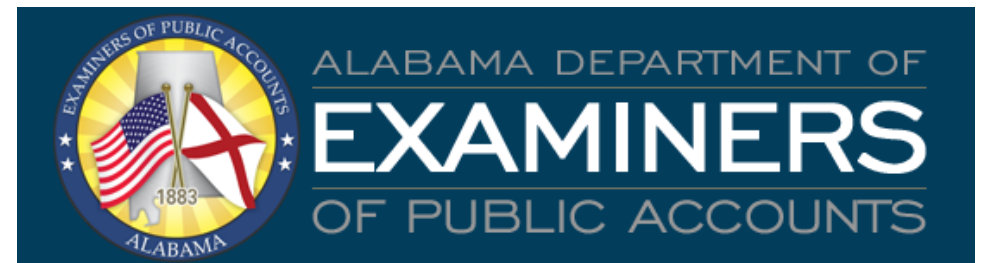


# GASB Update AASBO

September 21, 2023

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# Disclaimer



- This information is being presented to the Association of Alabama School Business Officials' Annual Conference on September 21, 2023.
- This presentation represented the audit position of the Department of Examiners of Public Accounts as of that date.

# Objectives



- Discuss pertinent GASB pronouncements
  - GASB 87 Leases – effective FY2022
  - GASB 91 Conduit Debt – effective FY2023
  - GASB 94 Public-Private and Public-Public Partnerships – effective FY2023
  - GASB 96 Subscription-Based Information Technology Arrangements – effective FY2023
  - GASB 99 Omnibus 2022 – various effective dates (FY2023 and FY2024)
  - GASB 100 Accounting Changes and Error Corrections – effective FY2024
  - GASB 101 Compensated Absences – effective FY2025
- FY2023 Audit Updates

# GASB 87 Leases



- Lessons learned after implementation?
- Lease vs. financed purchase?
- Changes to capital assets and long-term debt?
- More or less work than expected?
- What to do going forward?





Effective FY2023:

GASB 91

GABS 94

GABS 96

# GASB 91

## Conduit Debt



- What is conduit debt?
  - Debt instrument with three parties (issuer, third-party obligor and debt holder/trustee).
  - Issuer and third-party obligor are not within the same financial reporting entity.
  - Third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
  - Third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).
- Effect of GASB 91
  - Remove diversity in methods of reporting conduit debt obligations.
  - Prior to 91, issuers could report a liability or only include as a disclosure. After 91, issuers will only include a note disclosure.

# GASB 94

## Public Private and Public Public Partnerships



- Government contracts with operator to provide public services by conveying control of the right to operate or use a nonfinancial asset (infrastructure or other capital asset for a period of time in an exchange or exchange-like transaction)
  - Service concession arrangements – PPP in which 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.
  - Availability payment arrangements – government compensates operator for services including designing, constructing, financing, maintaining or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction
- Examples –
  - State DOT enters into arrangement with tollway authority to operate and maintain a toll road;
  - DOT enters into arrangement with tunnel or bridge authority to design, build and operate a tunnel or bridge.



# GASB 96

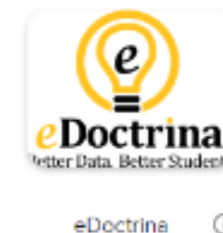
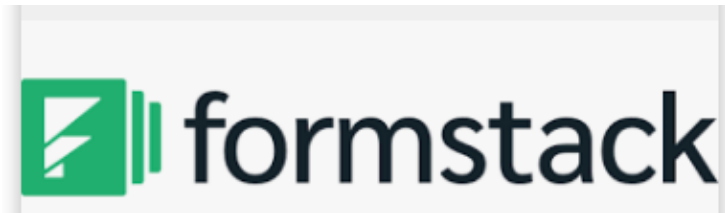
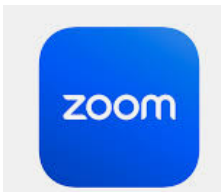
## Software Based Information Technology Arrangement



- **SBITA** - contract that conveys control of the **right to use** another party's (vendor's) information technology (IT) software, alone or in combination with tangible capital assets (underlying IT assets) as specified in contract for period of time in an exchange or exchange-like transaction.
- **Examples** - includes cloud computing; software (SaaS), platform (PaaS) and infrastructure (IaaS) as a service; Microsoft 365, ERP software, Adobe, Accounting software, Instructional software, etc.
- Governments will generally recognize a right-to-use subscriptions asset (intangible asset) and corresponding subscription liability.



# GASB 96 SBITA's – Possible Examples



# GASB 96

## SBITA's



- **Step 1** – Review software subscription contracts (involve IT department, review general ledger expenditures for software/subscriptions) and determine which contracts meet definition of SBITA.
- Exception – short-term SBITAs (maximum term of 12 months or less, including options to extend)
- Excluded/Not in Scope:
  - Contract for IT software and tangible capital asset in which software component is insignificant when compared to tangible capital asset (lease per GASB 87)
  - Government as software vendor
  - Contracts that meet definition of PPA (GASB 94)
  - Perpetual licensing arrangement to use vendor's computer software

# GASB 96 SBITA's



- **Step 2 – Initial Measurement**
  - At commencement of subscription term, government should recognize a subscription liability and an intangible right-to-use asset
- **Subscription Liability –**
  - Includes fixed payments; variable payments that are fixed in substance or depend on an index or rate; payments for penalties for terminating the SBITA; any subscription contract incentives; any other payments to SBITA vendor associated with SBITA contract that are reasonably certain to be required. **Present value of payments expected to be made during term.**
- **Subscription Asset –**
  - Total of the amount of initial measurement of subscription liability; payments associated with SBITA contract made to SBITA vendor at commencement; capitalize initial implementation costs\*

# GASB 96

## SBITA's



- Capitalize Implementation Costs
  - Preliminary Project State – **Expense**
    - Determination of existence of needed tech, Evaluation of alternatives, selection of alternatives for SBITA
  - Initial Implementation Stage – **Capitalize**
    - Configuration, coding, testing and installation, ancillary charges necessary to place subscription asset into service. Completed when subscription asses is placed into service.
  - Operation and Additional Implementation Stage – **Expense**
    - Maintenance, troubleshooting, activities associated with government's ongoing access to the underlying IT assets.

# GASB 96

## SBITA's



- Changes adopted to conform to provisions of GASB 96 should be applied retroactively by restating the financial statements.
- Subscription asset should be amortized over the shorter of the subscription term or the useful life of the underlying IT asset.
- Amortization expense maybe reported with depreciation expense for capital assets.
- Changes in terms may necessitate remeasurement of subscription liability.

# GASB 96 SBITA's



- Note Disclosures –
  - General description of SBITA, including terms and conditions
  - Total amount of subscription assets and related accumulated amortization should be disclosed separately from other capital assets
  - Amount of outflows of resources recognized in the report period for variable payments and other payments, such as termination penalties, not previously included in the measurement of the subscription liability
  - Principal and interest requirements to maturity, presented separately, for the subscription liability for each of the five subsequent fiscal years and in five-year increments thereafter
  - Commitments under SBITAs before the commencement of the subscription term
  - Components of any loss associated with an impairment.
  - For disclosure purposes, SBITAS are not considered debt that is subject to the disclosure requirements in GASB 88, *Certain Disclosures Related to Debt including Direct Borrowings and Direct Placements*.



# GASB 96

## SBITA Example



### Example

BOE uses a subscription to DataQuery Software to account for its lease portfolio. BOE recognizes its contract with ABC Lease Software as a SBITA due to the following facts:

1. The agreement does not meet the definition of a lease under GASB 87 or scoping criteria for GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*.
2. The agreement provides the BOE the use and control of an instance of Data Query's software in an exchange-like transaction.
3. The agreement has a defined, finite, non-cancelable subscription term of three years.

- Subscription Start Date: November 1, 2022
- Subscription End Date: October 30, 2025
- First Payment Date: November 1, 2022
- Payments: \$5,000 annually
- Discount Rate: 2%
- [Spreadsheet](#)





Effective after FY2023

# GASB 99 Omnibus



- Amends/clarifies various prior statements – multiple topics
- Clarification of provisions in Statement No. 87, Leases, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives
- Clarification of provisions in Statement No. 94, Public Private and Public Public Partnerships and Availability Payment Arrangements, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset
- Clarification of provisions in Statement No. 96, Subscription-Based Information Technology Arrangements, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

# GASB 100

## Accounting Changes and Error Corrections



- Amends GASB Statement 62 – **Effective FY2024**
- Removes “prior period adjustments” terminology
- Defines *accounting changes* as
  - changes in **accounting principles** (change from one GAAP to another or implementation of new pronouncement). Report retroactively by restating prior periods.
  - changes in **accounting estimates** (results from change in measurement methodology that is used to determine that estimate). Report prospectively by recognizing change in current period.
  - changes **to or within the financial reporting entity** (addition/remove of fund, component unit, change in fund’s presentation as major/nonmajor.). Report by adjusting beginning balances of the current period.
  - Also addresses **error correction** in previously issued financial statements (mathematical mistakes, mistakes in application of accounting principles). Report retroactively by restating prior periods.

# GASB 101

## Compensated Absences



- Replaces GASB 16, **Effective FY2025**
- Liability recorded for leave earned by employees but not yet taken.
- Differences from GASB 16:
  - GASB 16 Definition of Compensated Absence – Absences for which employee will be paid, such as vacation, sick leave and sabbatical leave.
  - GASB 101 Definition of Compensated Absence - leave for which employees may receive:
    - (a) cash payments when the leave is used for time off;
    - (b) other cash payments, such as payment for unused leave upon termination of employment; or
    - (c) noncash settlements, such as conversion to defined benefit postemployment benefits.
  - Under GASB 16, governments had two options to account for sick leave, both required the government to accrue for sick time that will be paid in the form of a termination payment.
  - Under GASB 101, sick leave is calculated in the same manner as any other type of compensated absence.

# FY2023 Audit Updates



- Expect email with list of documents to prepare for audit in early October
- Examiners arrive on-site to begin BOE audits early November
- Client Communications Portal for document submission
  - Deadlines will be established that must be met
- Financial Statements need to be prepared ASAP
  - Once closed out, let financial statement preparer know to start working on financial statements as soon as possible. Financials do not have to be SDE approved to start this process.

# Contact Information



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