



GASB 87, 96

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WHO WE ARE

PATTILLO, BROWN & HILL, LLP

Certified Public Accountants & Business Consultants

- Founded in 1923
- Five locations in TX & NM
- Diamond Sponsor – Texas Association of County Auditors
- 41 current county audit clients in Texas; worked with approximately 25% of counties in Texas



COMMITMENT to the present... **VISION** for the future.

Topics

- **Broad overview and lessons learned (so far)**
 - Where leases like to hide
- **Lease example step-by-step**
 - Evaluating if it's a lease
 - Crunching the numbers
 - Journal entries
 - Financial reporting
- **GASB 96**
 - Differences and similarities
 - Where do I start?

A Decree from on High...

“GASB 96 is a *decree* by the Governmental Accounting Standards Board providing guidance on accounting and financial reporting best practices for SBITAs...”

- Quote from lease software website



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GASB 87, Leases

***GASB 96, Subscription-based
Information Technology
Arrangements (SBITA)***





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GASB 87

LEASES (as in PLEASE make it stop)

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Main Takeaways

- **What have we learned so far?**
- **Implementation:** I've read the standard, now what?
- **Examples:** GASB 87 worksheet & journal entries
- **Audit considerations:** How to keep your auditor happy



What pitfalls are you seeing?

- Old agreements or ones not centrally held
 - Elected officials
- Only looking for the word “lease”
- Forgetting the lessor side
 - Airports, cell antennas, commissary space
- Trying to complete each step 100% before moving on

Any helpful tips or tricks?

- Grab an easy agreement and walk **all the way** through it
- Talk to your auditor about tiny agreements **Before** spending hours hunting down the contract

What & when?

- No more distinction between **operating leases** and **capital leases!**
- Effective for fiscal year **ending on or after September 30, 2022**



Why?

- To increase the usefulness of governments' financial statements by requiring the reporting of certain lease liabilities that are not currently report.
- Previously, “operating leases” **not included as a liability on the financial statements.**



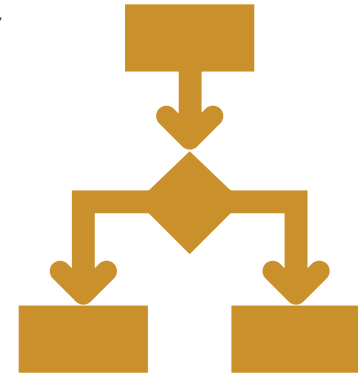
What's changing?

- **No more operating vs capital leases**
- **Financed purchases excluded** (not a lease)
- **If a contract meets the requirements of this standard:**
 - Record a capital asset (right to use), amortize
 - Record a liability, amortize



What do I need to do?

1. **Identify** all potential contracts (lessor and lessee), include on inventory
2. **Evaluate** each against criteria (is this a lease?)
3. **Determine** the length of the lease term
4. **Calculate** asset & liability values
5. **Record** transactions and draft note disclosures



Sound like a lot?

- [DebtBook: Cloud-based debt and lease management software for governments and non-profits](http://www.debtbook.com)
www.debtbook.com
- [GASB 87 Compliance Lease Accounting & Management Software \(visuallease.com\)](http://visuallease.com)
- [LeaseCrunch](http://leasecrunch.com) (leasecrunch.com)

Your auditor can't do this for you!

- A contract that conveys the **control** of the right to use another entity's **nonfinancial asset** (the underlying asset) as specified by the contract **for a period of time** in an **exchange or exchange-like transaction**.

- What if it's not called a "lease"?
 - Service agreement
 - Rental
 - Financial arrangement
 - Management agreement
 - Technology agreement

Definitions

CONTROL

The right to obtain **present service capacity** from the underlying asset, and right to determine the **nature and manner of use** of the underlying asset.

IG 2019-3 -4.2

Q: A government enters into a multiyear agreement for the right to use a facility. The government has exclusive use of the facility three days a week. Other parties use the facility on other days. To meet the definition of a lease, is the government required to have uninterrupted control of the right to use the facility?

IG 2019-3 -4.2

Q: A government enters into a multiyear agreement for the right to use a facility. The government has exclusive use of the facility three days a week. Other parties use the facility on other days. To meet the definition of a lease, is the government required to have uninterrupted control of the right to use the facility?

A: No. In determining whether a contract conveys control of the right to use an underlying asset, a government should assess whether it has (a) the right to obtain the present service capacity from use of the underlying asset and (b) the right to determine the nature and manner of use of the underlying asset “as specified in the contract”. **If the contract specifies that the government has control of those rights during three days of each week, the control criterion is met.** The provision in the lease definition that the contract be for a period of time does not require uninterrupted control of the right to use the facility.

IG 2019-3 -4.7

Q: An electric utility enters into a contract with a nongovernmental telecommunications company that allows the telecommunications company to install an antenna on one of the electric utility's transmission poles. The electric utility will determine the location of the antenna on the pole and retains the right to move the antenna to another location on the pole. Does this contract convey control of the right to use the underlying asset?

IG 2019-3 -4.7

Q: An electric utility enters into a contract with a nongovernmental telecommunications company that allows the telecommunications company to install an antenna on one of the electric utility's transmission poles. The electric utility will determine the location of the antenna on the pole and retains the right to move the antenna to another location on the pole. Does this contract convey control of the right to use the underlying asset?

A: Yes. In this example, the electric utility conveys the right to use a connection point on the pole. As discussed in Question 4.9 in Implementation Guide No. 2019-3, Leases, **a right of substitution does not affect the determination of whether a contract conveys control of the right to use an underlying asset.** Even though the electric utility can change the specific connection point, the telecommunications company maintains the same right to obtain the present service capacity from use of a connection point.

- A contract that conveys the **control** of the right to use another entity's **nonfinancial asset** (the underlying asset) as specified by the contract **for a period of time** in an **exchange or exchange-like transaction**.

Definitions

NON- FINANCIAL ASSET

Buildings
Land
Vehicles
Equipment

(not a financial
asset as defined by
GASB 72)

- A contract that conveys the **control** of the right to use another entity's **nonfinancial asset** (the underlying asset) as specified by the contract **for a period of time** in an **exchange or exchange-like transaction**.

Definitions

EXCHANGE OR EXCHANGE-LIKE TRANSACTION

Each party to the agreement receives or gives up **essentially equal value** or almost equal value.

IG 2019-3 -4.1

Q: A government obtains the right to use land, which has a market rent of \$100,000 per year, for \$1 per year. Should the government apply the requirements of Statement 87 to that transaction?

IG 2019-3 -4.1

Q: A government obtains the right to use land, which has a market rent of \$100,000 per year, for \$1 per year. Should the government apply the requirements of Statement 87 to that transaction?

A: No. The government's right to use the land for \$1 does not meet the description of an exchange or exchange-like transaction because each party does not receive or give up essentially equal value or not quite equal value.

- A contract that conveys the **control** of the right to use another entity's **nonfinancial asset** (the underlying asset) as specified by the contract **for a period of time** in an **exchange or exchange-like transaction**.

Intangible assets (mineral rights, software¹, patents, copyrights)

Biological assets (timber, living plants/animals)

Inventory

Service Concession Arrangements²

Assets financed with outstanding conduit debt (unless lessor reports both asset and conduit debt)

Supply contracts (typical power purchase agreements, which don't convey use of underlying power generating facility)

Short-term leases (see later discussion)

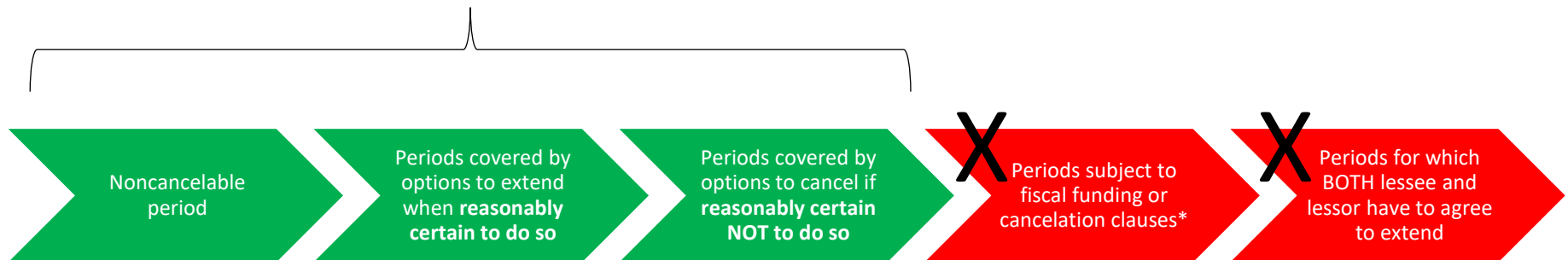
Financed purchases (lease-purchase, or leases that transfer ownership and don't contain termination options)

Certain regulated leases (airport-airline agreements)

¹ Don't ignore software contracts during this process. They are addressed in an upcoming Standard on SBITAs (GASB 96).

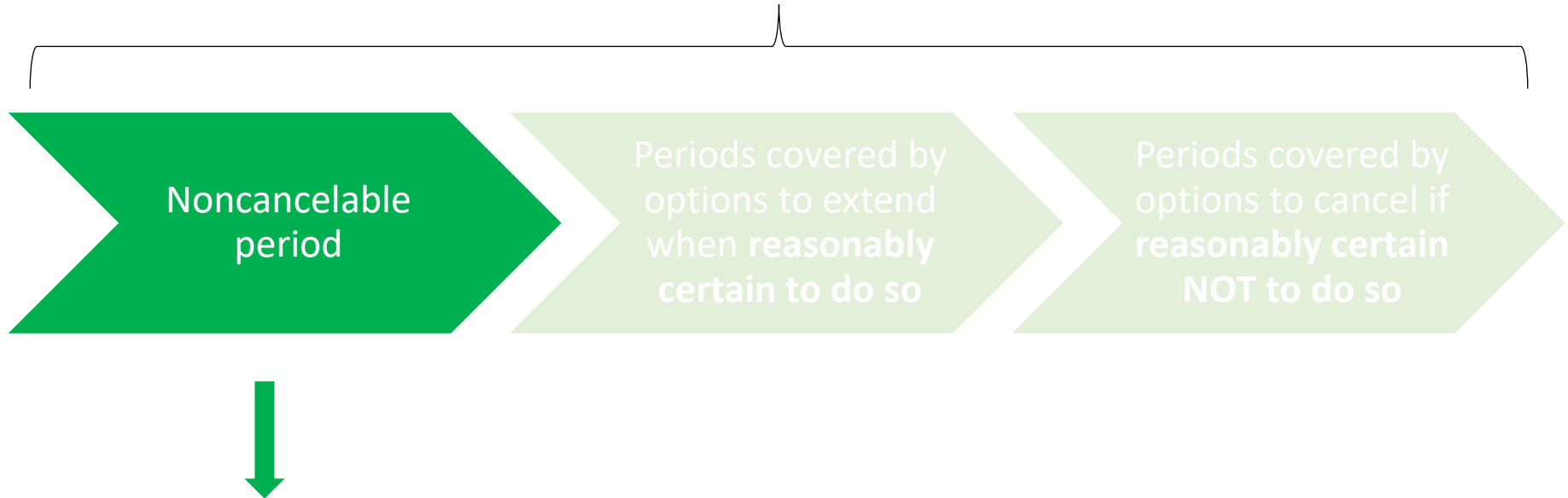
² Consider Service Concession Arrangements (GASB 60) and Public Private/Public Public Partnerships (GASB 94) under their respective standards.

Lease term



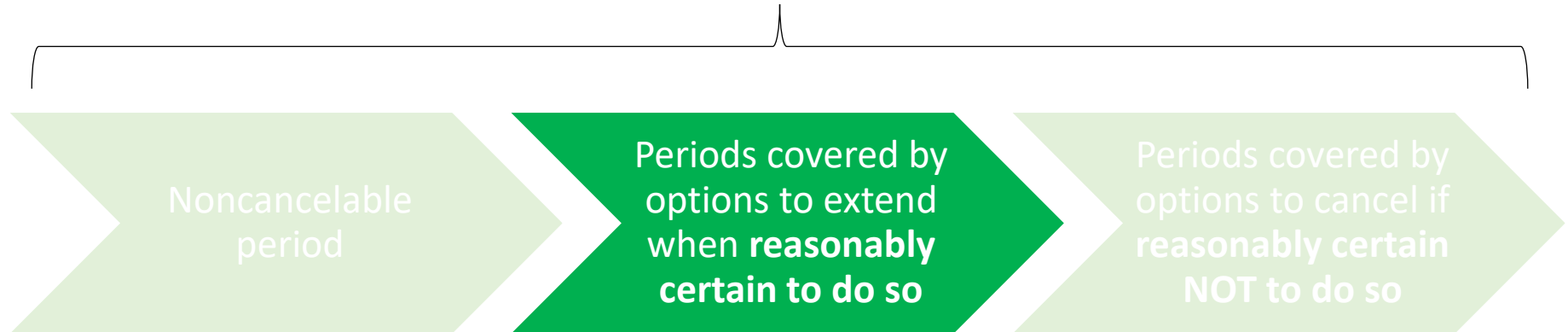
* Fiscal funding clauses are *not* a loophole to get out of this standard. Must be reasonably certain the clause will be exercised.

Lease term



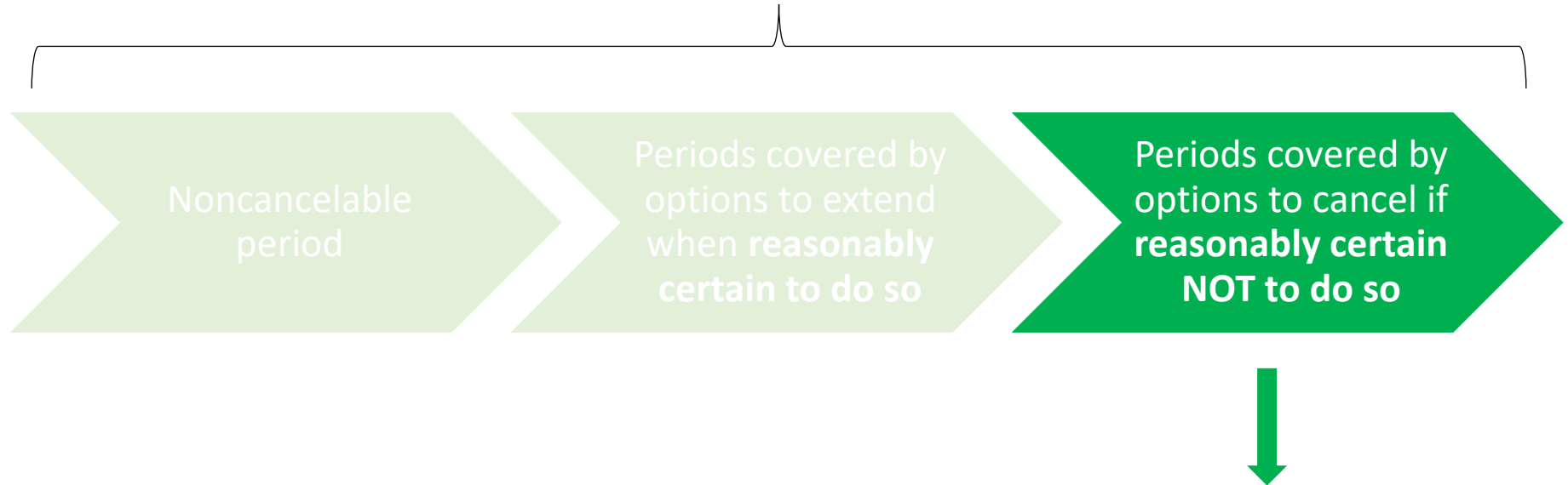
The period during which NEITHER party can cancel the agreement. In other words, both are legally obligated without the possibility of cancellation.

Lease term



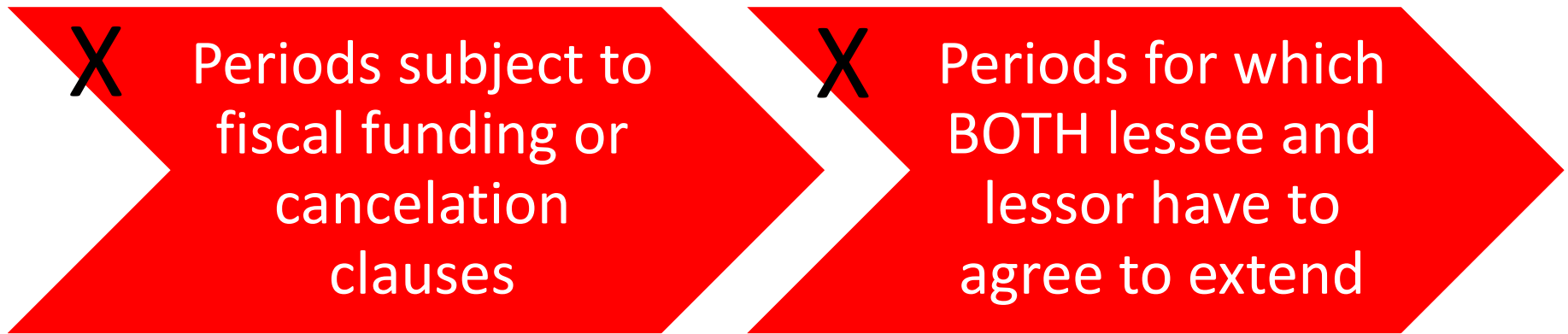
To be “reasonably certain” is a HIGH LEVEL of certainty. Not 51% chance... To determine this, look at similar agreements in the past and other documented intent of management.
Consider likelihood of cancellation for BOTH lessor and lessee!

Lease term



To be “reasonably certain” is a HIGH LEVEL of certainty. Not 51% chance... To determine this, look at similar agreements in the past and other documented intent of management. **Consider likelihood of cancellation for BOTH lessor and lessee!**

Do not include



Unless it is REASONABLY CERTAIN the clause will be exercised!

IG 2019-3 -4.13

Q: A lease contract has a noncancellable period of five years and specifies that at the end of the five years, both the lessor and lessee have the right to cancel the lease or may continue the lease, using the same terms on a month-to-month basis. Is the month-to-month holdover period included in the initial assessment of the lease term?

IG 2019-3 -4.13

Q: A lease contract has a noncancellable period of five years and specifies that at the end of the five years, both the lessor and lessee have the right to cancel the lease or may continue the lease, using the same terms on a month-to-month basis. Is the month-to-month holdover period included in the initial assessment of the lease term?

A: **No**. During the holdover period, the lessee has not contracted for a noncancellable right to use an underlying asset, and the lessor is not required to continue providing the asset. That is, the ***holdover period is cancellable*** by either party and, therefore, is excluded from the lease term, as defined in paragraph 12 of Statement 87.

IG 2019-3 -4.18

Q: A government enters into a lease with a 6-month noncancellable period and an option to extend for another 12 months after the noncancellable period. The government is not reasonably certain that it will exercise the option to extend and, therefore, assesses the lease term as six months. Is this agreement a short-term lease under Statement 87?

IG 2019-3 -4.18

Q: A government enters into a lease with a 6-month noncancellable period and an option to extend for another 12 months after the noncancellable period. The government is not reasonably certain that it will exercise the option to extend and, therefore, assesses the lease term as six months. Is this agreement a short-term lease under Statement 87?

A: **No.** Paragraph 16 of Statement 87 states that a short-term lease “has a *maximum possible term* under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised.” Therefore, the lessee should report a lease liability and a lease asset; however, the lease term would be only six months.

IG 2019-3 -4.15

Q: A lease contract allows either party to unilaterally terminate the lease at any time but also provides for cancellation penalties. The cancellation penalties are so great that it is reasonably certain that neither party will terminate the lease. Should the cancellable periods be excluded from the lease term?

IG 2019-3 -4.15

Q: A lease contract allows either party to unilaterally terminate the lease at any time but also provides for cancellation penalties. The cancellation penalties are so great that it is reasonably certain that neither party will terminate the lease. Should the cancellable periods be excluded from the lease term?

A: Yes. Paragraph 12 of Statement 87 requires that periods for which both the lessee and the lessor have an option to terminate the lease without permission from the other party be excluded from the lease term as cancellable periods. ***The presence of cancellation penalties does not affect that conclusion.*** Even if, as in this example, both parties are reasonably certain that the lease will not be terminated, the ***cancellable periods should be excluded*** from the lease term.

Short-term leases (exception)

A lease with a **maximum possible term** under the contract, including any options to extend, of 12 months or less. These will be somewhat rare.

- Lessee: expense when payments made; no disclosure requirements
- Lessor: recognize revenue when payments received; no disclosure requirements

Reassessment of lease terms

The term of the lease should be reassessed only if one or more of the following occurs:

1. Lessee or lessor elects to exercise an option though originally it was determined they would NOT exercise the option.
2. Lessee or lessor elects to NOT exercise an option, though originally it was determined they WOULD exercise the option.
3. An event specified in the contract requires an extension/termination takes place.

A game plan for implementation

- **Who is in charge?** Designate a team & leader who will identify the population of potential agreements and gather info.
- **What info do we need?** Contracts, agreements, & payment schedules for all agreements currently in effect (retroactive).
- **Who and what can help?** Various departments, minutes of Commissioners Court, legal counsel, miscellaneous revenue, rental expenditures, dues & subscriptions expenditures.



Create a contract inventory

- **Compile a listing** of ALL agreements that could meet the requirements here (completeness is key).
- **File agreements & payment schedules** and make them easily relatable to the contract inventory.
- **Clarify ambiguous terms**, consult with legal and department heads.
- **Ask your auditor lots of questions!**



- **Measurement of lease liability includes:**
 - Fixed payment (less lease incentives receivable)
 - Variable payments based on index/rate (use beginning rate)
 - Variable payments that are fixed in substance
 - Residual value guarantees *reasonably certain* of being required
 - Purchase options *reasonably certain* of being exercised
 - Termination penalties
 - Any other *reasonably certain* payments

- **When measuring liability, DON'T include:**
 - Performance-based payments (charges by mile, by pages, or other usage)

- **You MAY combine multiple like-kind leases during your analysis:**
 - For example, 52 copiers under a single master agreement? Combine them on the inventory spreadsheet.

What about the capital leases we've already been reporting?

- Evaluate along with all other leases
- Probably will either:
 - Fall under 87 as a lease
 - Qualify as a “Financing Arrangement” or “Financed Purchase”
- Helpful hint – if the leased asset is in your name, it's probably a financed purchase!
 - Continue reporting as-is. Just change the name in the financials. (*Don't forget your statistical section!*)
- What about \$1 purchase options?
 - Letter of the law = this would be a lease
 - May be complicated or misleading to reclassify – talk with your auditor

PR&H

NOW WHAT?



Accounting!

COMMITMENT to the present... **VISION** for the future.

- Ok, so I know what leases I have, and I've crunched the numbers....**But what do I do?**
- Lessee
 - Liability and asset only go in the government-wides and proprietary funds
 - Governmental funds:
 - reclass lease payments to principal and interest
 - book lease proceeds and capital outlay for contracts ***signed in the current year***
- Lessor
 - Book lease receivable and deferred inflow in the fund where the revenue is currently booked

Initial reporting:

	Asset	Liability	Deferred inflow
Lessee	Intangible asset = value of lease liability plus costs to place asset in use	Present value of future lease payments	n/a
Lessor	Lease receivable (same as lessee liability)	N/A	Equal to lease receivable, plus any cash received up front that relates to a future period

Next years' reporting:

	Asset	Liability	Deferred inflow
Lessee	Amortize over shorter of useful life or lease term	Reduce by lease payments	n/a
Lessor	Depreciate leased asset Reduce receivable by payments received	N/A	Recognize revenue over the lease term in systematic and rational manner

Lease information:

Inputs		Source of info
Name of Lease	Event Center Lease	contract
Type of underlying asset	Building	contract
Date of first payment	4/1/2020	contract
Number of Payments	60	contract
Interest rate	4.5%	Either from the contract or an estimated rate
Fixed Payment Amount	15,600.00	contract
Present Value	\$836,774.33	=-PV(0.045/12,60,15600)

Calculated Maturity Schedule:

Date	Payment Amount	Lease Liability				Right-to-use Lease Capital Asset			
		Beginning Liability	Principal	Interest Expense	Ending Liability	Asset Value	Beginning Accumulated Depreciation	Ending Accumulated Depreciation	Ending Accumulated Depreciation
10/1/2021	15,600	605,161	13,331	2,269	591,831	836,774	(251,032)	(13,946)	(264,979)
11/1/2021	15,600	591,831	13,381	2,219	578,450	836,774	(264,979)	(13,946)	(278,925)
12/1/2021	15,600	578,450	13,431	2,169	565,019	836,774	(278,925)	(13,946)	(292,871)
1/1/2022	15,600	565,019	13,481	2,119	551,538	836,774	(292,871)	(13,946)	(306,817)
2/1/2022	15,600	551,538	13,532	2,068	538,006	836,774	(306,817)	(13,946)	(320,763)
3/1/2022	15,600	538,006	13,582	2,018	524,424	836,774	(320,763)	(13,946)	(334,710)
4/1/2022	15,600	524,424	13,633	1,967	510,791	836,774	(334,710)	(13,946)	(348,656)
5/1/2022	15,600	510,791	13,685	1,915	497,106	836,774	(348,656)	(13,946)	(362,602)
6/1/2022	15,600	497,106	13,736	1,864	483,370	836,774	(362,602)	(13,946)	(376,548)
7/1/2022	15,600	483,370	13,787	1,813	469,583	836,774	(376,548)	(13,946)	(390,495)
8/1/2022	15,600	469,583	13,839	1,761	455,744	836,774	(390,495)	(13,946)	(404,441)
9/1/2022	15,600	455,744	13,891	1,709	441,853	836,774	(404,441)	(13,946)	(418,387)

Initial reporting for **lessee**:

1. Governmental Funds (fund 01 = General Fund)

DR/(CR)

a) To book capital outlay and other financing sources. In the first year of this standard, *only* book this entry for leases signed during the fiscal year. In each year afterward, this entry should be booked for every new lease.

01-555-507 Capital Outlay	836,774
01-400-407 Other financing source - issuance of lease	(836,774)

This contract was entered into in 2020 – would we book this entry in 2022?

Year-end entries for **lessee**:

1. Governmental Funds (fund 01 = General Fund)

DR/(CR)

b) To reclassify principal and interest expenditures in the general fund. This entry is recommended for the year of implementation and assumes the initial payment was NOT coded to principal and interest. In future years, consider creating new principal and interest expenditure accounts in each department of the County that has a lease. Coding the payments to those accounts as they are paid throughout the year may be simpler than waiting until yearend to reclassify all the payments.

01-560-500 Rental expenditures	(187,200)
01-601-600 Principal expenditures - leases	163,309
01-601-601 Interest expenditures - leases	23,891

Year-end entries for **lessee**:

2. GASB 34 Conversion Entries (fund 34 = GASB 34 fund, clever I know)

a) To reverse capital outlay and other financing source, recognize capital asset and long-term liability. This is only required in the year a lease is signed.

34-555-507 Capital Outlay	(836,774)
34-400-407 Other financing source - issuance of lease	836,774
34-100-151 Right-to-use buildings asset	836,774
34-200-151 Lease liability - buildings	(836,774)

b) To amortize (depreciate) right-to-use asset in the full accrual statements.

34-500-152 Depreciation expense - right-to-use buildings	167,355
34-100-152 Right-to-use buildings accumulated depreciation	(167,355)

c) To reduce long-term liability by principal payments in the full accrual statements.

34-200-151 Lease liability - buildings	163,309
34-601-600 Principal expenditures - leases	(163,309)

d) To reclassify short-term lease liability payable.

34-200-151 Lease liability - buildings	163,309
34-201-151 Lease liability - buildings (short term)	(163,309)

- You **MUST** include the new intangible assets and amortization in the rollforward of capital assets:

<u>Capital assets</u>	<u>Beg.</u>	<u>Add.</u>	<u>Del.</u>	<u>End.</u>
Right to use bldg. (intangible)	\$836,774	\$0	\$0	\$836,774
Less: Accum. depr. Right to use bldg.	\$(251,032)	\$(167,355)	\$0	\$(418,387)

- You **MUST** include a maturity analysis of all future lease payments, in one schedule:

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$170,811	\$16,389	\$187,200
2024	\$178,658	\$8,542	\$187,200
2025	\$92,384	\$1,216	\$93,600
2020	-	-	-
2021	-	-	-
2022-2026	-	-	-
Total	\$441,853	\$26,147	\$468,000

Lease information:

Inputs		Source of Information
Name of Lease	AT&T Tower Lease	Contract
Date of first payment	1/1/2018	Contract
Number of Payments	60	Contract
Interest rate	4.0%	Either contract or esimtated
Payment Amount	74,000.00	Contract
Present Value	\$4,018,131.10	=-PV(0.04/12,60,74000)

Lease information:

Date	Payment Received	Receivable				Deferred Inflow		
		Beginning Receivable	Principal	Interest Income	Ending Receivable	Beginning Deferred Inflow	Amortization (Rent Income)	Ending Deferred Inflow
10/1/2021	74,000	1,080,951	70,397	3,603	1,010,554	1,004,533	66,969	937,564
11/1/2021	74,000	1,010,554	70,631	3,369	939,923	937,564	66,969	870,595
12/1/2021	74,000	939,923	70,867	3,133	869,056	870,595	66,969	803,626
1/1/2022	74,000	869,056	71,103	2,897	797,952	803,626	66,969	736,657
2/1/2022	74,000	797,952	71,340	2,660	726,612	736,657	66,969	669,689
3/1/2022	74,000	726,612	71,578	2,422	655,034	669,689	66,969	602,720
4/1/2022	74,000	655,034	71,817	2,183	583,218	602,720	66,969	535,751
5/1/2022	74,000	583,218	72,056	1,944	511,162	535,751	66,969	468,782
6/1/2022	74,000	511,162	72,296	1,704	438,866	468,782	66,969	401,813
7/1/2022	74,000	438,866	72,537	1,463	366,329	401,813	66,969	334,844
8/1/2022	74,000	366,329	72,779	1,221	293,550	334,844	66,969	267,875
9/1/2022	74,000	293,550	73,022	978	220,528	267,875	66,969	200,907

Initial reporting for **lessor**:

1. Governmental Funds (fund 01 = General Fund)

DR/(CR)

a) To book beginning of year lease receivable and deferred inflow of resources.

01-120-101 Lease Receivable	1,080,951
01-220-101 Deferred Inflow - Leases	(1,004,533)
01-399-300 Prior Period Adjustment*	(76,418)

*If material. If not, consider a miscellaneous revenue account instead.

Gov-wide:

Continue to report capital asset and depreciate appropriately. Note: we are NOT double counting the asset. Lessor has the physical asset while lessee has an intangible asset: the right to use the physical asset.

Yearend entries for **lessor**:

1. Governmental Funds (fund 01 = General Fund)

DR/(CR)

b) To recognize revenue for the year of implementation.

01-120-101 Lease Receivable	(860,423)
01-220-101 Deferred Inflow - Leases	803,626
01-450-488 Rental revenue*	84,374
01-480-475 Interest revenue - leases	(27,577)

*The revenue account where the rent receipts were initially booked.

c) To recognize ONE MONTH of revenue in year 2 of GASB 87. Book this as payments are receipted.

01-120-101 Lease Receivable	(73,265)
01-220-101 Deferred Inflow - Leases	66,969
01-480-475 Interest revenue - leases	(735)
01-100-100 Cash	74,000
01-450-488 Rental revenue	(66,969)

- You must include a general description of leasing activities (combine into categories or classes).
 - Basis, terms, conditions (basis for variable rates, etc), interest rate
 - Existence, terms and conditions of residual value guarantees, if applicable

“Pattillo County has entered into an agreement as lessor to provide the right to place certain cellular towers on County-owned property. General information on the lease, and amounts reported as of September 30, 2022, are as follows:”

Purpose of Lease	Interest Rate	Initial Year of Lease	Amount of Initial Lease Receivable	Interest Current Year	Amounts Receivable 9/30/22
Right to Use:					
Land	4%	2018	\$ 4,018,131	\$ 27,577	\$ 220,528
Totals				<u>\$ 27,577</u>	<u>\$ 220,528</u>

- Questions or discussion?



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RESOURCES

GASB IMPLEMENTATION GUIDE 2019-3, 2020-1, 2021-1

GASB Statement 87, Leases

Crawford & Associates presentations from July 2021



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GASB 96

SOFTWARE-BASED IT ARRANGEMENTS (SBITA)

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Main Takeaways

- **What, when and why?** (find: “lease” replace with: “subscription”)
- **Implementation:** I’ve read the standard, now what?
- **Audit considerations:** How to keep your auditor happy



What & when?

- No more distinction between **operating leases** and **capital leases**!
- Recognition of **subscription asset** and **subscription liability**.
- Effective for fiscal year **beginning after June 15, 2022**.



Why?

- To increase the usefulness of governments' financial statements by requiring the reporting of certain subscription liabilities that are not currently reported.
- Previously, “operating leases” **not included as a liability on the financial statements.**



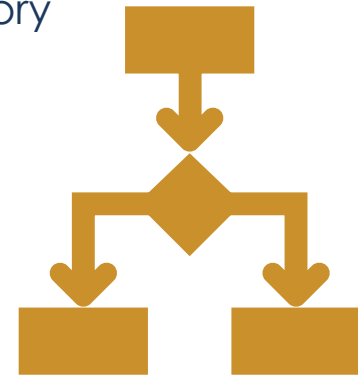
What's changing?

- **No more operating vs capital leases**
- **Financed purchases excluded** (not a lease)
- **If a contract meets the requirements of this standard:**
 - Record a subscription capital asset (right to use), amortize
 - Record a subscription liability, amortize



What do I need to do?

1. **Identify** all potential contracts, include on inventory
2. **Evaluate** each against criteria (is this a SBITA?)
3. **Determine** the length of the subscription term
4. **Calculate** asset & liability values
5. **Record** transactions and draft note disclosures



- A contract that conveys the **control** of the right to use another party's **IT software** (the underlying asset), alone or in combination with tangible capital assets (the underlying IT assets), as specified by the contract **for a period of time** in an **exchange or exchange-like transaction**.
- Ask yourself: “Will this software no longer work once the contract term ends?” If the answer is “yes”, you likely have SBITA.

- Contracts EXEMPTED from GASB 96:
 - Standalone IT services contracts that do not include the right to use an underlying IT asset
 - Agreements providing outside entities the right to use their own IT software and associated assets through a SBITA
 - Contracts that meet the definition of a lease under GASB 87 (if software component is insignificant). May need to separate hardware and software components.
 - Contracts that fall under Public-Private Partnerships (GASB 94) and Intangible Assets (GASB 51, think licensing arrangements).
 - Short-term SBITA contracts

Definitions

CONTROL

The right to obtain **present service capacity** from the underlying IT asset, and right to determine the **nature and manner of use** of the underlying IT asset.

Definitions

IT SUBSCRIPTION ASSET

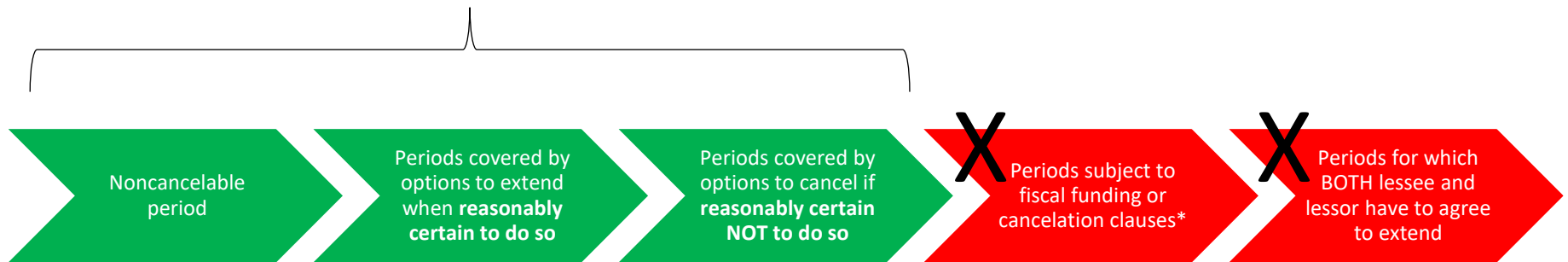
The right to use another party's software, alone or in combination with tangible capital assets (hardware)

Definitions

EXCHANGE OR EXCHANGE-LIKE TRANSACTION

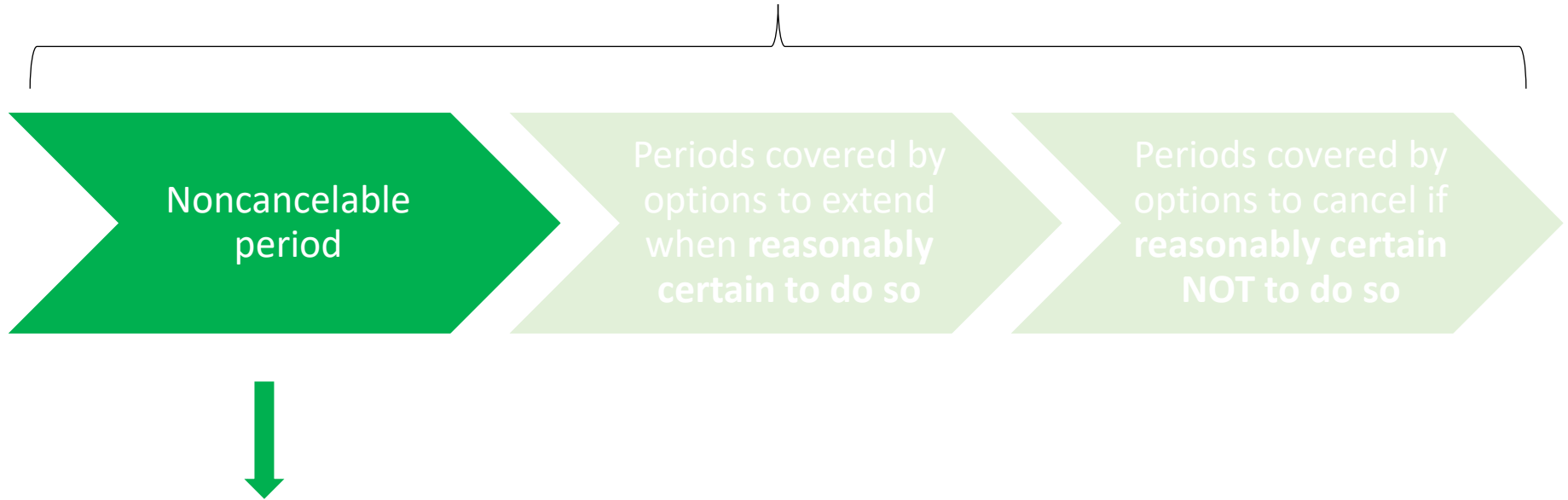
Each party to the agreement receives or gives up **essentially equal value** or almost equal value.

Subscription term



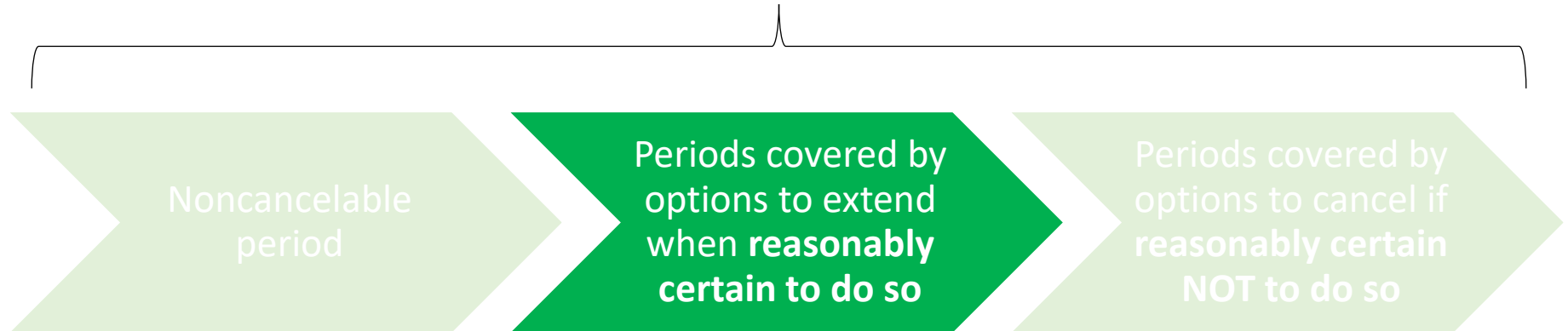
* Fiscal funding clauses are *not* a loophole to get out of this standard. Must be reasonably certain the clause will be exercised.

Subscription term



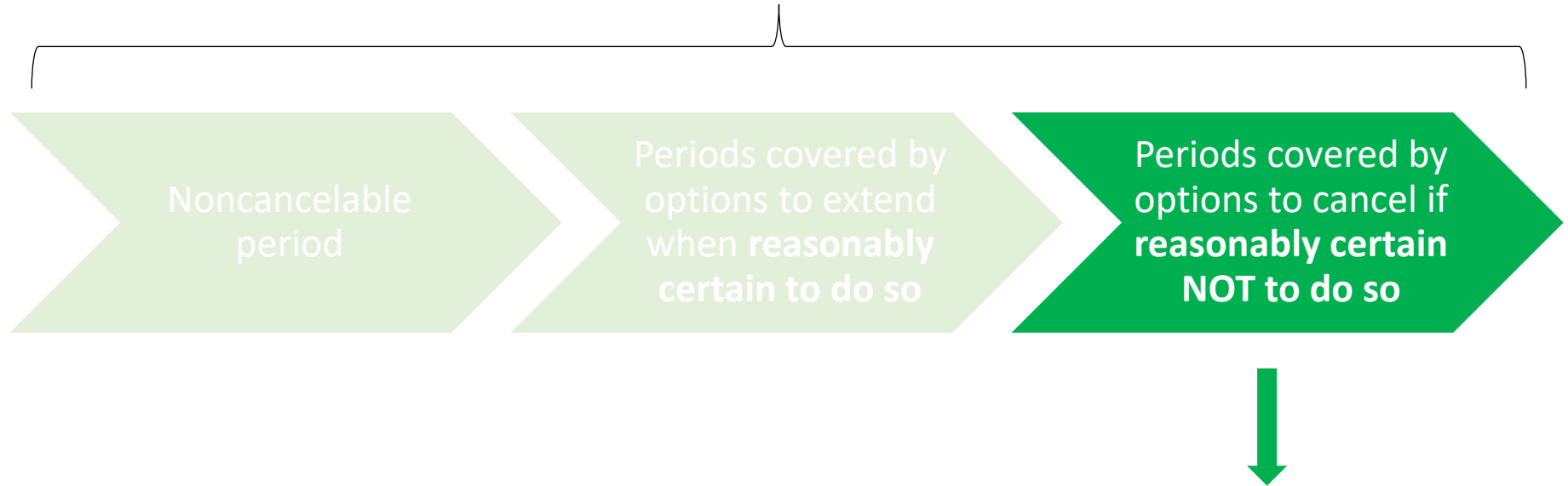
The period during which NEITHER party can cancel the agreement. In other words, both are legally obligated without the possibility of cancellation.

Subscription term



To be “reasonably certain” is a HIGH LEVEL of certainty. Not 51% chance... To determine this, look at similar agreements in the past and other documented intent of management.
Consider likelihood of cancellation for BOTH lessor and lessee!

Subscription term



To be “reasonably certain” is a HIGH LEVEL of certainty. Not 51% chance... To determine this, look at similar agreements in the past and other documented intent of management. **Consider likelihood of cancellation for BOTH vendor and government!**

Do not include



Unless it is REASONABLY CERTAIN the clause will be exercised!

Short-term subscription (exception)

A subscription with a **maximum possible term** under the contract, including any options to extend, of 12 months or less. These will be somewhat rare.

- Government: expense when payments made; no disclosure requirements
- Vendor: recognize revenue when payments received; no disclosure requirements

Reassessment of subscription terms

The term of the subscription should be reassessed only if one or more of the following occurs:

1. Vendor or government elects to exercise an option though originally it was determined they would NOT exercise the option.
2. Vendor or government elects to NOT exercise an option, though originally it was determined they WOULD exercise the option.
3. An event specified in the contract requires an extension/termination takes place.

A game plan for implementation

- **Who is in charge?** Designate a team & leader who will identify the population of potential agreements and gather info.
- **What info do we need?** Contracts, agreements, & payment schedules for all agreements currently in effect (retroactive).
- **Who can help?** IT department, minutes of governing body, legal counsel.



Create a contract inventory

- **Compile a listing** of ALL agreements that could meet the requirements here (completeness is key).
- **File agreements & payment schedules** and make them easily relatable to the contract inventory.
- **Clarify ambiguous terms**, consult with legal and department heads.
- **Ask your auditor lots of questions!**



- Ok, so I have a list of agreements, and I've determined which appear to be IT subscriptions....**now what?**
- **By the way, be sure to evaluate ALL CONTRACTS**, not just “leases”.
 - Airports, utilities, fiber, casinos, utilities, buildings, copiers, etc

PR&H

NOW WHAT?



Accounting!

COMMITMENT to the present... **VISION** for the future.

Initial reporting:

SUBSCRIPTION LIABILITY:

Present value of subscription payments

- Fixed pmts
- Variable pmts (if based on index)*
- Termination penalties
- Contract incentives receivable
- Other payments to vendor

* Variable payments OTHER than those that depend on an index or rate, such as variable payments based on future performance of the government, usage of the underlying IT assets, **or number of user seats**, should NOT be included. These are expensed when paid.

Initial reporting:

SUBSCRIPTION ASSET:

Subscription liability PLUS:

- Payments to vendor made at commencement of subscription term
- Capitalizable initial implementation costs

LESS: Vendor incentives received

STAGES OF IMPLEMENTATION

- **Preliminary project Stage** – conceptual formulation and evaluation of alternatives, determination of the existence of needed technology, final selection of alternatives for SBITA. **EXPENSE AS INCURRED**
- **Initial Implementation Stage** – Ancillary charges related to designing the chosen path (configuration, coding, testing, and installation). This stage ends when the subscription asset is placed into service. **CAPITALIZE**
- **Operation and Additional Implementation Stage** – Maintenance, troubleshooting, and other activities associated with ongoing access to the underlying IT assets. Includes additional implementation activities, such as those related to additional modules, that occur after the subscription asset is placed into service. **EXPENSE AS INCURRED (with exceptions, see paragraph 52-55)**

Other Considerations

- Training costs expensed as incurred, regardless of the stage in which they are incurred.
- Accounting for subsequent implementation outlays
- Data conversion
- Modules
- Modifications/terminations

- Questions or discussion?



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RESOURCES

GASB Statement 96, SBITAs

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

What does it do?

- Applies lease-type measurement to P3 and APA transactions
- Incorporates GASB 60, *Service Concession Arrangements*

What do I look for?

- Distinction between P3's and leases:
 - Lease – receiving an asset to use for your own operation
 - P3 – operating another's assets for *providing government services*
- Key distinction: providing a government service vs. an ancillary service (operating an airport vs. operating the snack bar at the airport)
- P3: involves constructing or improving an asset
- SCA: Will have stipulations about rates charged and services provided

Steps for Implementing?

- Evaluate along with GASB 87 - If it's not a P3 or SCA, it's probably a lease!
- Possible P3s at Counties: Jail, airport, parking garage

When?

- Effective for fiscal years **beginning after June 15, 2022**



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Questions & discussion

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