged
- **Consider adopting when the implementing GASB 87**



## P3 Agreements

- **Higher Education Example:**
  - A third party finances and constructs a dorm and cafeteria on university property. In exchange the university pays the third party for a defined period. Payment terms vary in practice. At the end of the term of the agreement, the ownership of the building reverts to the university. The two parties generally also sign a land lease.



# P3 Agreements (continued)



## P3 Agreements (continued)

- **GASB 60 – establishes guidance and accounting for Service Concession Arrangements (SCAs).**
- **To be an SCA, all of the following criteria must be met:**
  1. University conveys to vendor the right and obligation to provide public services through the use and operation of a capital asset in exchange for significant consideration (in our example, new dorm and cafeteria).
  2. Vendor collects and is compensated by fees from third parties (students).
  3. University has the right to modify or approve what services the vendor is required to provide, who the services are provided to and the price.
  4. University is entitled to significant residual interest in the service utility of the facility at the end of the agreement (building ownership reverts to the University at the end of the agreement).



## P3 Agreements (continued)

- If SCA criteria are met, the University would record the facility as its capital asset. It would also recognize a liability for the present value of significant contractual obligations. The offset would be a deferred inflow of resources (to be recognized as revenue over the term of the agreement).



## P3 Agreements (continued)

GASB 87 – new lease standard.

A lease is defined as a contract 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. Examples of nonfinancial assets include buildings, land, vehicles, and equipment.

If the agreement meets the definition of GASB 87, asset and lease liability are recorded. Under current standards you can have an SCA and a lease. For example, a dorm could be an SCA and the cafeteria could be a lease (university pays third party for the right to use the cafeteria).



# P3 Agreements (continued)

## GASB 94 Analysis

- For purposes of applying this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator 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.
- Only apply lease accounting if 1) **existing** assets of the university are the only PPP assets, 2) no improvements required to be made by the operator and 3) PPP does not meet the definition of an SCA.



## P3 Agreements (continued)

If the agreement **meets** the definition of an SCA:

- ◇ Record an asset, receivable for installment payments, and deferred inflow of resources.

**Not** an SCA, however meets the definition of a P3:

- ◇ Record a receivable for the asset (carrying value of asset at the date of future transfer), receivable for installment payments, and deferred inflow of resources.





# GASB 96

Subscription-based information technology  
arrangements

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# Effective Date and Transition

- **Effective dates beginning after June 15, 2022 (June 30, 2023 year-ends). Earlier application is encouraged**
- **Assets and liabilities should be recognized and measured using the facts and circumstances that existed at the beginning of the performance period.**



# Applicability

- **Contract to convey control of the right to use another party's software, alone or in combination with tangible capital assets as specified in a contract for a period of time in an exchange or exchange-like transaction**
- **Control of the right to use, as specified in the contract**
  - Right to obtain present service capacity
  - Right to determine nature and manner of use



# Not Applicable

- **Standard is not applicable for the following types of arrangements:**
  - Short Term (defined on next slide)
  - Arrangements that meet the definition of GASB 87
  - Governments that provide the right to use their IT software and associated tangible capital assets through SBITAs
  - Arrangements that meet the requirements of public-private and public-public partnerships under GASB 94
  - Licensing arrangements that provide perpetual license under GASB 51



# Subscription Term

- **Short-term – maximum term of 12 months or less including options**
- **Time period for which the government has non-cancellable right to use, plus the following:**
  - Government
    - ◇ Option to extend if reasonably certain of extension
    - ◇ Option to terminate if reasonably certain not to cancel
    - ◇ Fiscal funding clauses – only applicable if reasonably certain it will be exercised
  - Vendor
    - ◇ Option to extend if reasonably certain of extension
    - ◇ Option to terminate if reasonably certain not to cancel



# Accounting

- **Dependent on Implementation Stage**

- Preliminary Project
  - ◇ Formulation and evaluation of alternatives
  - ◇ *Accounting treatment: Expense as Incurred*
- Initial Implementation
  - ◇ Design, configuration, coding, testing and installation
  - ◇ *Accounting treatment: Capitalize as part of the subscription asset, unless short-term SBITA*
- Operation and Additional Implementation
  - ◇ Maintenance, trouble shooting and other activities related to ongoing operation and use
  - ◇ Other implementation activities related to additional modules
  - ◇ *Accounting treatment: Expense costs as incurred unless specific capitalization criteria are met*



# Accounting *(continued)*

- **Subscription Assets and Liabilities**
  - Present value of expected subscription payments
- **Outlays other than subscription payments, should be expensed as incurred**
  - Determination of specific objective of the project
  - Feasibility determination
  - Demonstration of the ability, intention and presence of effort to enter into an SBTIA contract
  - Training costs



# Accounting *(continued)*

- **Other Outlays *(continued)***

- Modifications capitalized

- ◇ Increase functionality – perform tasks not previously included
    - ◇ Increase efficiency – increase level of service without ability to perform additional tasks

# Accounting *(continued)*

- **Economic Resource Focus**
  - Liability and Right to use intangible asset
  - Present value of payments to be made
- Other Issues
  - Impairments
  - Incentives
  - Multiple component contracts
  - Contract combinations
  - Modifications and terminations



# Note Disclosures

- **General description of arrangement**
- **Total amount of subscription assets and related accumulated amortization**
  - Disclosed separately from other capital assets
- **Amount of outflows recognized for variable payments not included in the liability**
- **Amount of outflows for other payments (e.g. terminations) not previously included in liability**
- **Principal and interest payments for each of 5 yrs. and then 5 yr. increments through maturity**
- **Commitments made before commencement of subscription term**
- **Impairment loss**

