



Lighting the path forward



GASB Update

GASB 87, GASB 96 and GASB 94



November 8, 2023

Government Webinar

A few things before we get started:



Questions? We will be doing a Q & A session at the end of each agenda item. Feel free to chat your question in or unmute yourself and ask.



Use the chat function to let us know about any technology/sound issues.



A short survey will be sent out after the session, along with the recording. Please help us make these sessions even better in the future.





CPE

You need to answer the poll questions if you would like to be issued CPE credits.



Meet the Presenters



Abby Schmidt

Government Audit Manager



Bonnie Schwieger

Government Senior Audit Manager

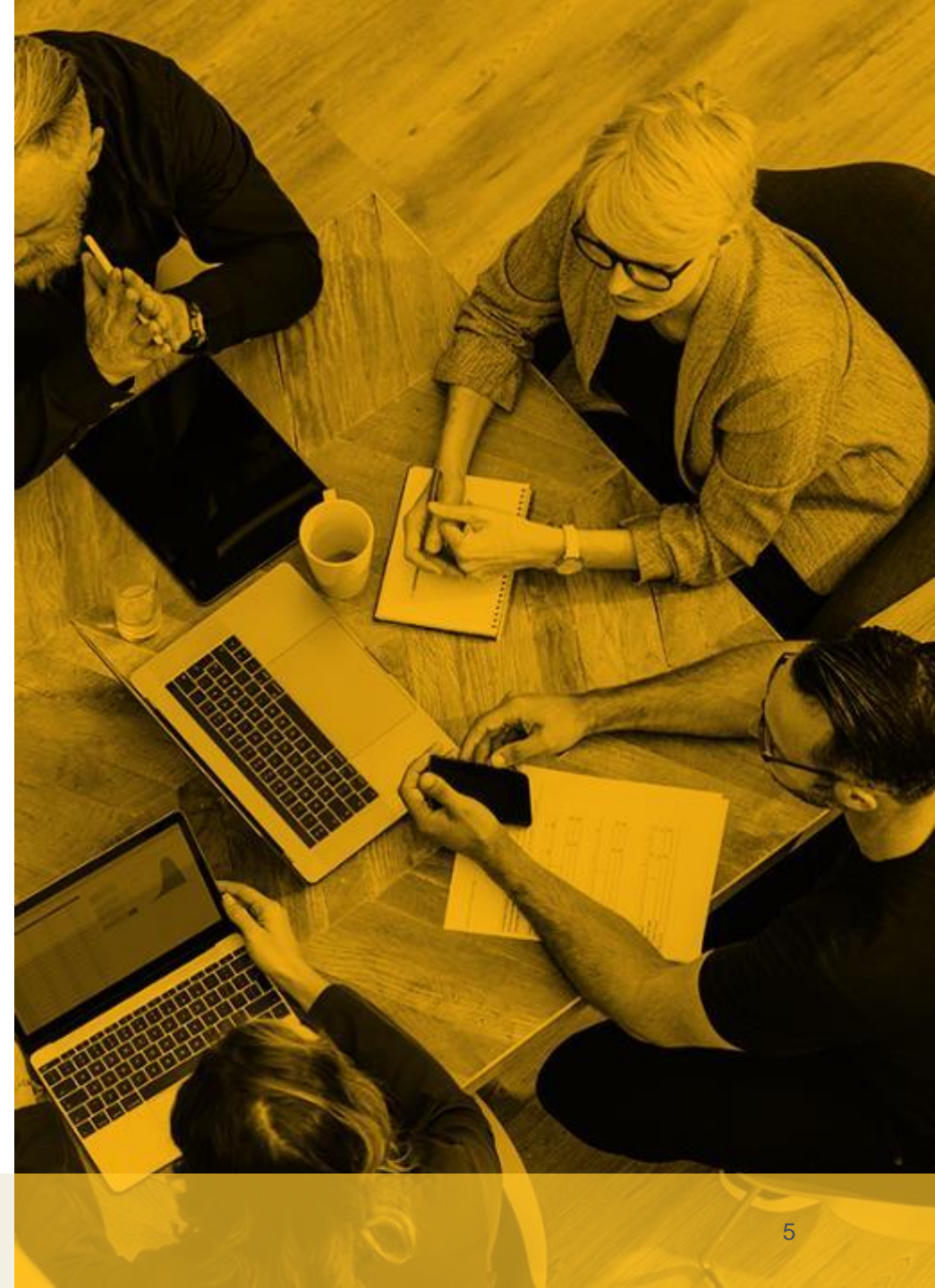
Today's Agenda

Upcoming Standards

GASB 87: Year 2 Considerations

GASB 96: Implementation

GASB 94: Implementation



Quick View: Upcoming Standards

2023 Audits

GASB 96:
Subscription-Based Information
Technology Arrangements

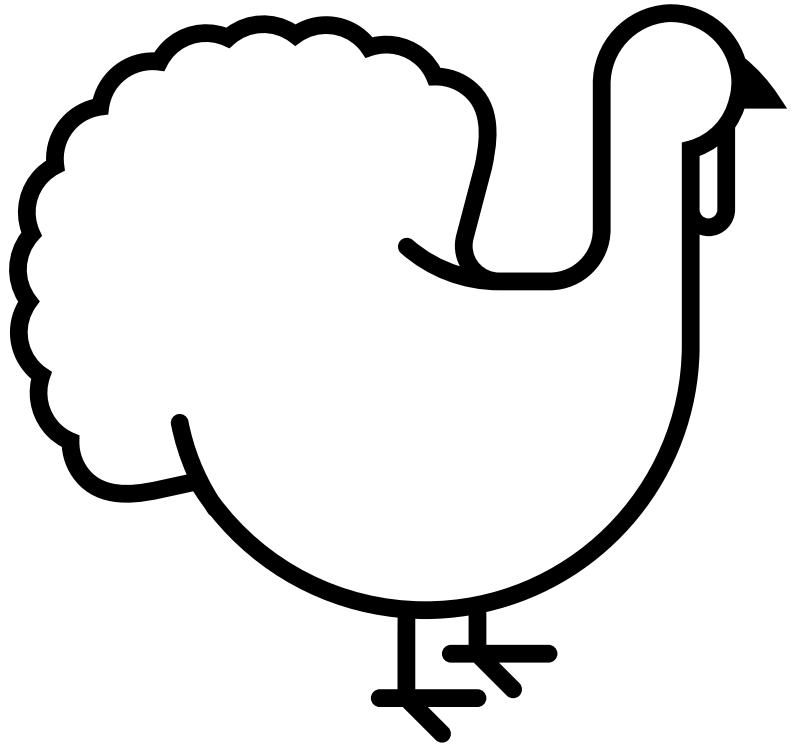
GASB 94:
Public-Private and Public-Public
Partnerships and Availability
Payment Arrangements

2024 Audits

GASB 100:
Accounting Changes and Error
Corrections
➤ *Fiscal Years Beginning After June 15, 2023*

GASB 101:
Compensated Absences
➤ *Fiscal Years Beginning After December 15,
2023*

Poll
Question



GASB 87: Leases

Year 2 Considerations

GASB 87: Common Examples

Lessor



Buildings & Office Space

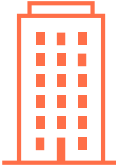


Antenna



Billboards

Lessee



Building & Office Space



Vehicle Fleets



Equipment
Office, Libraries, Other offsite Locals

GASB 87: What did we Learn

Common Exclusions

Cancellable by Either Party

Changes maximum term to the amount of notice required by either party

Immaterial

Must be in aggregate of all leases

Financed Purchase Arrangement

Automatic transfer of ownership (bargain purchase option does not apply)

Complexity

Variable Payments

Based on CPI index

Cancellation Terms Not Clearly Stated

Timing of Payment

Impacts the liability/receivable

Completeness

General Ledger Detail Review

Where are you lease revenues and lease expenditures/expense coded?

Department Head Inquiry

Consider how other types of agreements are communicated with the finance department, incorporate leases into the same process.



How is materiality considered?

- Lessor and Lessee transactions are evaluated separately.
 - Lessor = Fund Statements
 - Lessee = Government-Wide
- Evaluate the effect of the **SUM** of all lessor and lessee transactions.
 - Example –
 - 3 Building lessees, each with a present value of \$50,000.
 - Total Lease liability would be \$150,000
 - If materiality is \$100,000, at least two of your building leases would need to be recorded.

GASB 87: Lease Changes

Amendments

Amendments will either result in a lease modification or a new lease agreement.

- If the Right to Use Asset Decreases = Partial Terminations
- If the Right to Use Asset Increases = Additional Lease Asset / Liability (New Lease)
- If no changes to the lease assets and the amendment is material, see the remeasurement category.

Terminations

Lease terminations will result in a gain (loss) recorded in the current fiscal year.

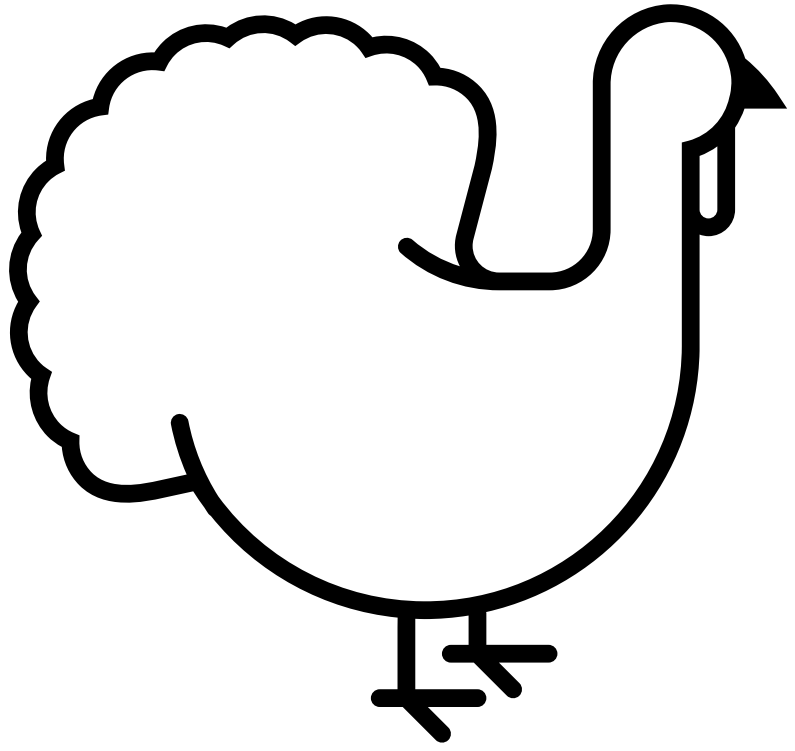
- $\text{Gain (Loss)} = \text{Value of the Lease Liability at the date of termination less the carrying value of the Right to Use Asset}$

Remeasurement

The lease should be remeasured if the lease liability has one or more of the following significant changes:

- Lease term, Residual Value options, purchase options, estimated amount of payments, discount rate
- Remeasurements will add to the existing lease liability / asset or lease receivable / deferred inflow

Poll
Question



GASB 96: Subscription- Based Information Technology Arrangements

Implementation

GASB Statement No. 96, Subscription-Based Information Technology Arrangements (SBITAs)

A SBITA is a contract that conveys control of the right to use another party's (a SBITA vendor's) 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.

- ✓ Effective: Periods beginning after June 15, 2022



Exclusions from GASB 96



IT Support Contracts



Contracts with tangible capital assets that fall under GASB 87 and have an **insignificant software component**



Governments **that provide the right to use their IT** software and associated tangible capital assets to other entities through SBITAs



Contracts that meet the definition of a P3 in GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements



Licensing arrangements that provide a **perpetual license** to governments to use a vendor's computer



software, which are subject to Statement No. 51, Accounting and Financial Reporting for **Intangible Assets**



Which of the following agreements would be excluded from GASB 96?

1. Copier Maintenance Agreement
2. Agreement with another School District to use your District's internally developed cloud-based curriculum
3. Online library of curriculum that can be utilized with no end date
4. All of the above

Common Examples



Software

- Microsoft 365, QuickBooks Online, Banyon, Incode



Multifunctional Copiers

- Software component



Website Subscriptions



Digital Textbooks

Will this software no longer work/will we no longer be able to log in once the contract term ends?

Application Considerations



Use facts as of the earliest period presented, **not** the date of the agreement

- For most cities, the “Issue” date will be the later of 1/1/2023 or the actual date of the agreement



Control Criteria: to qualify as an SBITA, the City must have control over the right to use the asset

- Consider Present Service Capacity
- Right to determine nature and manner of use



Short Term SBITAs: Not recognized as a liability

- Maximum possible term at commencement of subscription term of 12 months or less



Discount Rate will need to be determined to calculate the present value of the liability/asset

- If not stated, consider using your incremental borrowing rate
- Inquire with local bank or internally determined based on market date
- Needs to be specific to term and type of asset

Accounting Overview

Accounting: Initial Balances

Subscription Liability

- Measured at the **PV of payments expected to be made during the subscription term**
- Does not include the following:
 - Deposits
 - Payments based on future performance

Subscription Asset

- Measured at the **amount of the subscription liability**, less any vendor incentives, plus contract payments due at commencement and capitalizable initial implementation costs

Accounting: Year End Adjustments

Subscription Liability

- Reduced for principal portion of the SBITA Subscription payment
- Recognize interest expense

Subscription Asset

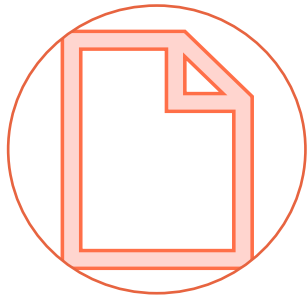
- Amortize over the shorter of the useful life of the IT asset or SBITA term
- Accumulated Amortization

Accounting: Financial Statement Reporting



Government Wide & Proprietary Statements

- Report Subscription Liability and Asset



Modified Accrual Fund Statements

- Report Principal and Interest related to the subscription payment (Debt Service Expenditures)

Accounting: Other SBITA Costs



Preliminary Project Stage –

Expense as incurred

- Conceptual, formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the SBITA



Initial Implementation Stage –

Capitalize as incurred, Amortize when term starts

- Charges necessary to place the subscription asset into service also should be included in this stage (configuration, coding, testing, and installation)
- Stage completed when the asset is placed into service



Operational and Additional Implementation Stage –

Expense as incurred

- Maintenance, troubleshooting, and other activities associated with the government's ongoing access to the underlying IT assets



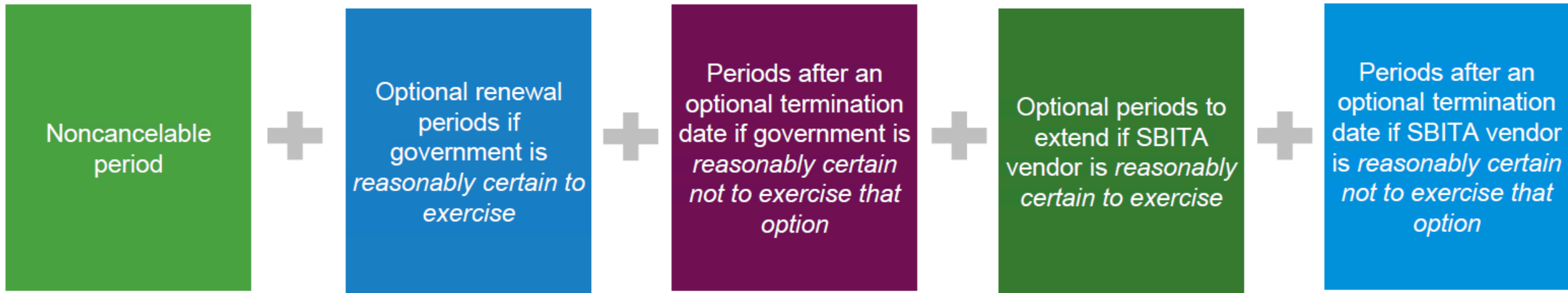
In FY23, City ABC incurred the following expenses related to a new accounting software:

- \$10,000 for to evaluate finance software proposals
- \$20,000 for configuration and testing

How much of the above payments should be capitalized in FY23?

SBITA Term Overview

Subscription Term



Subscription Term: Key Takeaways



Exclude Periods in which both parties have options to terminate



Fiscal funding or cancelation clauses ignored unless reasonably certain to be exercised



Very Similar to LEASE TERM identification process



If the maximum possible term under an SBITA agreement is 12 months or less, how would this agreement be treated under GASB 96?

1. Short term and not recognized under GASB 96
2. Subscription Liability

Implementation Steps

Implementation Steps

1. Identify SBITA

- *Start an Inventory Sheet*
- *Track Implementation Stages for Capitalization*

2. Determine SBITA Term

3. Measure Subscription Liability

- *What are the fixed and variable payments under the contract?*
- *Review General Ledger payments*

4. Measure the Subscription Asset

- *Any implementation stage costs to capitalize?*
- *Consider any incentives received*

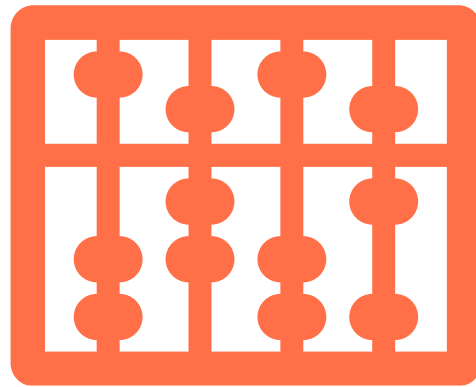
5. Record Initial Balances

6. Year End Adjustments

How to start gathering Data



Department
Inquiry



General Ledger
Review



City Council
Meeting Minutes

Implementation Example

Original Product Agreement

- Noted term greater than 12 months
- Noted nothing in original agreement stated termination clauses
- Obtained Marco Relationship Master Agreement

Summary of Selected Payment Options

Description	Amount
Recurring Payments: 36 Months - Monthly Payments	
Selected Recurring Payment	\$4,419.00

Master Agreement

- Reviewed Marco Relationship Master Agreement
- Searched for termination clause

18. Term and Termination.

18.1 This Agreement. This Relationship Agreement shall commence on the Effective Date and remain in effect until terminated by either party as provided in this **Term and Termination** Section.

➔ Refers us to continue reading

18.2 Product Agreement. The term of each Product Agreement shall be as specified in that Product Agreement.

➔ Refers us to the individual product agreement to determine the term of the SBITA

18.3 Termination for Convenience. Either Party may terminate this Relationship Agreement for convenience at any time upon written notice to the other Party. If there are any active Product Agreements, termination shall be effective upon the expiration or termination of the last Product Agreement. If there are no active Product Agreements, termination shall be effective upon receipt of the written notice.

➔ Initially, it may appear that either party can terminate for any reason, thus making the SBITA short-term. However, if you continue reading, it states that any product agreements in place, they will terminate based on that agreement. Meaning, the relationship agreement may be terminated at any time, but outstanding product agreements remain intact.

18.4 Termination for Breach. Either Party may terminate this Agreement or any individual Product Agreement in accordance with the following:

➔ No need to continue reading as terminations due to breach of contract do not affect term and thus do not affect whether a SBITA applies. MUST be cancellable by both parties for *any* reason, not *because* something happened

Journal Entries – Recording Initial Balance

To record SBITA assets and liability

SBITA Asset	148,057.38	
Capital Outlay - SBITA		148,057.38
Capital Outlay - SBITA	143,638.38	
SBITA Liability - noncurrent		143,638.38

Note: there may be a minor difference due to timing of initial payments.

This is OK as long as it appears insignificant.

Journal Entries – Year End Adjustments

To record amortization on SBITA asset

Amortization Expense	16,450.84		<i>Note: similar to depreciation expense</i>
Accumulated Amortization		16,450.84	

To record decrease in SBITA payable liability

SBITA Liability - noncurrent	11,509.35		<i>Note: set up this account to offset where the original SBITA payment was made. If you record against the original SBITA expense account, it may skew budget to actuals</i>
SBITA Lease		11,509.35	

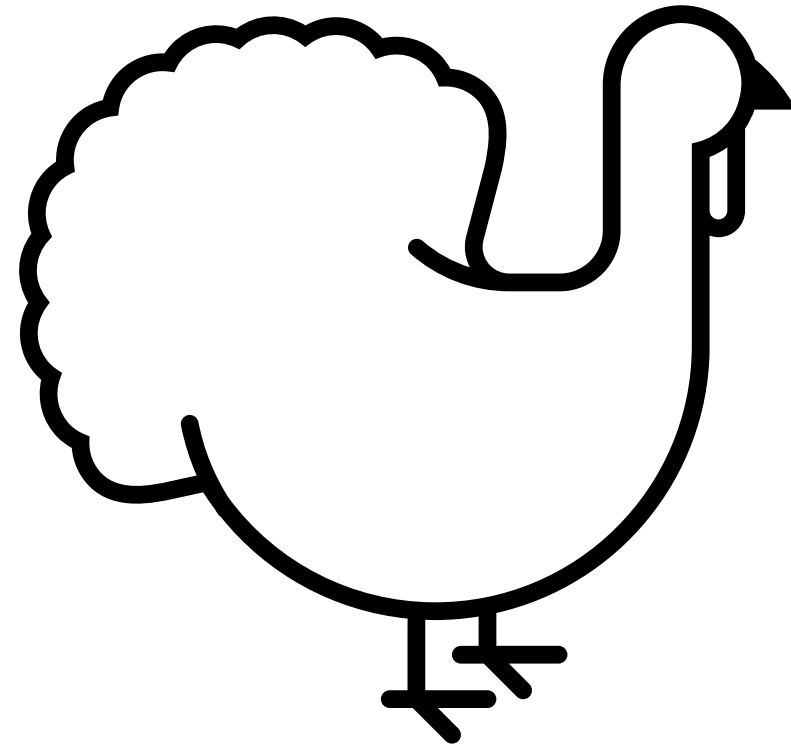
To record interest expense on SBITA payable

Interest Expense-SBITA Liability	2,298.19		<i>Note: Use same account as noted above to keep adjustments separate from original expense accounts.</i>
SBITA Lease		2,298.19	

To reclass short term lease payable

SBITA Liability - noncurrent	47,500.29	
SBITA Liability - current		47,500.29

Poll
Question



GASB 94: Public-Private and Public-Public Partnerships and Availability Payment Arrangements

Implementation

GASB 94: Public-Private and Public-Public Partnerships and Availability Payment Arrangements

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.



Service Concession Arrangements

The transferor conveys to the operator the right and related obligation to provide public services through the use and operation of an underlying PPP asset in exchange for significant consideration, such as an up-front payment, installment payments, a new facility, or improvements to an existing facility;

City allows a management company to provide services using a City Asset in exchange for monetary payment or capital considerations

The operator collects and is compensated by fees from third parties;

The Management Company collects fees from Residents

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

City determines manner of services and rates

The transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

City keeps the value of the underlying asset

Availability Payment Arrangements

Arrangement in which a government procures a capital asset or service by compensating an operator for activities that may include designing, constructing, financing, maintaining, and operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction

The government procures a capital asset or service rather than receiving compensation.

City Pays the vendor for asset construction, design, maintenance or operations

GASB 94: Transferor Accounting

PPP w/ Existing Asset

- **Asset** – No changes, continue to report as normal
- **Receivable** for installment payments (Present Value)
- **Deferred Inflow of Resources**

SCA w/ New Asset

- **Asset** at Acquisition Value
- **Receivable** for installment payments (Present Value)
- **Deferred Inflow of Resources**

PPP w/ New Asset

- **Receivable** for the underlying PPP asset purchased or constructed to be received from the operator
- **Receivable** for installment payments (Present Value)
- **Deferred Inflow of Resources**

GASB 94: Operator Accounting

PPP w/ Existing Asset

- **Liability** for installment payments (Present Value)
- **Right to Use Asset**

SCA w/ New Asset

- **Liability** for installment payments (Present Value)
- **Right to Use Asset**

PPP w/ New Asset

- **Recognize the asset until ownership changes**
- **When placed into service:**
 - **Liability** for asset to be transferred (estimated carrying value)
 - **Liability** for installment payments (Present Value)
 - **Deferred Outflow of Resources**

44

Common Examples



Hospitals



Infrastructure



Sports Facilities



Jails / Prisons



Museums

A government enters into an arrangement with a developer (operator) for a term of 50 years.

The developer will finance the demolition of an existing structure and construction of a new facility on the government's property. The new structure includes housing and dining facilities which the developer will operate, including setting the rates, and the developer will be compensated by the customers that utilize the facilities.

This meets the criteria of a PPP, but not of an SCA since the developer has control over the rates that may be charged

A government agrees to allow a public or private entity (operator) to operate their toll collecting function on the government's roadways.

The operator provides an up-front payment of \$3 billion to the government in return for the right to operate the toll collection and to receive and retain toll revenues for a period of 50 years.

Based on the facts in this example, this is a PPP that also meets the criteria for an SCA.

GASB 94 Determination

1. Does your City have a contract with an operator to provide public services?

- **Yes** - Continue **No** - Does not apply

2. Does the operator have the right to operate or use the City's capital asset, including infrastructure?

- **Yes** - Continue **No** - Does not apply

Is the contract for a specific period of time?

- **Yes** - Continue **No** - Does not apply

Is there an exchange or exchange-like transaction?

- **Yes** - Applicable to GASB 94, Check SCA Criteria
- **No** - Does not apply

GASB 94 Determination (SCA)

Has the operator provided your agency with significant consideration, such as an up-front payment, installment payments, a new facility, or improvements to an existing facility?

- **Yes** - Continue **No** – Is not a SCA

Does the operator receive compensation from fees collected from third parties?

- **Yes** - Continue **No** – Is not a SCA

Does the state have the ability to modify or approve (1) which services the operator is required to provide, AND (2) to whom the operator is required to provide the services, AND (3) the prices or rates that can be charged for the services?

- **Yes** - Continue **No** - Is not a SCA

Is the transferor entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement?

- **Yes** – Applicable SCA
- **No**- Is not a SCA

Questions?



Abby Schmidt

Government Audit Manager

abby.schmidt@abdosolutions.com



Bonnie Schwieger

Government Senior Audit Manager

bonnie.schwieger@abdosolutions.com



Questions?