

**"WHY ME??"**

## **GASB'S LATEST ACCOUNTING STANDARDS**

Sponsored by the:

### **Division of Local Government Audit**

Jerry E. Durham, Presenter



**ROUTE FIFTY – FRANK KONKEL – 9/12/22**

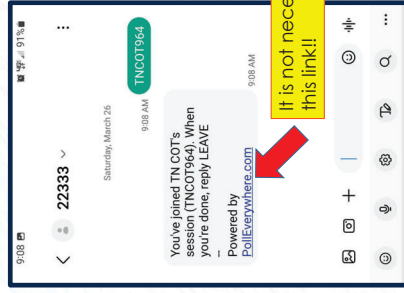
**More Than 1 in 3 Government Employees Haven't Taken a Vacation in Last Year, Survey Says**



DAVID J. PHILLIPS



# Join the Poll

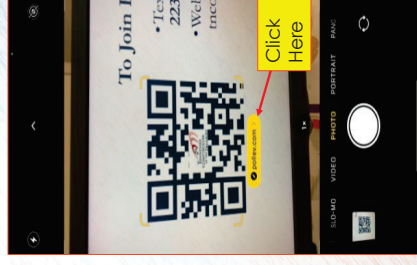


It is not necessary to touch this link!!

- Text: **TNCOT964** to **22333** once to join
- Website: [tncot.cc/poll](http://tncot.cc/poll)



# To Join Poll



# WELCOME



## Which best describes your vacation time last year?

- I did not take a vacation last year. 0%
- I took my vacation a day here and a day there. 0%
- I took five or more vacation days in a row but no one was able to perform my work while I was gone. 0%
- My vacation days were sick days. 0%
- I took five or more vacation days and someone was able to perform my work while I was gone. 0%
- Something else. 0%

## Division of Local Government Audit

**GASB**  
**2023 Effective**  
**Accounting Standards**

### **FREE CPE DAYS:**

KNOXVILLE, SEPTEMBER 14-15  
JACKSON, OCTOBER 17-18  
NASHVILLE, OCTOBER 25-26

## Contact Information for CMFOs

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WHY IS THERE A GASB PRESENTATION AT  
EVERY CONFERENCE I ATTEND??

Because Naps are Good for You!



Are you ready for some really exciting material?

GARFIELD



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TENNESSEE COMPTROLLER OF THE TREASURY

# GASB Fact Check



## What does "GASB" stand for?

GASB stands for:

- Government Agency Standards Board
- Government Advisory Standards Board
- Governmental Accounting Standards Board
- Governmental Assessment Statistical Board
- None of the above

## WHO IS GASB?

GASB is:

- A federal regulatory organization
- A department of the U.S. Office of Management and Budget
- An organization established by the 50 states to regulate accounting practice
- An independent non-profit organization
- All of the above

## WHAT DOES GASB DO?

### ⊕ GASB:

- Establishes accounting law for state and local governments
- Establishes federal accounting standards
- Establishes U.S. governmental accounting, auditing, and internal control standards
- Establishes U.S. governmental accounting standards
- All of the above

## WHAT DOES GAAP STAND FOR?

### ⊕ GAAP:

- Generally accepted accounting practices
- Generally accepted accounting principles
- Governmental accepted accounting principles
- Governmental accepted accounting practices
- All of the above



## WHAT DOES THIS ALL MEAN?

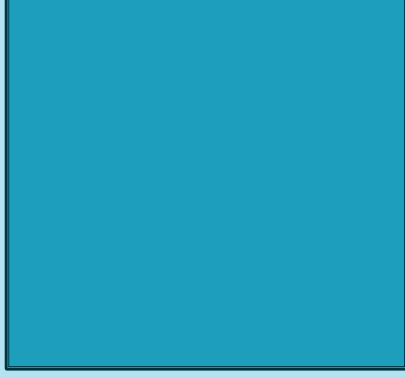
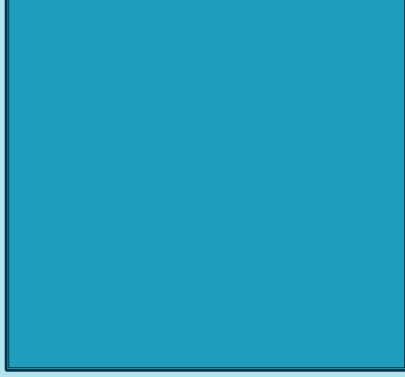
- ⊕ Which is not true about **new** GASB Statements (e.g., GASB Statement 91, 94 & 96)?
  - Large governments with over \$500M in revenues must follow the guidance (GAAP)
  - Small governments with less than \$50M in revenues do not have follow the guidance (GAAP)
  - Governments in Tennessee have to follow the guidance (GAAP)
  - Government's that do not follow the guidance (GAAP) will receive a modified opinion
  - All of the above

## Waverly AKA Ziggy

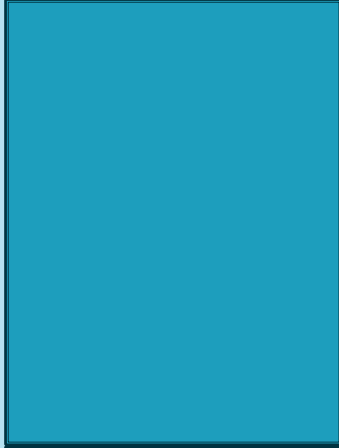
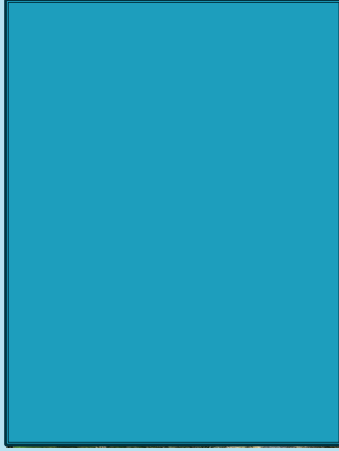
The prediction!



**Thinking outside the Box**

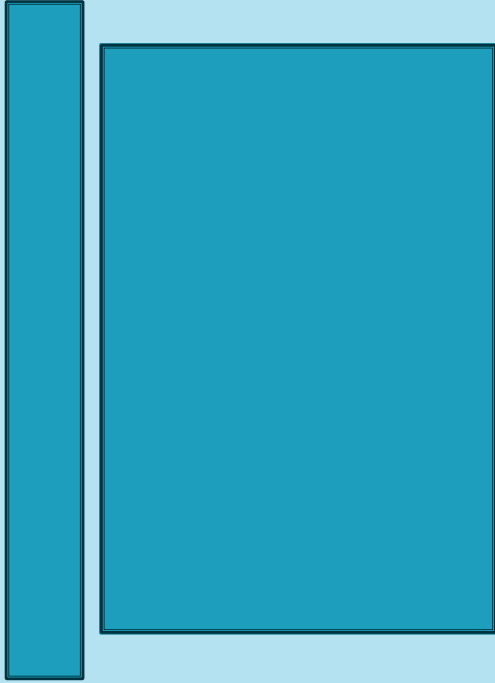


**Thinking outside the Box**



# GASB

A Brief Historical Review



## CLIFTON LARSON ALLEN ARTICLE

- <https://www.claconnect.com/en/resources/articles/2021/milestone-gasb-statement-has-us-reflecting-on-government-accounting-history>

### ▪ Milestone GASB Statement Has Us Reflecting on Government Accounting History

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## MILESTONE GASB STATEMENT

- For those in the governmental accounting sector, the last few years may have felt a bit tumultuous. Discussions on accounting issues are more complex; meetings with the board or audit committee require more education; specialists and third parties are more involved with government finance teams. What happened? What changed?
- At the time this article was written, 97 Governmental Accounting Standards Board (GASB) statements have been issued. Three additional projects are nearing the final pronouncement stage — which will bring the total issued statements to an eye-opening 100. This milestone reflects the extensive changes governmental entities have had to adopt over the years — and why you need someone on your team to be responsible for keeping up with these changes.

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## MILESTONE GASB STATEMENT

- GASB Statement Highlights:
  - 1985 and 2014 are the only years in which a GASB statement was **not issued**
  - **43** of the GASB statements (**40%**) have been issued over the last 13 years (see below)

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## MILESTONE GASB STATEMENT

- Number of GASB Statements:
  - 1984 – 1989 - 10
  - 1990 – 1999 - 25
  - 2000 – 2009 - 23
  - 2010 – present - 39 + 4 (98,99,100,101)

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## MILESTONE GASB STATEMENT

- Common Topics/Complexity:
- The most complex statements have been related to financial statement reporting and pensions/OPEB.
- These subject areas encompass roughly 40% of all GASB statements issued to date.

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## GASB UPDATE – GOOD NEWS!

### Exposure Draft June 30, 2022

#### ⊕ Financial Reporting Model (FRM):

- GASB has tentatively decided to remove “Governmental Funds” accounting and financial statement presentation from the scope of the project. (redeliberation).
- Implementation Date – Previous – FYs beginning after June, 2024 or after June, 2025.
- Enterprise Fund changes remain intact.



## STANDARDS UNDER POST IMPLEMENTATION REVIEW (PIR)

### ▪ The GASB team is currently conducting PIRs on six

#### Statements

- Statement 67—Pension Plan Reporting
- Statement 68—Employer Reporting for Pensions
- Statement 72—Fair Value Reporting
- Statement 75—Employer Reporting for Other Postemployment Benefits
- Statement 84—Fiduciary Activities
- Statement 87—Leases

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# GASB

Current “Why Me” Standards 2023

## EFFECTIVE DATES – DECEMBER 31

### December 31: Fiscal Year 2021

- Statement 89 – construction-period interest
- Statement 93 – interbank offered rates (except LIBOR removal and lease modifications)
- Statement 98 – the annual comprehensive financial report
- IG 2019-1 – update

### December 31: Fiscal Year 2022

- **Statement 87 – leases**
- **Statement 91 – conduit debt**
- Statement 92 – omnibus 2020 (multiple effective dates)
- Statement 93 – LIBOR removal and lease modifications
- Statement 97 – certain component unit criteria and Section 457 plans
- Statement 99 – omnibus 2022 (extension of LIBOR, SNAP distributions, nonmonetary transaction disclosures, pledges of future revenues, clarification of provisions in Statement 34, and terminology updates)
- IG 2019-3 – leases
- IG 2020-1 – update
- IG 2021-1 – update (4.22)

### December 31: Fiscal Year 2023

- **Statement 94 – public-private partnerships**
- **Statement 96 – SBITAs**
- **Statement 99 – omnibus 2022** (leases, PPPs, and SBITAs)
- IG 2021-1 – update (4.1–4.21, 4.23, 5.2, and 5.4)

### December 31: Fiscal Year 2024

- Statement 99 – omnibus 2022 (financial guarantees and classification of derivatives)
- Statement 100 – accounting changes and error corrections
- **Statement 101 – compensated absences**
- IG 2021-1 – update (5.1)

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## EFFECTIVE DATES – JUNE 30

### June 30: Fiscal Year 2022

- **Statement 87 – leases**
- Statement 89 – construction-period interest
- Statement 93 – interbank offered rates (except LIBOR removal and lease modifications)
- Statement 98 – the annual comprehensive financial report
- Statement 97 – certain component unit criteria and Section 457 plans
- Statement 98 – the annual comprehensive financial report
- Statement 99 – omnibus 2022 (extension of LIBOR, SNAP distributions, nonmonetary transaction disclosures, pledges of future revenues, clarification of provisions in Statement 34, and terminology updates)
- IG 2020-1 – update (except 4.6–4.17 and 4.19–4.21)
- IG 2021-1 – update (4.22)

### June 30: Fiscal Year 2023

- **Statement 91 – conduit debt**
- **Statement 94 – public-private partnerships**
- **Statement 96 – SBITAs**
- **Statement 99 – omnibus 2022** (leases, PPPs, and SBITAs)
- IG 2020-1 – update (4.6–4.17 and 4.19–4.21)
- IG 2021-1 – update (4.1–4.21, 4.23, 5.2, and 5.4)

### June 30: Fiscal Year 2024

- Statement 99 – omnibus 2022 (financial guarantees and classification of derivatives)
- Statement 100 – accounting changes and error corrections
- IG 2021-1 – update (5.1)

### June 30: Fiscal Year 2025

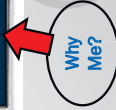
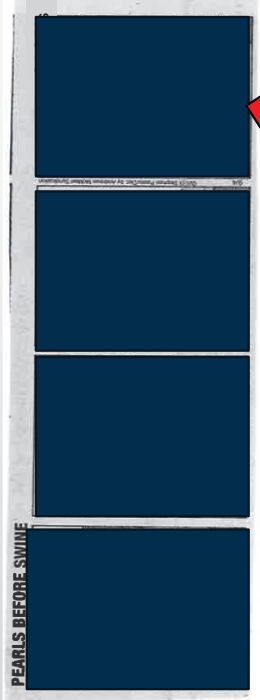
- **Statement 101 – Compensated Absences**

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# WHOLE WORLD

PEARLS BEFORE SWINE



# NEW GASB STATEMENT IMPACT

## Potential Level of Effort for Preparer and Auditor\*

Statement and FY Effective	Potential Level of Effort*				
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
GASB 87 – Leases				LARGE EFFORT	Minimal
GASB 89 – Construction-period Interest					
GASB 91 – Conduit Debt				Small	Small
GASB 92 – Omnibus (multiple effective dates)					
GASB 98 – LIBOR Removal and Lease Modifications				Small	Small
GASB 94 – Public-Private Partnerships					
GASB 96 – SBITA					
GASB 97 – Certain Component Unit Criteria/Section 457 plans					
GASB 98 – The Annual Comprehensive Financial Report					
GASB 99 – Omnibus (multiple effective dates)				Small	Small
GASB 100 – Accounting Changes and Error Corrections					
GASB 101 – Compensated Absences					

\*Based on June 30 fiscal years

**Fortune Cookie**

**GARFIELD**

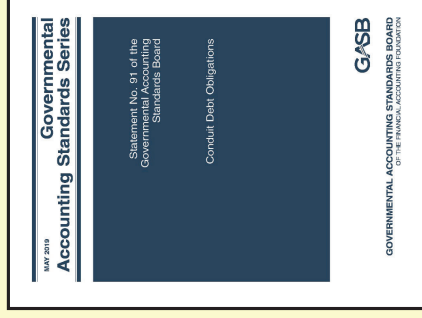


# GASB 91

Conduit Debt

## Conduit Debt Obligations

Statement No. 91



## Conduit Debt

- What do we mean by the word “**conduit**”?
- **One definition is: Someone or Something that provides a way of passing something such as information or payments (**debt**) from one person to another.**
- Practical Example
- Industrial Development Boards (IDBs)

## Conduit Debt

### What?

The Board improved the standards related to conduit debt obligations by providing a single reporting method for government issuers

### Why?

Interpretation 2 had been in effect for 20 years before its effectiveness was evaluated. Improvements based on GASB research, were needed to eliminate diversity in practice

### When?

Effective for periods beginning after December 15, 2021

Earlier application is encouraged

## GASB Interpretation #2

### Summary

This Interpretation provides disclosure requirements for conduit debt obligations. Conduit debt obligations are certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Although conduit debt obligations bear the name of the governmental issuer, the issuer has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued.

The required disclosures include a general description of the conduit debt transactions, the aggregate amount of all conduit debt obligations outstanding at the balance sheet date, and a clear indication that the issuer has no obligation for the debt beyond the resources provided by related leases or loans.

The provisions of this Interpretation are effective for financial statements for periods beginning after December 15, 1995. Earlier application is encouraged.

## Definition of Conduit Debt

1. There are at least three parties involved: the **government-issuer**, the **third-party obligor (borrower)**, and the **debt holder or trustee**.
2. The issuer and the third-party obligor are *not* within the same financial reporting entity. (e.g., Component Unit Government)
3. The debt obligation is not a **parity bond** of the issuer, nor is it **cross-collateralized** with other debt of the issuer.
4. The third-party obligor or its agent, **not the issuer**, ultimately **receives** the proceeds from the debt issuance.
5. The third-party obligor, **not the issuer**, is primarily obligated for the payment of all amounts associated with the debt obligation.

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## Parity Bond, Cross-Collateralization

- A **parity bond** refers to two or more bond issues with equal rights of payment or equal seniority to one another. In other words, a parity bond is an issued bond with equal rights to a claim as other bonds already issued.
- **Cross collateralization** is the act of using an asset that's collateral for an initial loan as collateral for a second loan. If the debtor is unable to make either loan's scheduled repayments on time, the affected lenders can eventually force the liquidation of the asset and use the proceeds for repayment.

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## Limited, Additional & Voluntary Commitments Extended by Issuers

Generally, issuers' commitments are **limited** to the **debt** resources provided to the third-party obligor.

Occasionally, an issuer **may** extend an **additional commitment** to support debt service in the event of the third-party obligor's default.

For example:

- Extending a moral obligation pledge
- Extending an appropriation pledge
- Extending a financial guarantee
- Pledging its own property, revenue, or other assets as security

Under a **voluntary commitment**, issuer voluntarily decides to make a debt service payment or request an appropriation for a payment in the event that the third-party is, or will be, unable to pay.

## Recognition by the Issuer

Do **not** recognize a conduit debt obligation as a **liability**

May have a related liability arising out of an additional or voluntary commitment

**Additional commitment:** report a liability when qualitative factors indicate it is **more likely than not** that the issuer will support debt service payments for a conduit debt obligation

**Voluntary commitment:** if a certain event or circumstance has occurred, evaluate likelihood, then report a liability if it is **more likely than not** that the issuer will support debt service payments

Voluntary commitments for which a liability is recognized and all additional commitments: **At least annually reevaluate whether recognition criteria are met while conduit debt is outstanding**

## More likely than Not??

- **What does the terminology “more likely than not” mean?**
  - Reasonably certain (higher than probable)
  - Probable (likely to occur)
    - 95% chance of occurrence
    - 50% chance of occurrence
    - More than 50% chance of occurrence
- **GASB 91, paragraph 12, footnote 2. “The term more likely than not means a likelihood of more than 50 percent”**

## Arrangements and Capital Assets

Some conduit debt obligations include arrangements that involve capital assets to be used by the third-party obligor but owned by the issuer.

- Capital asset is built or acquired with proceeds of the conduit debt obligation.
- Issuer retains title to the capital asset from the beginning of the arrangement.
- Payments from the third-party obligor are to cover debt service payments.
- Payment schedule of the arrangement coincides with the debt service repayment schedule.

\*Often characterized as “leases”

## Arrangements and Capital Assets (cont'd)

Accounting by the issuer:

Do **not** report those arrangements as leases

Do **not** recognize a liability for the related conduit debt obligations

Do **not** recognize a receivable for the payments related to those arrangements

If the arrangement meets the definition of a service concession arrangement, follow Statement 60

## Arrangements and Capital Assets (cont'd) Leases?? **And I REPEAT.....!!!!**

These  
are  
**Not**  
Leases

- Construction is financed by debt
- Issuer **retains** title
- Payments from Obligor equal debt service requirements
- Payments coincide with debt service repayment schedule



## Arrangements and Capital Assets (cont'd)

Question? Does title pass to third-party obligor at end of arrangement?	Question? Does the issuer recognize a capital asset?	Question? Does the issuer recognize a deferred inflow of resources?
Yes	No	No
No, and third party has exclusive use of <i>entire</i> capital asset	Yes, when the arrangement ends	No
No, and third party has exclusive use of only <i>portions</i> of the capital asset	Yes, at the inception of the arrangement	Yes, at the inception of the arrangement; deferred inflow recognized as revenue over the term of the arrangement

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## Disclosures by Type of Commitment

A general description of the issuer's conduit debt obligations

- Description of limited commitments
- Description of additional commitments (legal authority and limits; length; arrangements for recovering payments from third-party obligors, if any)
- Aggregate outstanding principal amount

If the issuer recognizes a related liability

- Description of timing of recognition and measurement of the liability
- Beginning balances, increases, decreases, ending balances
- Cumulative payments that have been made
- Amounts expected to be recovered, if any, for those payments

## Summary of Implementations – Statements

New Statement		Implement for Fiscal Years Ending			
Statement #, Topic	Effective for Reporting Periods (*Fiscal Years) Beginning After... and All Reporting Periods Thereafter	March 31	June 30	September 30 / October 31	December 31
		2021	2021	2021	2020
84, Fiduciary	Dec. 15, 2019	2021	2021	2021	2020
87, Leases	June 15, 2021*	2023	2022	2022	2022
89, Interest Capitalization	Dec. 15, 2020	2022	2022	2022	2021
90, MEI	Dec. 15, 2019	2021	2021	2021	2020
91, Conduit Debt	Dec. 15, 2021	2023	2023	2023	2022

# GASB 87, 94, 96

## “RIGHT TO USE” STANDARDS

### Statement 87

Leases

### Statement 94

Public-Private and Public-Public

Partnerships and Availability Payment

Arrangements

### Statement 96

Subscription-Based Information

Technology Arrangements



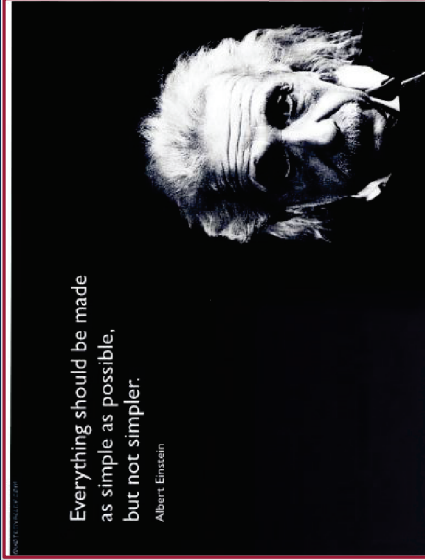
What's the Difference?

# GASB 87, 94, 96

Similar, but not the Same!  
Related, but Different!!

Everything should be made  
as simple as possible,  
but not simpler.

Albert Einstein



## Definitions – Leases, PPP, and SBITA

**Lease** - 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.

**PPP (P3)** - arrangement in which a government (the transferor) contracts with an operator (governmental or nongovernmental) to provide public services by conveying control of the right to operate 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.

**Subscription-Based Information Technology Arrangements (SBITA)** - 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. Intangible asset II

## Definitions – SCAs and APAs

**SCA** - 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 government (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. (Toll Road)

**P3** – An arrangement in which a government (the transferor) contracts with an operator (governmental or nongovernmental) to provide public services by conveying control of the right to operate 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. (Constructed asset for compensation)

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## Relationship to GASB 87

# 87 Leases

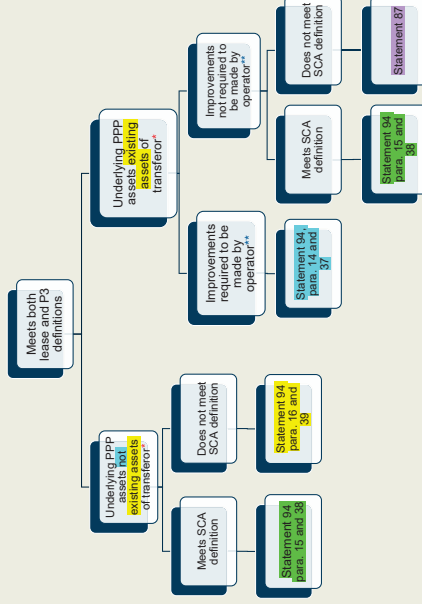
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Tennessean – 9/13/22



## Recognition and Measurement Guidance – GASB 94 and GASB 87

\*Transferor = Government  
\*\*Operator = Contracted Entity



Maybe it's time to talk with your Auditors



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## Relationship between Leases – GASB 87 and SBITAs – GASB 96

- **All SBITAs meet definition of lease**
- **Depends on what the underlying asset is:**
  - Tangible capital assets alone – Statement 87
  - IT software alone – Statement 96
  - IT software in combination with tangible capital assets:
    - Software component is **insignificant** compared to cost of tangible capital asset – Statement 87 (i.e., Copier Software)
    - Otherwise – Statement 96
- **Also excluded from Statement 96:**
  - **Governments** acting as SBITA vendors
  - **Contracts** that meet the definition of a **P3** in Statement 94
  - **Perpetual software licenses!!**

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## Topics That Are The Same – 87, 94 and 96

- Lease/PPP/Subscription **Term**
  - **Noncancellable** period plus certain optional periods
    - One party has option - reasonably certain will extend or not cancel
  - Excludes cancellable periods – both parties can cancel
- **Short-Term Lease/SBITA (Short-Term is N/A to PPP)**
  - Maximum possible term of 12 months or less
    - Includes all one-party options to extend
    - Excludes cancellable periods
  - Recognize expense/expenditure or revenue (applies to lessors too) based on contract

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## Topics That Are The Same

- **General recognition and measurement**
  - Intangible right-to-use asset and liability (87-lessee/ 94-operator/ 96 - SBITA)
  - Receivable and deferred inflow of resources (87-lessor/ 94-transferor)
- **Contracts with multiple components**
  - Generally, account for lease (etc.) and non-lease (etc.) components as separate contracts and multiple underlying assets as separate lease (etc.) components
  - Allocate contract price to different components
- **Modifications and terminations**

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

# 94

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## GASB Statement 94

- This Statement establishes standards of accounting and financial reporting for **PPPs (P3s)** and **APAs** for governments. The requirements of this Statement apply to financial statements of all state and local governments.
- Most PPPs meet the definition of a lease.
- Some PPPs are service concession arrangements (SCAs).

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## Definitions

- **P3** - arrangement in which a government (the transferor) contracts with an operator [governmental or nongovernmental] to provide public services by conveying control of the right to operate 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.
- **SCA** - 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.

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## What are p3's?

- **Multiple variations:**
  - Design – build
  - Design – build – finance
  - Build – own – operate
  - Build – own – operate – transfer
  - Design – build – operate – maintain
  - Design – build – finance – operate
  - Design – build – finance – operate – maintain

## SOME PPPS ARE SERVICE CONCESSION ARRANGEMENTS – FORMERLY GASB 60, NOW GASB 94

### TRANSFEROR GOVERNMENT

- Conveys the right (and related obligation) to provide public services through the use of a **capital asset (must include all)**

- Receives **significant** consideration in exchange including

- Up-front / installment payments
- New capital asset
- Improvements on existing capital asset

### Determines or has the ability to modify / approve

- Services provided
- To whom operator provides services
- Prices / rates charged

- Receives significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

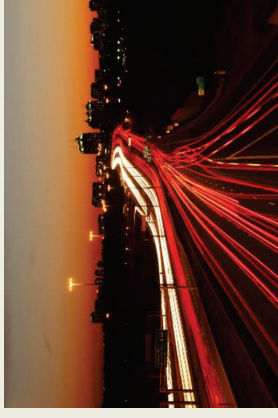
### OPERATOR GOVERNMENT/ PRIVATE ENTITY

- Collects fees and is compensated by fees from third parties (except those remitted back to transferor)

## P3's (and/or) SCAs in Government

### Read networks

- Airports
- Public transit
- Healthcare
- Student services at public institutions
- Stadiums
- Jails
- Water / sewer
- Museums
- Any capital asset could be involved



## GASB Statement 94

- This Statement supersedes Statement No. 60, Accounting and Financial Reporting for **Service Concession Arrangements**; Implementation Guide No. 2015-1, Question Z.60.1; and Implementation Guide No. 2016-1, Implementation Guidance Update—2016, Question 4.74. This Statement amends Statement No. 38, Certain Financial Statement Note Disclosures, paragraph 10; Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, paragraphs 11 and 12; Statement No. 51, Accounting and Financial Reporting for Intangible Assets, paragraph 3; Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, paragraph 135; Statement No. 87, Leases, paragraph 8; and Statement No. 91, Conduit Debt Obligations, paragraph 19.

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## Topics Unique to Statement 94

### ▪ **Availability Payment Arrangements (APAs)**

- Government contracts with another entity to operate or maintain the government's nonfinancial asset
- The Other Entity receives payments from the government based on the asset's availability for use
- Asset's availability may be based on the physical condition of the asset or the achievement of certain performance measures
- May include design, finance, construction, or service components
  - Design, construction, financing components and ownership transfers – **financed purchase**
  - Service components – **outflows (expense)** of the period

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# ■ 96

# SBITA or

Subscription-based  
information technology  
arrangements

## SBITA

- **More than just “Cloud-Computing”**
- **Most common models are:**
  - Software as a Service (SaaS)
  - Platform as a Service (PaaS)
  - Infrastructure as a Service (IaaS)
  - Data Warehouse as a Service (DaaS)
- **Diversity in practice due to structure of contracts and arrangements:**
  - Could have multiple components
  - Could be an intangible asset (similar to GASB-87 leases) or an outflow

## SBITA – WHAT IT IS “NOT”

### • NOT:

- 1) Licensed Software such as Microsoft Office
- 2) Licensed Software such as Quick Books
- 3) Licensed Software such as Local Government Data Corporation, BIS, etc.
- 4) Licensed software when either party can cancel at any time
- 5) Licensed software such as legal books (i.e., Tennessee Code Annotated)
- 6) Cloud Storage **Equipment Only Lease (insignificant software component)**
- 7) **Equipment Only Leases**
- 8) Software Support Services (considered like maintenance – therefore expense)
- 9) Equipment and Software when the software is an **insignificant** component.
- 10) Governments that provide their software to other entities
- 11) Perpetual licenses (pay the license fee and continue the service in the future – e.g., 30 short-term leases) IG 2023-1, 4.7
- 12) Prepaid Asset (not liability) = Prepaid Asset
- 13) **Is it material?**

## Topics Unique to Statement 96

- **Implementation Costs – Software\***
  - Preliminary project stage
    - Expense
  - Initial implementation stage
    - Generally capitalize
    - Expense if short-term SBITA
  - Operation and additional implementation stage
    - Generally expense
    - Capitalize if specific criteria met
  - Training costs always expensed

\*Follow 51 Guidance

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## Components/Elements of SIBTAs

- Maintenance
- Startup / transition / conversion
- Business analysis and development
- Communication and outreach
- Delivery
- Application customization
- Training deployment

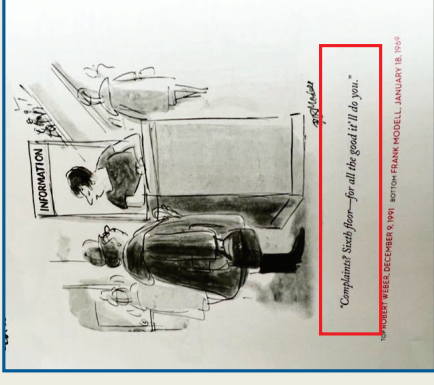
- User Acceptance Testing
- Data conversion support
- Post-implementation support
- Architectural design
- Cloud labor
- Advanced wireless cloud services
- Etc.

## Topics Unique to Statement 96

- **Subscription Term**
  - Commences when initial implementation stage is completed
  - No subscription liability or subscription asset until then
  - Payments made before are prepayment until commencement
- **Multiple Modules**
  - Subscription term begins when first module (or set of interdependent modules) is implemented

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## Feel Free to Complain





# ■ Summary

## Initial Reporting – Leases, PPPs, SBITAs

	Assets	Liability	Deferred Inflow
<b>Lessee/ Operator/ SBITA</b>	Intangible lease asset (right to use underlying asset)— value of lease liability plus prepayments and initial direct costs that are ancillary to place asset in use	Present value of future lease payments (incl. fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.)	NA
<b>Lessor/ Transferor</b>	<ul style="list-style-type: none"> <li>Lease receivable (generally includes same items as lessee's liability)</li> <li>Continue to report the underlying asset</li> </ul>	NA	Equal to lease receivable plus any payments received up front that relates to a future period

## Subsequent Reporting – Leases, PPPs, SBITAs

	Assets	Liability	Deferred Inflow
Lessee/ Operator/ SBITA	Amortize the intangible lease asset over shorter of useful life or lease term	Reduce by lease payments (less interest expense)	NA
Lessor/ Transferor	<ul style="list-style-type: none"> <li>Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition)</li> <li>Reduce receivable by lease payments (less amount needed to cover accrued interest)</li> </ul>	NA	Recognize revenue over the lease term in a systematic and rational manner

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## Comparing SBITA and P3 Project with leases

Leases Element	SBITA	P3 Project
Lease Term	Subscription factors	Same factors
Terminations, modifications, combinations	Same	Same
Short term exception	Same	No provision for Short – Term Accounting
Right to use asset	Same	Same
Liability measurement	Same	Same
Interest rate use – implicit or stated	Same	Same
Reassessment of rates	Same	Same
Impairment of right to use asset	Same	Same
Disclosure	Almost all the same	Almost all the same
Leases that are financings	As applicable	Slightly different – SCA vs. P3

## Lease/PPP/Subscription Term

- For financial reporting purposes, when does the lease/PPP/subscription term start and end?
  - Start with the noncancelable period
    - 2021.....2027.....2031
  - Plus periods covered by options to:
    - Extend, if reasonably certain of being exercised
    - Terminate, if reasonably certain of *not* being exercised
  - Excludes cancelable periods
    - Periods for which lessee/transferor and lessor/operator **both have option** to extend or terminate (such as rolling month-to-month leases/PPP-s/subscriptions)
  - Fiscal funding and cancellation clauses are ignored unless reasonably certain of being exercised

## Effective Dates

Pronouncement	Beginning After
Statement 87	June 15, 2021* June 30, 2022
Statement 94	June 15, 2022** June 30, 2023
Statement 96	June 15, 2022* June 30, 2023

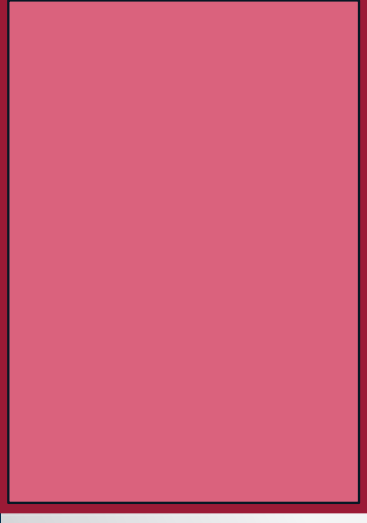
\* Fiscal years beginning after this date, and all reporting periods thereafter  
 \*\* Reporting periods beginning after this date

## Discussion Items

- SBITAs meet the definition of a lease, but are they leases technically?
- SBITA agreements may have different components, that is, they may include a SBITA and a Lease.
- Some PPPs are service concession arrangements (SCAs).
- APAs are **not** PPPs or SCAs.

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## ALSO TRENDING



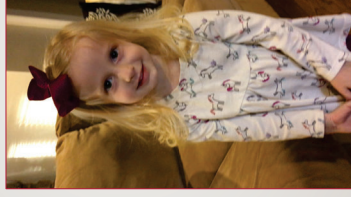
HOW DO I FIND OUT ABOUT NEW GASB STANDARDS?

**Glad you Asked!**

**<http://www.gasb.org/>**

WAVERLY AKA ZIGGY

The final prediction!



# Questions?



**Thank You!!**

**Jerry E. Durham**  
**Comptroller of the Treasury**  
**Division of Local Government Audit**