

GAAP Process and GASB Update FY2022



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General Information – Due Dates

- Lease Information Confirmed by 7/15
- Compensated Absence Information (SCO-580) by 7/29
- Capital Asset Information (SCO-538) by 8/12
 - IOC to update leases in WEDGE by 7/22 depending on receipt of lease information confirmation
- Interfund Transfers Entered by Grantee Agency (SCO-567) by 8/5
- Interfund Transfers Approved by Grantor Agency (SCO-568) by 8/12



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General Information – Due Dates

- GAAP Packages -
WEDGE system will be available approximately 7/15. Manual forms that display prior year balances will be emailed no later than 7/15.
 - Locally Held Packages due 8/12
 - All "Other" Packages due 8/19
 - GRF, Funds with SEFA reporting requirements, and Proprietary Packages due 8/26
 - Significant Packages at material agencies due 9/5
 - Private Purpose Trust Funds, Investment Trust Funds, and Pension Trust Funds – Nonretirement Systems due 9/9



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General Information – Due Dates

- **GAAP Basis Financial Statements –**
Applicable for certain agencies (Exhibit 27.10.10-B in the SAMS Manual)
 - **Complete set of GAAP basis financial statements (including footnotes) due 10/15**
 - **A completed audit of these financial statements is necessary for the Office of the Auditor General to obtain adequate audit coverage for their review of the ACFR**
 - **ACFR cannot be completed if there are pending audit issues at the departmental level**



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Summary of GASB Updates

- **Effective Dates – Recently Issued GASB Standards**
 - **June 30, 2021**
 - **GASB Statement No. 84, *Fiduciary Activities***
 - Applicable to state agencies that prepare Nonshared Agency (NSA) and Locally Held Agency (LA) GAAP packages
 - Applicable to state agencies that report Pension, OPEB, Investment Trust, and Private Purpose Trust GAAP packages
 - The adoption of this statement resulted in a restatement of beginning net position for the Fiduciary Fund Statements, revisions to the Statement of Fiduciary Net Position, and the addition of the Statement of Changes in Fiduciary Net Position to the custodial fund statements
 - **GASB Statement No. 90, *Majority Equity Interests***
 - The adoption of this statement had no effect on the State's net position or results of operations
 - **GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans***
 - This statement was partially adopted as of June 30, 2021, and resulted in a restatement of beginning net position for the Fiduciary Fund statements



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Summary of GASB Updates

- **Effective Dates – Recently Issued GASB Standards**
 - **June 30, 2022**
 - GASB Statement No. 87, *Leases*
 - Applicable to most state agencies (those that enter into lease agreements)
 - GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
 - Applicable to most state agencies
 - GASB Statement No. 92, *Omnibus 2020*
 - Not expected to be applicable to most state agencies



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Summary of GASB Updates

- **Effective Dates – Recently Issued GASB Standards**
 - **June 30, 2022**
 - GASB Statement No. 93, *Replacement of Interbank Offered Rates*
 - Not expected to be applicable to most state agencies
 - Applicable to component units that issue variable rate debt
 - GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*
 - Remaining portion not expected to be applicable to most state agencies
 - GASB Statement No. 98, *The Annual Comprehensive Financial Report*
 - The State early implemented as of June 30, 2021



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Summary of GASB Updates

- **Effective Dates – Recently Issued GASB Standards**
 - **June 30, 2023**
 - **GASB Statement No. 91, *Conduit Debt Obligations***
 - Not expected to be applicable to most state agencies
 - Applicable to component units that issue debt on behalf of other entities
 - **GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements***
 - Minimal impact to most state agencies
 - **GASB Statement No. 96, *Subscription-Based Information Technology Arrangements***
 - Applicable to most state agencies (those that enter into software agreements)



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Summary of GASB Updates

- **GASB Statement No. 87 – *Leases***
 - Requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases
 - Establishes a single model for lease accounting
 - Lessee is required to recognize a lease liability and an intangible right-to-use lease asset (revised form SCO560 is included in the SAMS manual)
 - Lessor is required to recognize a lease receivable and a deferred inflow of resources (new form SCO561 is included in the SAMS manual)
 - Excludes short term leases - contract of 12 months (or less), including any options to extend (regardless of the probability of being exercised)
 - **Full training video and manuals from 2020 are available on the IOC website**



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Summary of GASB Updates

- **GASB Statement No. 87 – Leases**
 - Lease – defined as a contract that conveys control of the right to use a nonfinancial asset
 - Nonfinancial assets include:
 - Land
 - Buildings
 - Vehicles
 - Equipment
 - Results in a restatement to recognize the lease liability and right-to-use asset at the beginning of the year (7/1/2021)



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Summary of GASB Updates

- **GASB Statement No. 87 – Leases**
 - GAAP Reporting – What to expect:
 - IOC will restate the SCO-538 form for the revised beginning balances of Building and Equipment leases
 - If an agency has a lease other than Building and Equipment, **IOC** will add a line for Other – Leases
 - Additions per the SCO-538 form must agree to Capital Outlays (as in the past)
 - A schedule of lease related journal entries will be provided (similar to prior years)
 - For agencies preparing departmental financial statements, IOC will provide a template for footnote disclosures



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Summary of GASB Updates

- **GASB Statement No. 87 – Leases**
 - Accounting for a Lease – Modified Accrual
 - For State agencies, accounting will be similar to the current capital lease accounting
 - Agencies should continue to submit an SCO-560 form for any new or amended leases entered into through the end of the fiscal year
 - IOC has entered all SCO-560 forms submitted into the lease system
 - April – IOC will provide a listing of leases that have been entered in the lease system for agency review
 - April – IOC will provide an updated contract obligation listing from SAMS for agency review
 - July - IOC will again provide a listing of leases and a final contract obligation listing for agency review



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Summary of GASB Updates

- **GASB Statement No. 87 – Leases**
 - Accounting for a Lease – Modified Accrual
 - April Report Examples – Lease Amortization Schedule

Finance Lease Amortization										GASB 87 Standard	
Selected group: leases starting with 494*										Leases active as of 06/30/2022	
Lease number:	494*22001B		Begin:	07/01/2021		Payments in	Initial ROU asset:		49,743.73	Finance at 2.97000000000000%	
CHITOW20			End:	06/30/2023		advance	Initial Liability:		-49,743.73		
Period End	----- Finance lease rent -----		----- Liability Paid -----		----- Interest paid -----		----- Exec costs/nonlease cmpts -----		----- Depreciation -----		
Date	Period	Cumulative	Period	Cumulative	Period	Cumulative	Period	Cumulative	Period	Cumulative	Cumulative
06/30/2022	1	-25,081.32	-25,081.32	25,081.32	25,081.32	0.00	0.00	0.00	0.00	24,871.87	24,871.87
06/30/2023	2	-25,394.88	-50,476.20	24,662.41	49,743.73	732.47	732.47	0.00	0.00	24,871.86	49,743.73
Normal expiration on 06/30/2023											
Lease number:	494*22002M		Begin:	07/01/2021		Payments in	Initial ROU asset:		1,591,284.59	Finance at 2.97000000000000%	
BIP2485			End:	06/30/2026		advance	Initial Liability:		-1,591,284.59		
Period End	----- Finance lease rent -----		----- Liability Paid -----		----- Interest paid -----		----- Exec costs/nonlease cmpts -----		----- Depreciation -----		
Date	Period	Cumulative	Period	Cumulative	Period	Cumulative	Period	Cumulative	Period	Cumulative	Cumulative
06/30/2022	1	-342,018.60	-342,018.60	302,850.11	302,850.11	39,168.49	39,168.49	0.00	0.00	318,256.92	318,256.92
06/30/2023	2	-342,018.60	-684,037.20	307,921.22	610,771.33	34,097.38	73,265.87	0.00	0.00	318,256.92	636,513.84
06/30/2024	3	-342,018.60	-1,026,055.80	317,192.01	927,963.34	24,826.59	98,092.46	0.00	0.00	318,256.91	954,770.75
06/30/2025	4	-342,018.60	-1,368,074.40	326,741.91	1,254,705.25	15,276.69	113,369.15	0.00	0.00	318,256.92	1,273,027.67
06/30/2026	5	-342,018.60	-1,710,093.00	336,579.34	1,591,284.59	5,439.26	118,808.41	0.00	0.00	318,256.92	1,591,284.59
Normal expiration on 06/30/2026											



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Summary of GASB Updates

- **GASB Statement No. 87 – Leases**

- Accounting for a Lease – Modified Accrual
 - April Report Examples – Fair Value Report

Fair Value Report

Leases active 07/01/2021 to 06/30/2022

Selected group: leases starting with 494*

For Agency 494

FY	Lease	Lease Number	Obligation Number	%	Appropriation Account Code	As of 7/1/2021	
						New	Existing
22	Not	494*22001B	CHITOW20	100%	0011-1700-1729		
22	Not	494*22002M	BIP2485	100%	0011-1200-1231		
22	Not	494*22003M	BIPXEROX20	100%	0011-1600-1681		
22	Not	494*22004M	19PlotScan	100%	0011-1600-1681		
22	Not	494*22005B	PEOIGAFY18	100%	0011-1200-1233		
22	Not	494*22006M	BIPXEROX21	100%	0011-1600-1681		



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Summary of GASB Updates

- **GASB Statement No. 87 – Leases**

- Accounting for a Lease – Modified Accrual
 - July - Once the lease information has been confirmed by agencies, IOC will provide lease journal entries similar to prior years. These entries are based on information provided on the SCO-560 forms as well as information entered on the SCO-538:

To reclassify monthly rental payments on leases to debt service for the year ended June 30, 2022

- Dr. 540 – Debt Service Principal
- Dr. 545 – Debt Service Interest
 - Cr. 5XX – Functional Expense Account

To record leases entered into during the year

- Dr. 550 – Capital Outlay
 - Cr. 5XX – Functional Expense Account



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Summary of GASB Updates

- **GASB Statement No. 87 – Leases**
 - GAAP Reporting – Agencies preparing departmental financial statements
 - Lessee is required to recognize a lease liability and an intangible right-to-use lease asset
 - The right-to-use asset can be pulled off the SCO-538 form which will include the restatement amount
 - The lease liability information will be provided by the IOC
 - Lessor is required to recognize a lease receivable and a deferred inflow of resources
 - The asset and deferred outflow of resource information will be provided by the IOC
 - In addition to the information provided for governmental funds, IOC will restate the beginning balances on the SCO-538 for leases
 - Agencies will need to include a restatement footnote within their departmental reports
 - Implementation will also require enhanced footnote disclosures surrounding leases (IOC to provide a template)



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Summary of GASB Updates

- **GASB Statement No. 87 – Leases**

Accounting for a Lease – Initial Reporting

	Lessee	Lessor
Assets	Intangible right-to-use lease asset = Lease liability plus prepayments and any ancillary costs to place the asset to use	Lease receivable = Present value of expected lease payments over the lease term Continue to report the asset
Liability	Lease liability = Present value of expected lease payments over the lease term	N/A
Deferred Inflow	N/A	Equals the lease receivable plus any cash received up front that pertains to a future period



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Summary of GASB Updates

- GASB Statement No. 87 – *Leases*

Accounting for a Lease – Subsequent Reporting

	Lessee	Lessor
Assets	Amortize lease asset over the shorter of the useful life of asset or lease term	Depreciate leased asset Reduce lease receivable by lease payments (less payments for interest)
Liability	Reduce lease liability by lease payments (less interest expense recognized)	N/A
Deferred Inflow	N/A	Recognize revenue over the lease term in a systematic and rational matter



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Summary of GASB Updates

- GASB Statement No. 87 – *Leases*

- Lessee Report Example

Selected group: leases starting with 494*

Balance Sheet Information as of 06/30/2022

Lease Number	Assets					Liabilities			Total		
	Land	Buildings	Mach & Equipment	Furn & Fixtures	Other	Accum Amortization	Net Book Amount	Accrued Interest		Current Portion	Long Term Portion
494*22001B	0	49,744	0	0	0	24,872	24,872	732	34,662	0	25,395
494*22002M	0	0	1,591,285	0	0	318,257	1,273,028	3,189	307,921	980,513	1,291,623
494*22003M	0	0	1,122,235	0	0	286,528	835,707	2,094	281,813	564,076	847,982
494*22004M	0	0	177,687	0	0	76,152	101,535	254	76,706	26,078	103,039
494*22005B	0	206,039	0	0	0	34,340	171,699	430	32,722	141,042	174,194
494*22006M	0	0	991,715	0	0	201,705	790,010	1,979	195,401	604,175	801,555
Total	0	255,783	3,882,922	0	0	941,833	3,196,851	8,678	919,226	2,513,884	3,243,788

End of report, 6 leases printed.



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Summary of GASB Updates

- GASB Statement No. 87 – Leases
 - Lessor Report Example

Income Statement/Balance Sheet
 Detail format
 Selected group: leases starting with 494

GASB 87 Standard
 1 period from 07/01/2021 to 06/30/2022
 Including future leases

Total for all leases:

Lease count:	Active at 07/01/2021	Added	Terminated	Active at 06/30/2022
Finance	0	9	0	9
Short Term	0	0	0	0
Total	0	9	0	9

Finance lease balances	Begin Receivable	Deferred Inflow	Current Receivable	Long Term Receiv	Accrued Interest
Beginning 07/01/2021	0.00	0.00	0.00	0.00	0.00
Added	1,274,639.92	-1,274,639.92	274,277.52	1,000,362.40	0.00
Net Activity	0.00	271,986.71	2,033.21	-276,310.73	4,576.45
Removed	0.00	0.00	0.00	0.00	0.00
Ending 06/30/2022	1,274,639.92	-1,002,653.21	276,310.73	724,051.67	4,576.45

Income Statement Activity	Gross Rent	Exec-Nonize Comp	Net Finance Rent	Interest	Total Receivable
07/01/2021	Accrued -207,542.35	0.00	-207,542.35	34,638.93	
to	Paid 394,340.00	0.00	394,340.00	-30,062.48	-274,277.52
06/30/2022	Balance -36,797.65	0.00	-36,797.65	4,576.45	1,000,362.40

	Lease Revenue	Interest Income	New asset on term
06/30/2022	-271,986.71	0.00	-34,638.93
Ending	0.00	0.00	0.00

Operating activity	Beginning Balance	Ending Deferred	Level Rent Accrued	Defer Rent Change	Ending Deferred	Level Term Gain(-)/Loss(+)	Nonlease components on Operating leases
07/01/2021	0.00	0.00	0.00	0.00	0.00	0.00	0.00
to	Cash Rent Accrued 0.00	Level Rent Accrued 0.00	Defer Rent Change 0.00	Ending Deferred 0.00	Level Term Gain(-)/Loss(+)	0.00	0.00
06/30/2022	Rent Paid 0.00	Ending Deferred 0.00	Level Term Gain(-)/Loss(+)	0.00	0.00	0.00	0.00
Ending	Accrual Balance 0.00	0.00	0.00	0.00	0.00	0.00	0.00



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Summary of GASB Updates

- GASB Statement No. 87 – Leases

Disclosures - Lessees

- General description of leasing arrangements
- Total amount of lease assets and related accumulated amortization
- **Amount of lease assets by major classes of underlying assets**
- Amount of variable payments not previously included in liability
- Amount of other payments not previously included in liability
- Principal and interest requirements to maturity
- Lease commitments not yet begun
- Components of any impairment loss and any related change in lease liability
- IOC will provide a template for footnote disclosures



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Summary of GASB Updates

- **GASB Statement No. 87 – Leases**

Disclosures - Lessors

- General description of leasing arrangements including basis, terms, and conditions on which variable lease payments not included in lease receivable are determined
- Total inflows recognized in reporting period
- Lease inflows related to variable lease payments recognized in the period but not previously included
- Existence, terms, and conditions of lessee options to terminate lease or abate payments if lessor has issued debt which is secured by lease payments
- Relevant disclosures should be provided for the following if applicable
 - Leases of assets that are investments
 - Certain regulated leases
 - Sublease transactions
 - Sale-leaseback transactions
 - Lease-leaseback transactions
- IOC will provide a template for footnote disclosures



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Summary of GASB Updates

- **GASB Statement No. 87 – Leases**

SCO-560 Form – Reminders/Issues

- The \$25,000 threshold for completion of the form is based on the **total contract amount**, not the amount related to individual pieces of equipment within the same contract
- Ensure completion of the following items:
 - “Noncancelable Lease Period” on page 1 – The noncancelable period is the portion of the lease the lessee cannot get out of with a termination clause
 - The termination options for lessee and lessor
 - Renewal periods in the payment schedule if the agency is “reasonably certain” to exercise the renewal
 - The appropriation code field
- Ensure the Total Number of Payments Over Lease Life on page 1 agrees to Total Number of Payments listed on page 2



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Summary of GASB Updates

- **GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period***
 - Requires that interest cost incurred before the end of a construction period be recognized as expense in the period in which the cost was incurred
 - Interest cost incurred before the end of a construction period will **NOT** be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund
 - Changes should be applied *prospectively*
 - Agencies will need to review their procedures for analyzing and reporting costs for current long-term projects. If procedures have historically calculated and included any interest costs, these will need to be excluded beginning July 1, 2021



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Summary of GASB Updates

- **GASB Statement No. 91 – *Conduit Debt Obligations***
 - Defines conduit debt obligations
 - A debt instrument issued in the name of the State that is for the benefit of a third party primarily liable for repayment of the debt instrument
 - Establishes standards for recognition, measurement, and disclosure for issuers



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Summary of GASB Updates

- **GASB Statement No. 92 – *Omnibus 2020***
 - Statement addresses a variety of topics and includes specific provisions, including:
 - Reporting of intra-entity transfers of assets between the primary government and Pensions/OPEB plans
 - Reporting of assets accumulated for defined benefit postemployment benefits through plans not administered through a trust
 - Exception to acquisition value in a government acquisition, as it relates to Asset Retirement Obligations (AROs)
 - The terms *derivative* and *derivatives* should be replaced with *derivative instrument* and *derivative instruments* – *This provision was implemented at the time of issuance as of June 30, 2020*



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Summary of GASB Updates

- **GASB Statement No. 93 – *Replacement of Interbank Offered Rates***
 - Addresses accounting implications resulting from the replacement of an interbank offered rate (notably the London Interbank Offered Rate (LIBOR))
 - LIBOR in its current form was phased out at the end of 2021
 - Provides an exception to the lease modification guidance in Statement No. 87, for certain lease contracts that are amended solely to replace the rate upon which variable payments depend
 - Provides exceptions for certain hedging derivative instruments to the termination provisions when a rate is replaced
 - Identifies a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
 - Removes LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of an interest rate swap



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Summary of GASB Updates

- **GASB Statement No. 94 – Public-Private and Public-Public Partnerships (PPP) and Availability Payment Arrangements (APA)**
 - Establishes standards of reporting for PPPs and APAs to improve comparability of financial statements among governments that enter into these types of agreements
 - A PPP is an arrangement in which a government contracts with a 3rd party to provide public services by conveying control of the right to operate or use a nonfinancial asset for a period of time in an exchange or exchange-like transaction
 - Some PPPs are leases and should be reported in accordance with GASB 87
 - Other PPPs (including service concession arrangements or SCAs) should be reported in accordance with this standard
 - An APA is an arrangement in which a government compensates an operator for activities 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
 - The additional guidance will enhance the understandability, reliability, relevance, and consistency of information about PPPs and APAs
 - IOC is working to reach out to agencies to specifically determine applicability and potential impact of implementation



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Summary of GASB Updates

- **GASB Statement No. 94 – Public-Private and Public-Public Partnerships (PPP) and Availability Payment Arrangements (APA)**
 - Types of PPP Arrangements:
 - Service Concession Arrangement (SCA):
 - Transferor conveys the right *and related* obligation to provide a public service through the use of an asset in exchange for significant consideration (e.g., upfront payment, installment payments, etc.)
 - Operator collects and is compensated by fees from a third party
 - Transferor determines or has the ability to modify or approve which services the operator provides, who the services are provided to, and the prices or rates charged
 - Transferor gets residual interest in the service utility of an asset at the end of the arrangement
 - Lease under GASB 87:
 - Existing assets of the transferor are the only underlying PPP assets
 - No improvements to assets are required as part of the agreement and the operator does not need to provide maintenance
 - The agreement is not an SCA
 - Other – Example: A transferor conveys the right *and related* obligation to provide public service through the use of an asset, but operator determines pricing, services offered, etc.



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Summary of GASB Updates

- **GASB Statement No. 94 – *Public-Private and Public-Public Partnerships (PPP) and Availability Payment Arrangements (APA)***
 - Examples of PPP Arrangements:
 - Service Concession Arrangement (SCA):
 - State enters into an arrangement with a tollway authority where the State receives an upfront payment and in return, the tollway authority operates and receives and retains toll revenues for a period of time
 - State enters an arrangement with a tunnel authority where the authority agrees to design and build a tunnel and then operate the tunnel for a period of time. The authority collects and retains tolls, but the State recognizes the tunnel as a capital asset when placed into service
 - Lease under GASB 87:
 - State enters agreement with private entity for the use of land below a highway. Entity uses the land for parking. The entity is not performing a service for the state and no control is maintained by the State
 - Other – Example: A transferor conveys the right *and related* obligation to provide public service through the use of an asset, but operator determines pricing, services offered, etc.
 - State enters an arrangement with an authority to design and build a toll bridge and then operate the bridge. The authority has the right to collect and retain the toll revenue but also has the ability to set the prices for the tolls



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Summary of GASB Updates

- **GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements (SBITAs)***
 - Establishes a definition for SBITAs and provides uniform guidance on accounting and financial reporting of SBITAs
 - SBITAs provide governments with access to IT software and associated capital assets without granting governments a perpetual license or title to the software and assets
 - Established that a SBITA results in a right-to-use subscription asset (intangible asset) and a corresponding subscription liability
 - Provides guidance on associated capital outlay and implementation costs
 - Reporting is similar to guidance for lease reporting in GASB 87



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Summary of GASB Updates

- **GASB Statement No. 97** – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*
 - Objectives include:
 - Increase consistency and comparability related to the reporting of fiduciary component units when a component unit does not have a governing board and the primary government performs the duties that a governing board would typically perform
 - Mitigate costs associated with the reporting of certain defined contribution plans
 - Enhance the consistency and comparability of reporting of deferred compensation plans (457 plans) that meet the definition of a pension plan



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Summary of GASB Updates

Questions/Comments?



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