

Financial Statement Reporting Standards & Upcoming GASBs

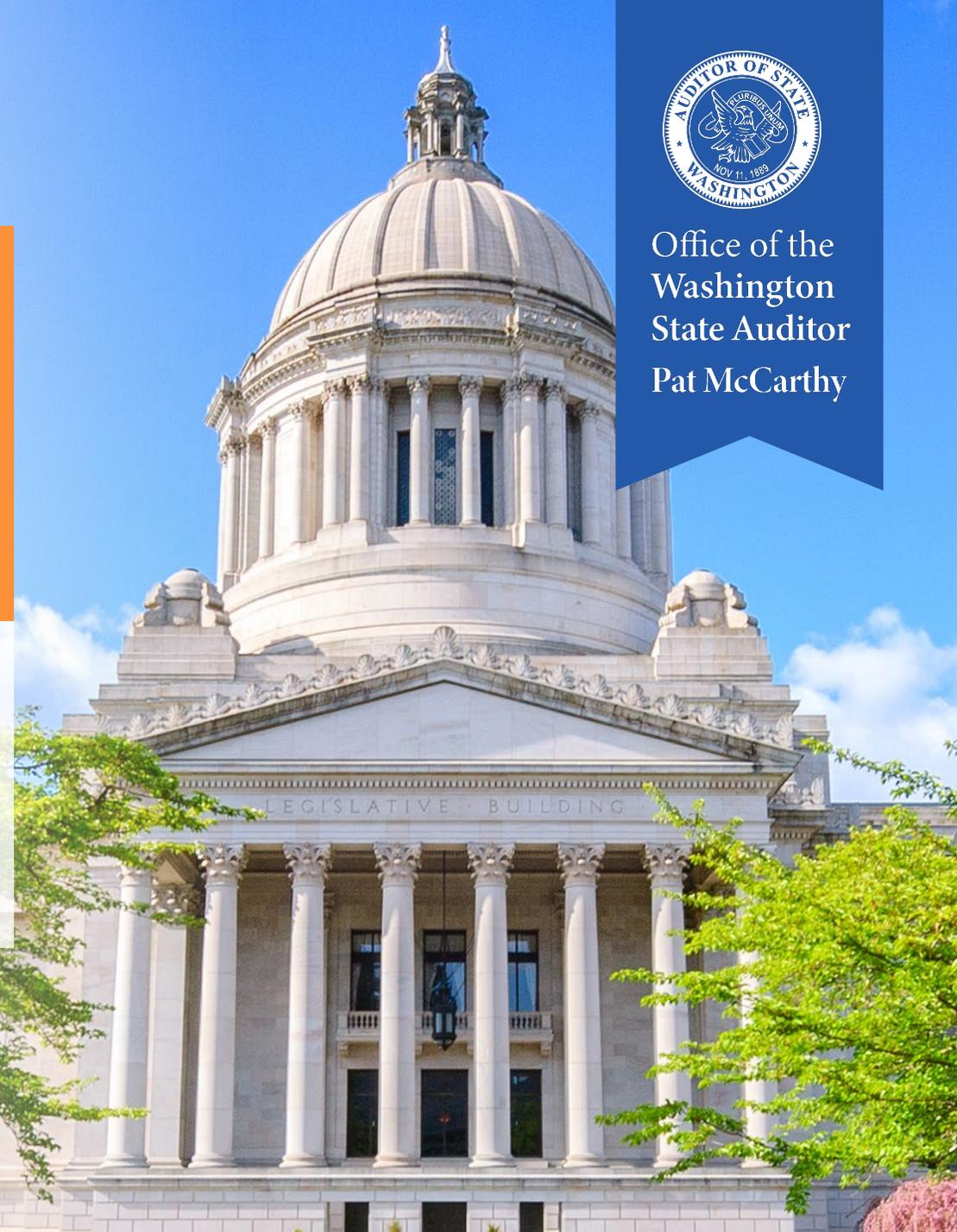
Washington Public Ports Association

Olivia Crouch, CPA, CFE, Assistant Audit Manager

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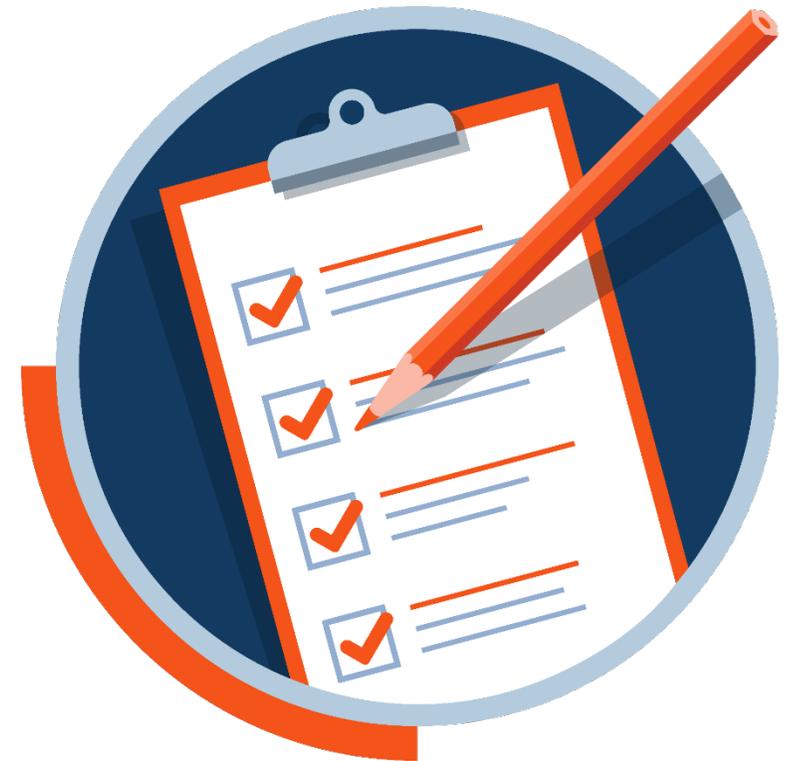
Office of the
Washington
State Auditor
Pat McCarthy





Learning Objectives

- Prepare for audit of leases
- Learn SBITA accounting/reporting
- Discuss the other upcoming GASB statements
- Other reporting topics – FDTA



Leases – Preparing for audit





Leases

- It's finally here!
- Applicable for both cash basis and GAAP governments in your 2022 financial statements.





What will your auditor want?

- An understanding of your internal controls and processes for implementing GASB 87.
- Any new policies for leases
- A complete list (population) of all your leases
 - Including rationale for excluded leases
- To recalculate some of the leases





Common Issues – Lease Threshold

- “We set it at \$500,000 because that’s what the state did.”
 - The state has more activity than local governments
- “We set it at 1% because it’s not material.”
 - It should be clearly insignificant (not just below material)
 - It should be a consistent dollar amount from year to year
- "We set it at \$250,000 because then all of our leases are excluded, and it doesn't apply anymore"



Common Issues – Discount Rates

- When using incremental borrowing rate as the discount rate governments should have some **observable** information.
 - I.e., using a published prime rate (adjusted if needed), using rates from a local bank website, etc.
- Governments should **not** use investment rates, like the LGIP rate
- Governments should **not** use the same rate for dissimilar leases





GASB Updates: 2023 & 2024





Reporting Year 2023

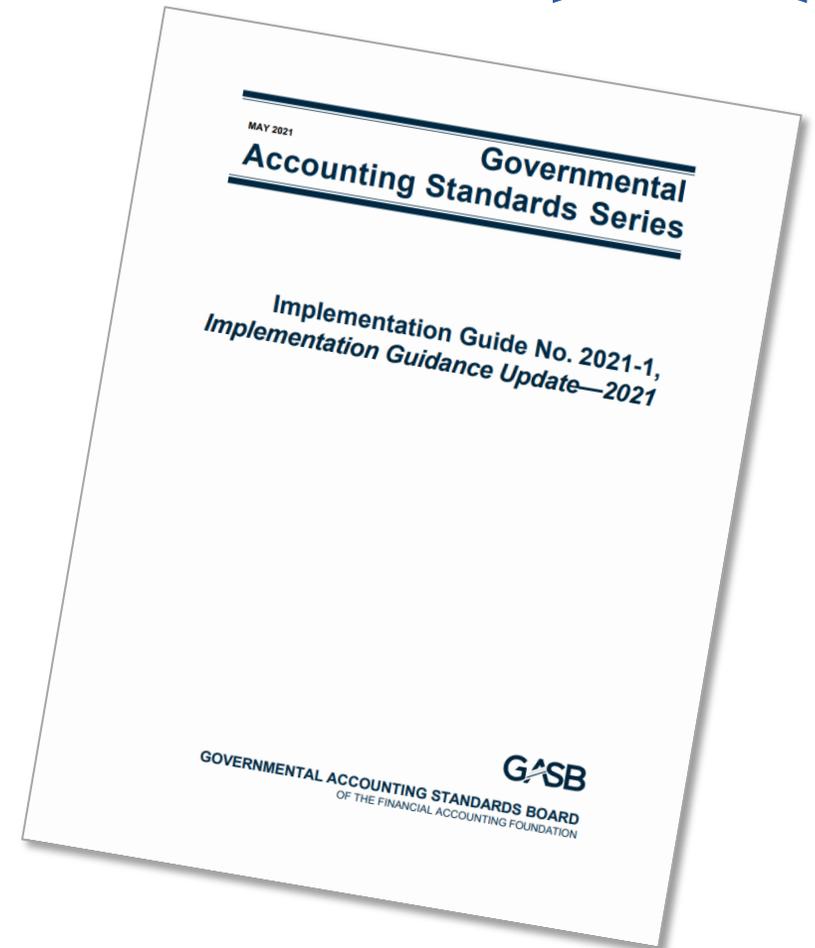


Implementation Guide 2021-1

Clarifies, explains, or elaborates on derivatives, fiduciary activities, leases, nonexchange transactions.

All governments

- Most of the changes have been implemented in the BARS Manual.



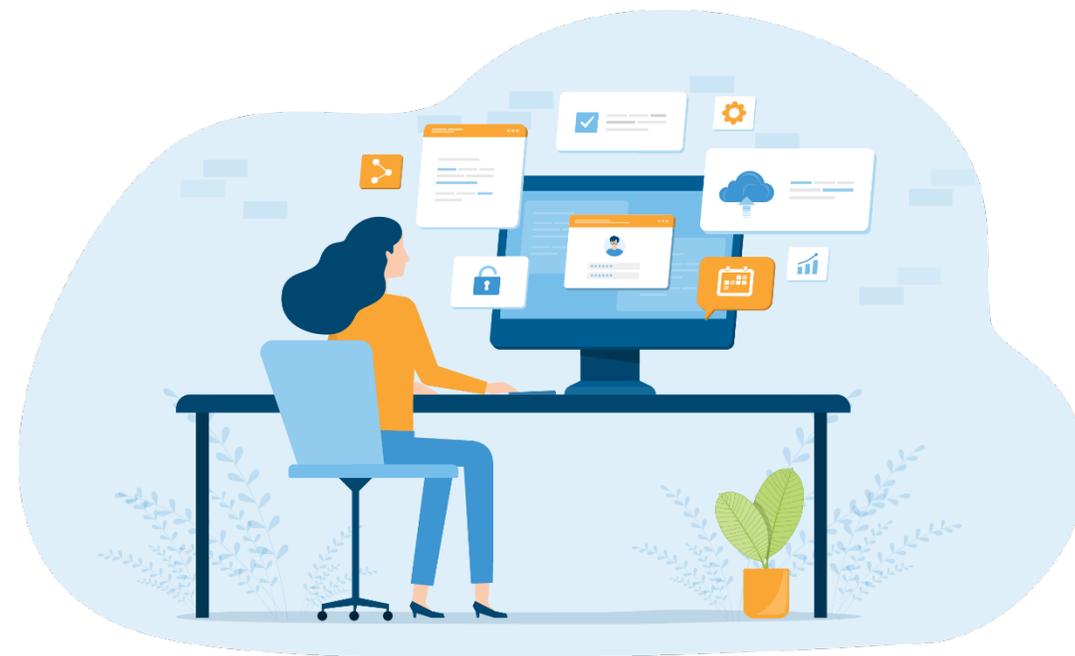


Subscription-Based IT Arrangements (SBITA)

This statement brings the guidance on the accounting and financial reporting for “SBITAs” in line with that of GASB 87 – Leases.

All governments

- Adds software to the lease standard





SBITA Definition

“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.”





Subscription Term

- Period during which the government has a noncancellable right to use the underlying IT assets
- Plus periods covered by the government's **or** SBITA vendor's option to extend the SBITA – if reasonably certain the option **will be** exercised
- Plus periods covered by the government's **or** SBITA vendor's option to terminate the SBITA – if reasonably certain the option **will not be** exercised
- The subscription term excludes periods for which both the government **and** SBITA vendor have the option to terminate or both parties have to agree to extend.

What is included?

- Cloud computing arrangements
 - Software as a Service (SaaS)
 - Platform as a Service (PaaS)
 - Infrastructure as a Service (IaaS)
- Cloud-based Enterprise Resource Planning (ERP) systems
- Online conferencing
- Email, calendar, office tools
- Online payment tools





Potential Examples

- Budgeting software
- 911 and emergency dispatch
- Metering for water and electric utilities
- Remote learning platforms in schools
- Data backup and storage for tax and appraisal records
- DocuSign
- Laserfiche
- Open Gov
- Zoom
- Microsoft Office 365
- Capital asset software



What is not included?

- Short-term SBITAs (paragraph 13)
 - Have a maximum possible term of 12 months or less, including any options to extend, regardless of the probability of being exercised
- IT software is insignificant to the tangible IT asset
- IT support services
- Software acquired through perpetual licensing agreements





What is a perpetual license?

- This is the older model for software companies, and many are moving away from it in favor of subscription-based models.
- The software is downloaded directly onto your computer or servers.
- You have access to the software forever (perpetually)
- Ask yourself: Can I still log in and access the IT software after the agreement term ends?

Perpetual license vs. subscription



Perpetual license: Microsoft Office 2000

- One-time fee
- Downloaded directly onto your computer
- Can use after expiration but will not get maintenance or security patches/updates

Microsoft 365 Business
Premium

\$22.00 user/month

(Annual subscription—auto renews)¹

Subscription: Microsoft Office 365

- Annual or monthly renewal fee
- Must renew to continue receiving access
- Cannot use after expiration



Example

Question

- A government signs a contract for an online conferencing tool (e.g., Zoom). The initial contract is for 1 year, payments are made annually, and it renews automatically each year. The government intends to renew the contract indefinitely. Is this a perpetual license?

Answer

- No. This is still a subscription. If the government does not make the annual payment, it will lose access to the software.



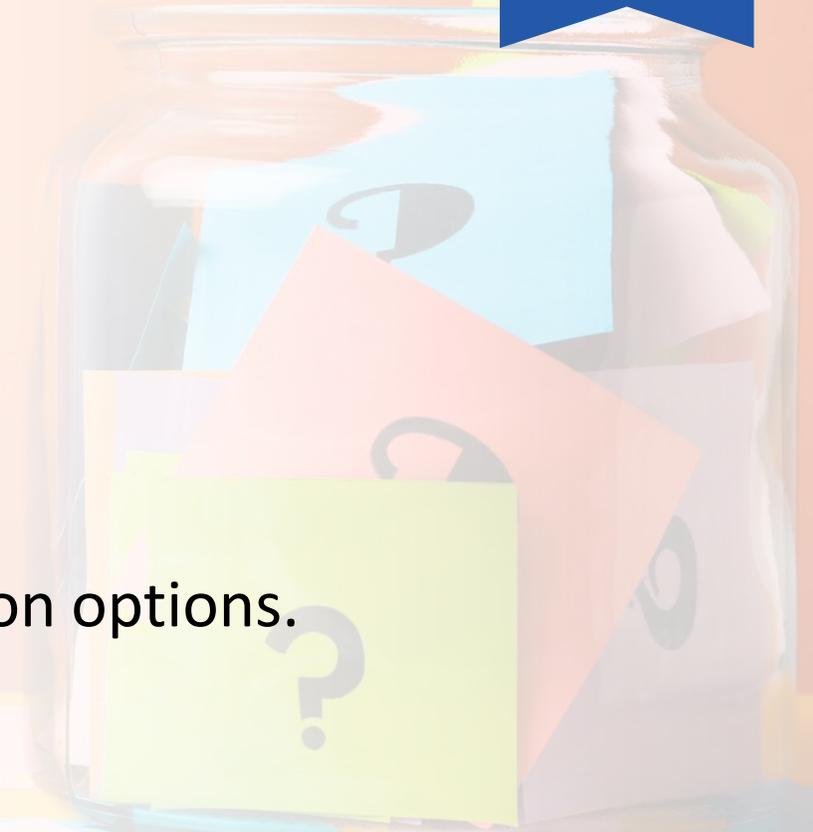
Example

Question

- Same scenario. What is the SBITA term?

Answer

- Only 1 year. “Renewals” are not necessarily extension options. This is a short-term SBITA.





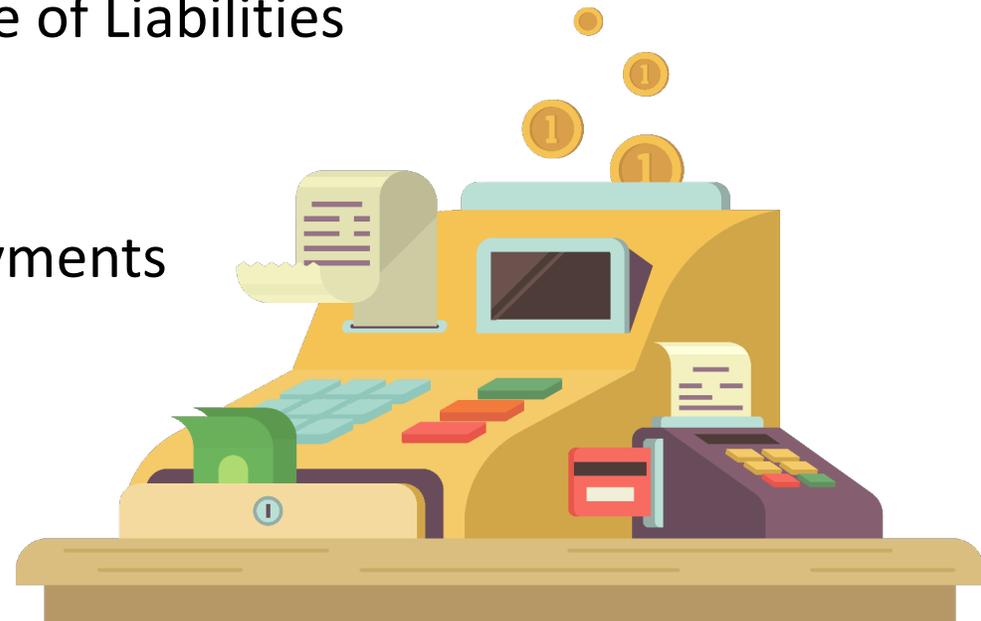
Cash Basis Accounting and Reporting

Regular SBITA

- Record a subscription liability on the Schedule of Liabilities
 - Measured at total amount of future payments
- Use BARS code 591.XX.70 to record SBITA payments (XX = applicable function)

Short-term SBITA

- No liability on the Schedule of Liabilities
- Use normal BARS expenditure codes (not the 591 series)





Cash Basis Example

Scenario

- The government's FYE is 12/31.
- The government signs a 3-year contract for accounting software for 1/1/2022 to 12/31/2024.
- The contract price is \$10,000 per year, plus \$820 in sales tax.
- They also pay \$2,000 per year for technical support.



Cash Basis Example

Example City

For the Year Ended December 31, 2023

Debt Type	ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue Obligations							
	263.57	Accounting Software	12/31/2024	\$20,000	0	\$10,000	\$10,000

- The beginning balance is \$20,000 = \$10,000 annual payment * 2 years left on the contract as of 1/1/2023
- The reductions are \$10,000 for the one payment made in 2023. This payment would be charged to BARS code 591.XX.70
- The payments for the sales tax and technical support would use their normal, functional BARS codes (not the 591.XX.70 code)



GAAP Basis Accounting and Reporting

Regular SBITA

- Record a subscription liability
 - Measured at PV of subscription payments
 - Liability reduced as government makes payments
- Record a right-to-use subscription asset
 - Measured at liability + payments to vendor + capitalizable costs - incentives
 - Amortized over subscription term

Short-term SBITA

- Record an expense as payments are due



Implementation costs

GASB 96, paragraph 29:

- Expensed: Preliminary project stage
 - Evaluating and selecting software
- Generally capitalized: Initial implementation stage
 - Configuration, coding, testing, etc.
- Generally expensed: Operation and additional implementation stage
 - Troubleshooting, maintenance, etc.





GAAP Accounting Example

Scenario

The government signs a 3-year contract for accounting software for 7/1/2023 to 6/30/2026. The contract price is \$10,000 per year, plus \$820 in sales tax. They also pay \$2,000 per year for technical support. The first payment is made on 7/1/2023.

The government's FYE is 6/30.



GAAP Accounting Example

Step 1 – Calculate present value

Payment #	Amount	Present Value
1	10,000	10,000
2	10,000	9,709*
3	10,000	9,426*
Total	30,000	29,135*

* We used a discount rate of 3%



GAAP Accounting Example

Step 2 – Prepare amortization schedule for SBITA Liability

Payment	Principal	Interest	Liability balance
1	10,000	0	19,135
2	9,426	574	9,709
3	9,709	291	0
Total	29,135	865	0



GAAP Accounting Example

Step 3 – Prepare amortization schedule for SBITA Asset

Year	Amortization	Asset balance
1	9,712	19,423
2	9,712	9,712
3	9,712	0
Total	29,135	0





GAAP Accounting Example – Journal Entries

7/1/23: Implementation

Account	Debit	Credit
SBITA Asset	29,135	
SBITA Liability		29,135

7/1/23: 1st payment – software

Account	Debit	Credit
SBITA Liability	10,000	
Interest Expense	0	
Cash		10,000



GAAP Accounting Example – Journal Entries

7/1/23: 1st payment – taxes

Account	Debit	Credit
Expense	820	
Cash		820

7/1/23: 1st payment – technical support

Account	Debit	Credit
Expense	2,000	
Cash		2,000



GAAP Accounting Example – Journal Entries

6/30/24: Year 1 asset amortization

Account	Debit	Credit
Amortization Expense	9,712	
Accumulated Amortization		9,712

7/1/24: 2nd payment

Account	Debit	Credit
SBITA Liability	9,426	
Interest Expense	574	
Cash		10,000



GAAP Accounting Example – Journal Entries

6/30/25: Year 2 asset amortization

Account	Debit	Credit
Amortization Expense	9,712	
Accumulated Amortization		9,712

7/1/25: 3rd payment

Account	Debit	Credit
SBITA Liability	9,709	
Interest Expense	291	
Cash		10,000



GAAP Accounting Example – Journal Entries

6/30/26: Year 3 asset amortization

Account	Debit	Credit
Amortization Expense	9,712	
Accumulated Amortization		9,712

6/30/26: Remove SBITA asset

Account	Debit	Credit
Accumulated Amortization	29,135	
SBITA asset		29,135



GAAP Accounting Example – Prepaid SBITA

Scenario

- The government signs a 3-year contract for budgeting software for 7/1/2023 to 6/30/2026. The government pays \$30,000 for all three years at the beginning of the term. The government's FYE is 6/30.

Accounting

- Subscription liability = \$0
- SBITA asset = \$30,000



GAAP Accounting Example – Prepaid SBITA

7/1/23: Implementation & full payment

Account	Debit	Credit
SBITA Asset	30,000	
Cash		30,000

6/30/24: Year 1 asset amortization

Account	Debit	Credit
Amortization Expense	10,000	
Accumulated Amortization		10,000



GAAP Accounting Example – Prepaid SBITA

6/30/25: Year 2 asset amortization

Account	Debit	Credit
Amortization Expense	10,000	
Accumulated Amortization		10,000

6/30/26: Year 3 asset amortization

Account	Debit	Credit
Amortization Expense	10,000	
Accumulated Amortization		10,000



Public-Private & Public-Public Partnerships

This statement establishes the definition of PPPs and availability payment arrangements (APA), and provides uniform guidance on accounting and reporting for transactions meeting those definitions.

GAAP governments

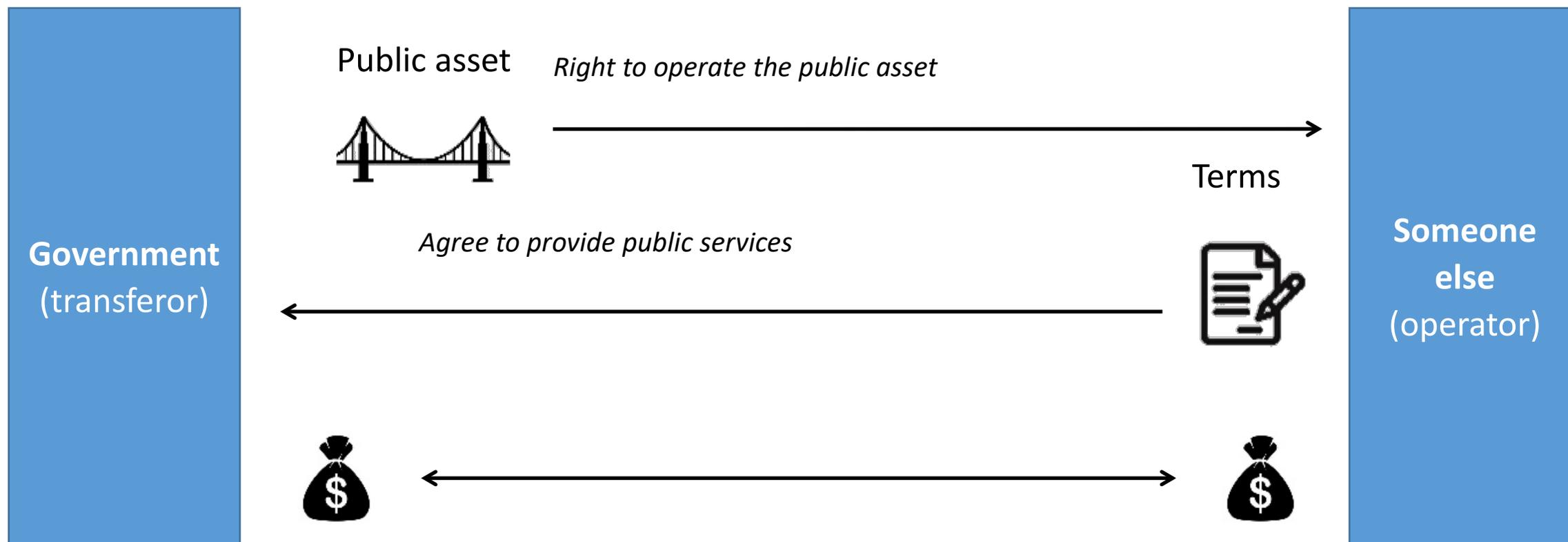
- Updated definition of service concession arrangement and provide accounting for PPPs

Cash governments

- Potential liability on Schedule 09

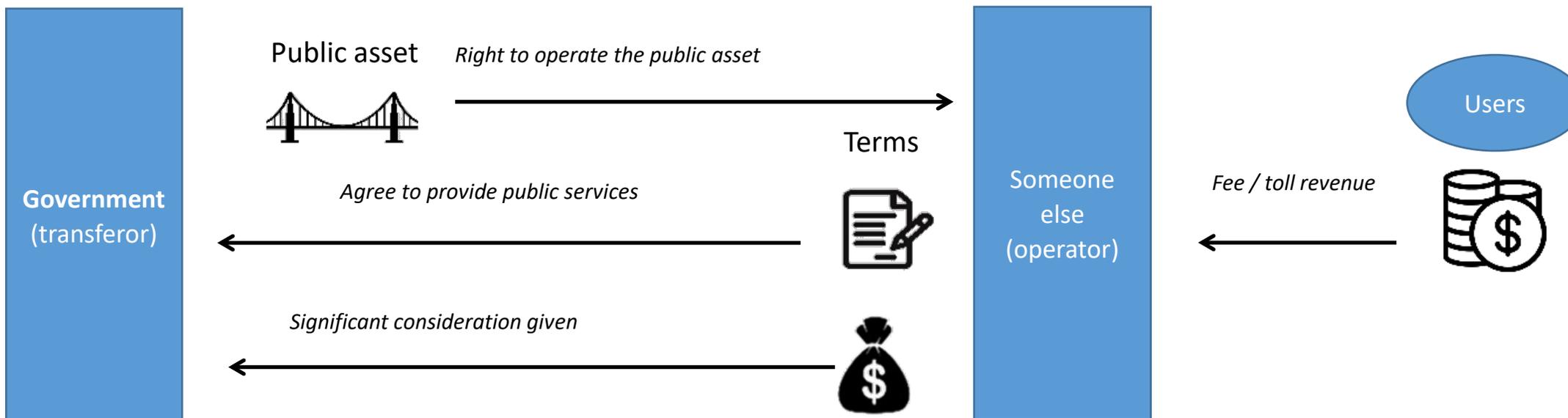


What Is a PPP?





What Is a Service Concession Arrangement?







Prior Period Adjustments, Accounting Changes, and Error Corrections

This statement improves the accounting and reporting guidance for prior-period adjustments, accounting changes, and error corrections

GAAP governments

- Clarifies when to apply the accounting and financial reporting for the variety of transactions that make up these categories

Cash governments

- BARS Manual will provide clearer guidance and updated BARS codes regarding these types of transactions.



Compensated Absences

This statement improves the accounting and financial reporting guidance for compensated absences.

GAAP governments

- Provides clearer definitions of the types of absences and the requirements for the accounting and financial reporting.

Cash governments

- BARS Manual will provide clearer guidance and requirements for reporting specific types of absences.



Other reporting – FDTA





Federal Data Transparency Act

- SAO is aware of and is monitoring the FDTA
- Waiting on SEC rulemaking (due 2025)
- We encourage all governments and associations to actively follow and comment on rulemaking as it happens.



Questions



Contact Information

Olivia Crouch, CPA, CFE

Olivia.Crouch@sao.wa.gov

Website: www.sao.wa.gov

Twitter: @WAStateAuditor

Facebook: Office of the Washington State Auditor

LinkedIn: Washington State Auditor's Office

