Administrative Report

H.15., **File #** 22-4172 **Meeting Date:** 6/21/2022

To: **MAYOR AND CITY COUNCIL**

From: JENNIFER PAUL, FINANCE DIRECTOR

TITLE

APPROVE AN AGREEMENT WITH LANCE, SOLL AND LUNGHARD, LLP FOR ACCOUNTING SERVICES RELATED TO COMPLIANCE WITH GASB STATEMENTS 87, 89, 91, 94, 96 AND 97, GASB 87 LEASE SOFTWARE IMPLEMENTATION, AND COMPLIANCE WITH ALL CURRENT AND EFFECTIVE GASB PRONOUNCEMENTS IN AN AMOUNT NOT TO EXCEED $100,000 FOR THE TERM JUNE 21, 2022 TO DECEMBER 31, 2023.

EXECUTIVE SUMMARY

The Governmental Accounting Standards Board (GASB) is an organization that establishes Generally Accepted Accounting Principles (GAAP) and financial reporting standards for local governments by periodically issuing GASB Statements. Local governments are required to comply with all Statements issued by GASB. Numerous Statements have been issued recently by GASB that require implementation and compliance by the City.

GASB Statements 87, 89 and 97 are applicable for FY 2021-22 and GASB Statements 91, 94 and 96 are applicable for FY 2022-23.

In particular, GASB Statements 87 and 97 establish new standards of accounting and financial reporting for leases (lessor and/or lessee arrangements) and for Internal Revenue Code Section 457 Deferred Compensation Plans, respectively. The City is required to implement these Statements by the June 30, 2022 year-end period.

Compliance and implementation of the new GASB regulations will require a significant amount of staff time and specialized technical advisory related to these complex transactions. Financial Services does not currently have the staff resources or capacity to effectively implement and comply with the required GASB regulations without the assistance of a third-party consultant, Lance, Soll and Lunghard, LLP (LSL). These services would be outside the scope of services for the City's annual financial audit, which is currently being performed by a different branch of LSL so that there will be no conflict of interest.

Staff is recommending the approval of an agreement with LSL in an amount not to exceed $100,000 to provide the City with accounting and specialized technical support services related to compliance with GASB Statements 87, 89, 91, 94, 96 and 97, GASB 87 lease software implementation of DebtBook, and compliance with all current and effective GASB Pronouncements.

BACKGROUND

The Government Accounting Standards Board (GASB) has issued numerous Statements establishing new standards of accounting and financial reporting. The City is required to comply and implement the accounting and financial reporting standards specified in each GASB Statement. Below are summaries of some of the GASB Statements that require compliance and implementation:

GASB Statement No. 87. The objectives of the Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments; increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract; establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

GASB Statement No. 89. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, 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.

GASB Statement No. 97. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or another employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform.

GASB Statement No. 91. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements-often characterized as leases-that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

GASB Statement No. 94. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is 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. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) 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 (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is 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.

GASB Statement No. 96. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset-an intangible asset-and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

A SBITA is defined as 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.

In regards to the above referenced GASB Statements, Financial Services does not have the staff resources or the technical expertise to effectively implement these Statements, especially GASB 87, 96 and 97, and requires the assistance of Lance, Soll and Lunghard, LLP, (LSL) to implement and ensure proper compliance with the new accounting and financial reporting standards.

For GASB 87, all lease arrangements by lessee and lessors will need to be identified and inventoried for compliance with these new standards. LSL's scope of services related to the GASB 87 implementation and compliance project will include the following: provide a Project Manager that will be responsible for the day-to-day management of the project, including scope, quality, resources, timeline, and communication between the City and DebtBook software staff; assist the City with development of standards and policies related to GASB 87 compliance; ensure organizational structure within lease software is appropriate to produce accurate and reliable journal entries; evaluate City's lease documentation and advise if lease qualifies under GASB 87; assist with lease validation and reconciliation of data included in the lease software; perform integrity testing on the software to ensure data points for the leases are accurate; provide assistance to the City to ensure the lease information is correct and ties to the General Ledger; and guide and train City staff on implementing any changes to the City's General Ledger.

Staff is recommending the approval of an agreement with LSL to provide the City with accounting and specialized technical support services related to compliance with GASB Statements 87, 89, 91, 94, 96, and 97, GASB 87 lease software implementation of DebtBook, and compliance with all current and effective GASB Pronouncements. These services would be outside the scope of services for the City's annual financial audit, which is currently being performed by a different branch of LSL so that there will be no conflict of interest.

LSL is a public accounting firm located in Brea, which has been providing services since 1929 and has demonstrated extensive experience with city government audits. LSL is currently auditing nearly 60 government entities (cities, districts, and authorities) throughout California.

COORDINATION
The City Attorney's Office has reviewed and approved the agreement as to form.

FISCAL IMPACT
The initial term of the agreement will be funded through Mid-Year Decision Package #8 in the amount of $50,000, which was approved by City Council on February 15, 2022. Funding for the remaining term of the agreement will be available in the Financial Services Department's FY 2022-23 operating budget.

APPROVED BY:
Mike Witzansky, City Manager

ATTACHMENTS
Lance, Soll and Lunghard, LLP - Agreement

Lance, Soll and Lunghard, LLP - Signature
Lance, Soll and Lunghard, LLP - Insurance