

We Don't Talk About... GASB

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Division of Local Government Audit

June 6, 2023

TENNESSEE COMPTROLLER OF THE TREASURY







Photo: Mike Coppola/Getty Images



We don't talk about GASB,

No, no, no!

We don't talk about GASB... but

We must!



Disclaimer

The opinions expressed during this presentation are my own. They do not necessarily represent the views of the Tennessee Comptroller of the Treasury, his representatives, or the Tennessee Department of Audit.



TENNESSEE COMPTROLLER OF THE TREASURY



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TENNESSEE COMPTROLLER OF THE TREASURY





Summary of Implementations – Statements (1 of 4)

New Statement		Implement for Fiscal Year <u>Ending</u>			
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
91, Conduit Debt	Dec. 15, 2021	2023	2023	2023	2022
94, PPPs and APAs	June 15, 2022*	2024	2023	2023	2023
96, SBITAs	June 15, 2022*	2024	2023	2023	2023

Summary of Implementations – Statements (2 of 4)

New Statement		Implement for Fiscal Year <u>Ending</u>			
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
99, Omnibus 2022	Various*	2024	2023	2023	2023
100, Accounting Changes & Error Corrections	June 15, 2023*	2025	2024	2024	2024
101, Compensated Absences	December 15, 2023*	2025	2025	2025	2024

Summary of Implementations – Guides (3 of 4)




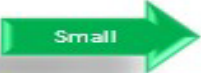

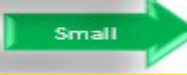

New Implementation Guide		Implement for Fiscal Year <u>Ending</u>			
Guide #, Topic	Effective for Reporting Periods (*Fiscal Years) Beginning After... and All Reporting Periods Thereafter	March 31	June 30	September 30 / October 31	December 31
2020-1, Update	Q's 4.1-4.5, 4.18, 5.3 (Reporting entity, external investment pools, AROs) June 15, 2021	2023	2022	2022	2022
(Also indefinitely deferred CU	Q's 4.6-4.17 (Leases) FY's beginning after Dec. 15, 2021 and all reporting periods thereafter	2023	2023	2023	2022
determination criteria from	Q's 4.19-4.21 (Conduit debt) Dec. 15, 2021	2023	2023	2023	2022
prior IG – see GASB 97)	Q's 5.1, 5.2, 5.4, 5.5 (PEB) FY's beginning after June 15, 2021	2023	2022	2022	2022

Summary of Implementations – Guides (4 of 4)

New Implementation Guide		Implement for Fiscal Year <u>Ending</u>			
Guide #, Topic	Periods beginning after (except as noted) ... and All Reporting Periods Thereafter	March 31	June 30	September 30 / October 31	December 31
2021-1, Update	Q's 4.1-4.3, 4.23, 5.2-5.4 (Fine revenue, major funds, sales and pledges of receivables and future revenue) June 15, 2022	2024	2023	2023	2023
	Q's 4.4-4.21 (Leases) FY's beginning after June 15, 2022 and all reporting periods thereafter	2024	2023	2023	2023
	Q's 4.22 (Nonexchange transactions) FY's June 15, 2021	2023	2022	2022	2022
	Q's 5.1 (capitalization of groups of assets), June 15, 2023	2025	2024	2024	2024

New GASB Statement Impact

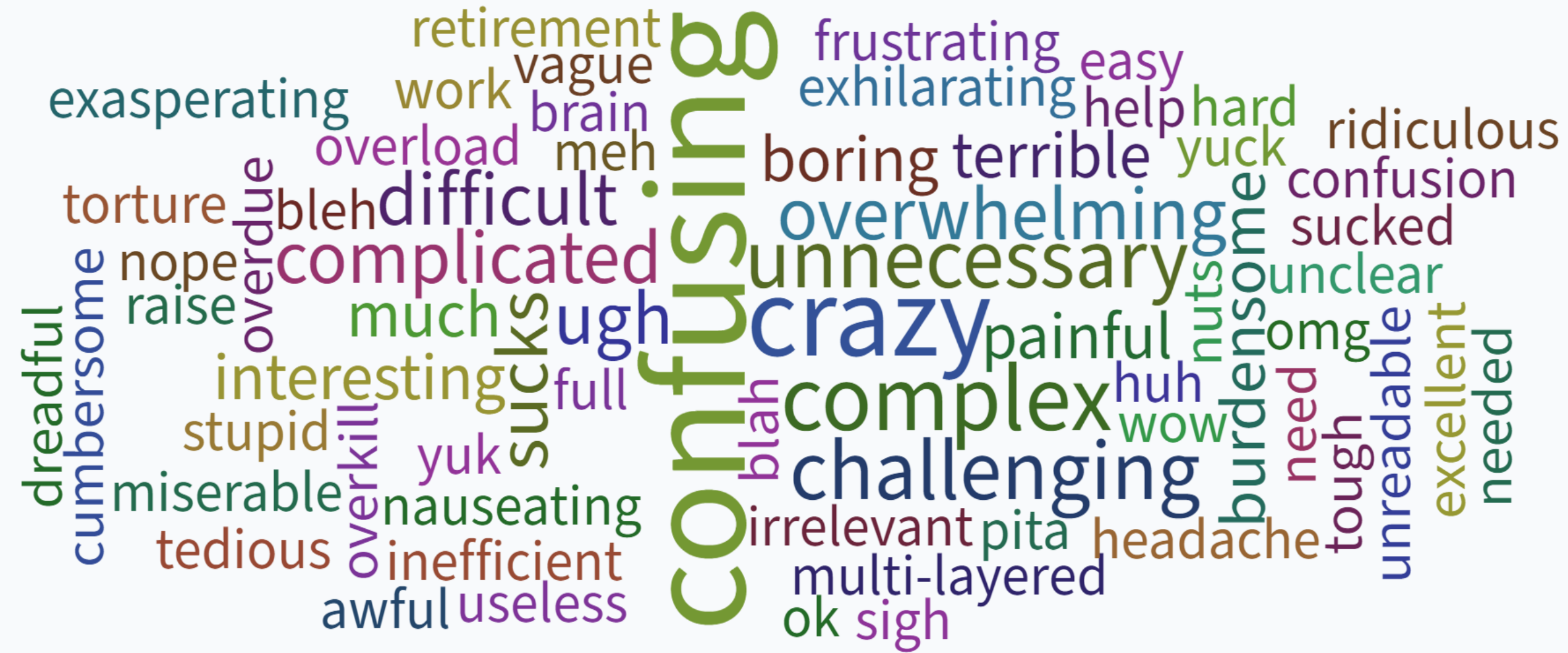
Potential Level of Effort for Preparer and Auditor*

Statement and FY Effective			Potential Level of Effort*					
		FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GASB 87 – Leases	2022							
GASB 89 – Construction-period Interest	2022	Minimal						
GASB 91 – Conduit Debt	2023							
GASB 92 – Omnibus (multiple effective dates)	Various							
GASB 93 – LIBOR Removal and Lease Modifications	2022							
GASB 94 – Public-Private Partnerships	2023							
GASB 96 – SBITA	2023							
GASB 97 – Certain Component Unit Criteria/Section 457 plans	2022							
GASB 98 – The Annual Comprehensive Financial Report	2022	Minimal						
GASB 99 – Omnibus (multiple effective dates)	Various							
GASB 100 – Accounting Changes and Error Corrections	2024							
GASB 101 – Compensated Absences	2025							

*Based on June 30 fiscal years

**Enter a single word that sums up your thoughts about GASB
87 - leases.**

Enter a single word that sums up your thoughts about GASB 87.



Auditor's Response

GASB 96

Subscription-Based
Information Technology
Arrangements

Subscription-Based Information Technology Arrangements – Defined

As stated in Statement No. 96, para. 6:

*A **contract** that conveys control of the **right to use** a party's (party's SBTIT and/or IT) **IT software, alone or in combination with tangible capital assets** (e.g., undepreciated IT assets), in exchange for specified in the contract for a **period of time** in a **subscription or exchange-like transaction**.*

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Subscription-Based Information Technology Arrangements – Defined

As

In writing or verbal but must be legally enforceable.

Chapter No. 96, para. 6:

Right to use is distinct from the asset itself.

IT Software

*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**.*

No perpetual type contracts.
May be noncontinuous.

No contracts with nominal rents (e.g. \$1/year)

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COMPTROLLER
OF TREASURY

SBITA - Control

Does the government have **both** of the following of the underlying IT asset as specified in the contract:

- Right to obtain the present service capacity?
- Right to determine the nature and manner of use?



Not a SBITA!

SBITA Exclusions

- Governments acting as SBITA vendors
- Certain public-private and public-public partnerships
- Perpetual software licenses



GASB 94

Relationship Between Leases and SBITAs

- All SBITAs meet definition of lease
- Accounting depends on what the underlying asset is:
 - Tangible capital assets alone – GASB Statement No. 87
 - IT software alone – GASB Statement No. 96
 - IT software in combination with tangible capital assets:
 - Software component is insignificant compared to cost of underlying tangible capital asset – GASB Statement No. 87
 - Otherwise – GASB Statement No. 96

SBITA Term

Lessee

Noncancelable
lease period



Optional
renewal
periods if
lessee is
reasonably
certain to
exercise



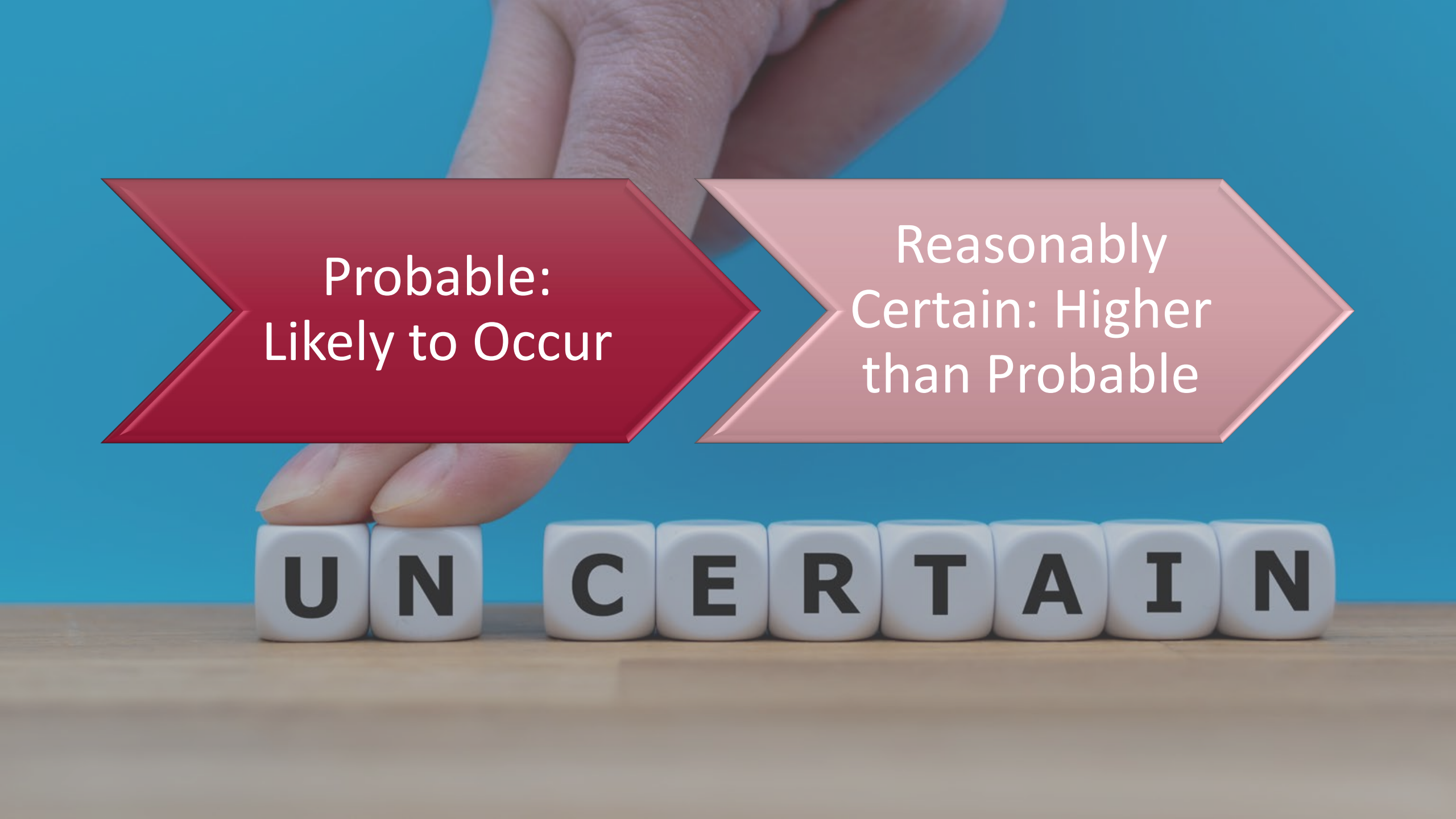
Periods after
an optional
termination
date if lessee
is reasonably
certain not to
exercise that
option

The lease term excludes periods in which both the lessee and lessor have options to terminate regardless of probability.

Fiscal funding/cancelation clauses ignored unless reasonably certain of being exercised

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Probable:
Likely to Occur

Reasonably
Certain: Higher
than Probable

U N C E R T A I N

Measurement of Subscription Liability

Fixed payments

- + Variable payments fixed in substance
 - + Variable payments that depend on an index or rate
 - + Termination penalties
 - SBITA incentives
 - + Any other payments
-
- = Subscription liability

Like
leases

TENNESSEE COMPTROLLER OF THE TREASURY



Measurement of Subscription Asset

Liability for PV of future payments

- + Payments made at, or prior to, beginning of the subscription term
- Any SBITA vendor incentives paid at, or prior to, beginning of the subscription term

+ *Certain* capitalizable implementation costs

= Subscription asset

Like
leases

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Capitalizable Costs

Preliminary Project Stage

- Formulate and evaluate alternatives
- Determine existence of needed technology
- Select among alternatives
- ***Expense as incurred***

Initial Implementation Stage

- Design, configure, code, install, and test
- Convert data needed to make underlying assets operational
- ***Capitalize these costs when incurred after***
 - ***Completion of preliminary project stage and***
 - ***Funding for at least first year approved***

Operation and Additional Implementation Stage

- Train users
- Convert data (other than that needed to make underlying assets operational)
- Maintain software (and hardware)
- ***Expense as incurred***

Perform Calculations



When payments start



Amount of the payment



Number of payments



Interest rate

Discount Rate

- Explicit Rate (as stated in the subscription agreement)
- Incremental Borrowing Rate
- Excel Function: =Rate



Initial SBITA Accounting

	Assets	Liability	Deferred Inflow
Government ("Tenant")	Intangible right-to-use subscription asset = Subscription liability plus prepayments and any ancillary costs to place asset into use	Subscription liability = PV of expected subscription payments over subscription term	N/A

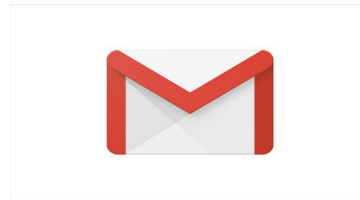
Subsequent SBITA Accounting

	Assets	Liability	Deferred Inflow
Government ("Tenant")	Amortize subscription asset over shorter of useful life of asset or subscription term	Reduce subscription liability by principal portion of subscription payments made Recognize (accrue) interest payable	N/A

SBITA Examples



ORACLE® | NETSUITE



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GASB 94

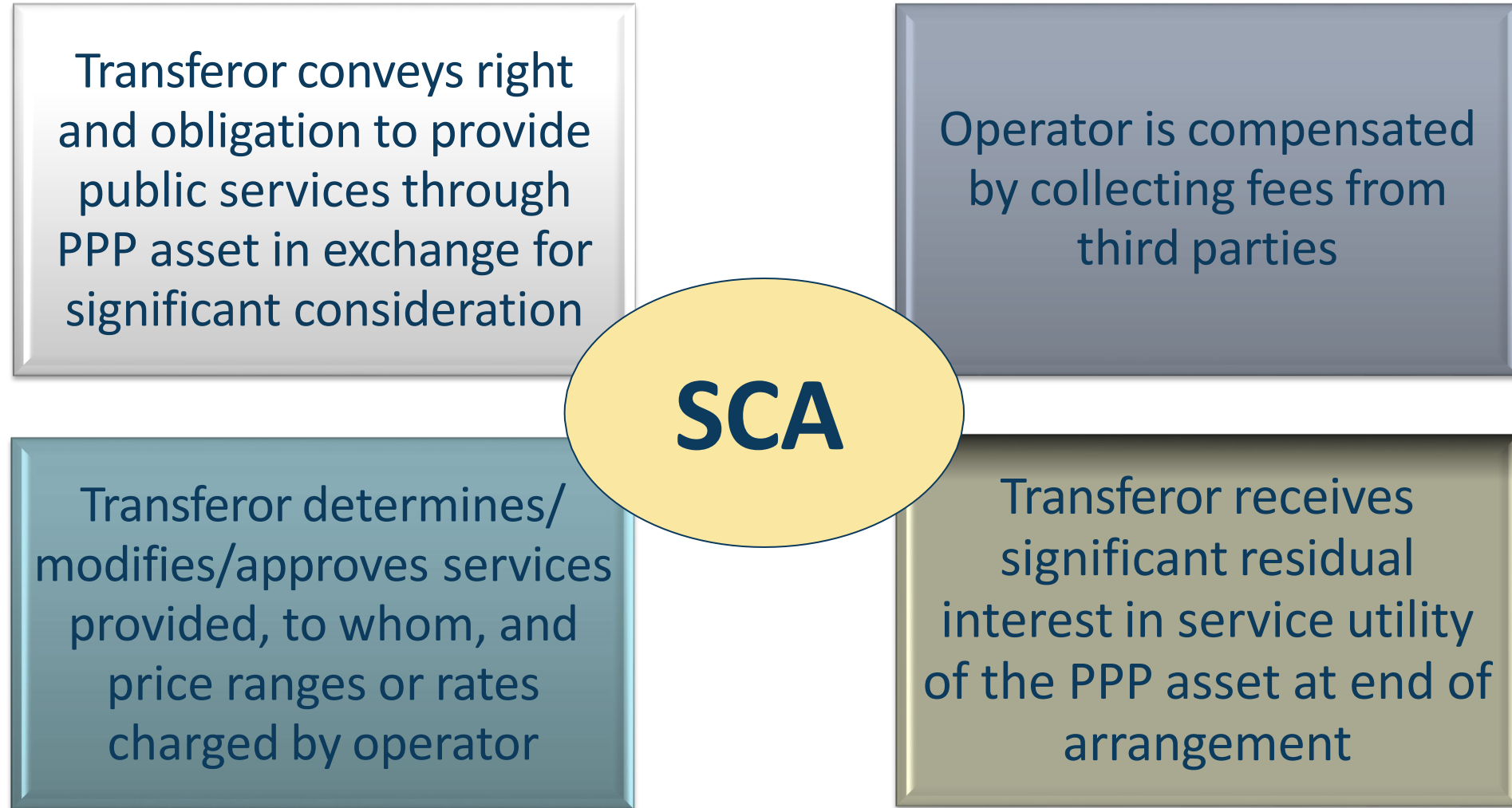
Public-private partnerships and public-public partnerships
(P3s) & Availability Payment Arrangements (APA)

P3s: Defined

Public-private partnerships and **public-public partnerships (P3s)** are arrangements “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 assets, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.”

Service concession arrangement (SCA) is one type of P3 if it meets certain criteria.

Service Concession Arrangement (SCA)



Type of PPP Determines the Accounting

Source of the underlying PPP asset:

Existing asset

Of the transferor, with
or without operator-
made improvements

Type I

New asset

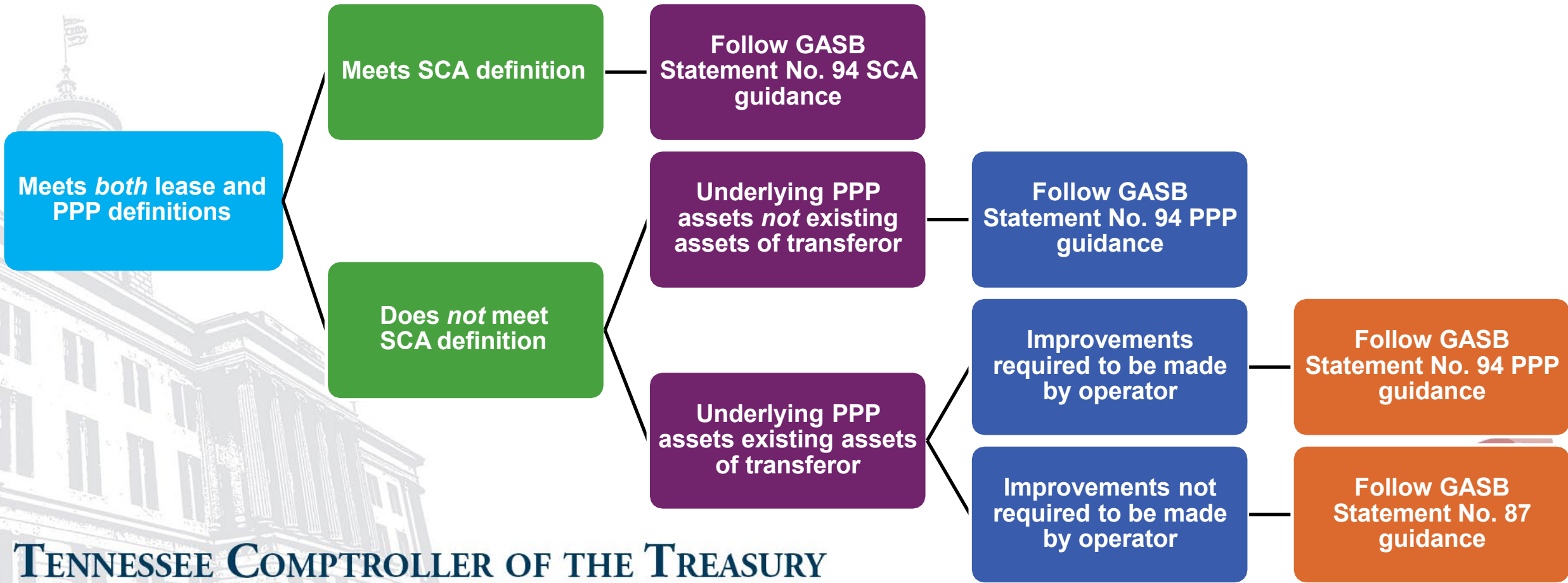
Acquired or
constructed by
operator in a
*Service concession
arrangement*

Type II

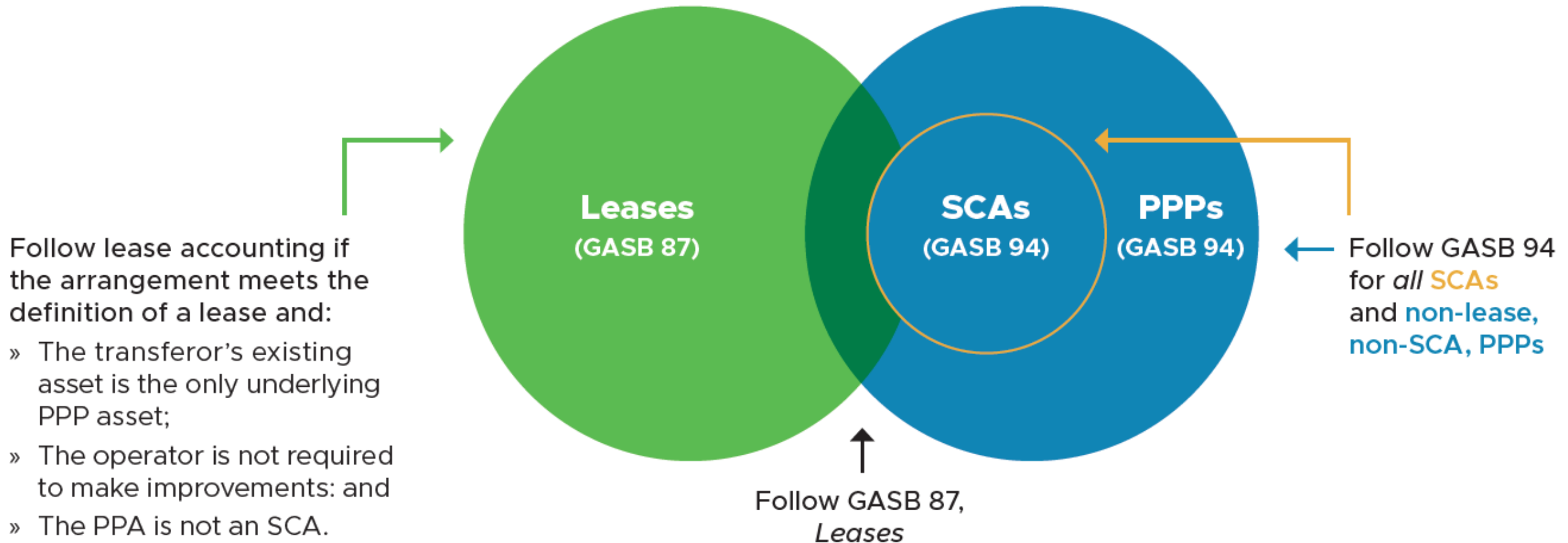
Acquired or
constructed by
operator
*Not a service
concession
arrangement*

Type III

Relationship Between Leases and P3s



Relationship Between Leases and P3s



Transferor Reporting

For all P3s, recognize:

- Receivable for installment payments to be received, if any
- Deferred inflow of resources for the assets recognized, including payments received from the operator at or before start of the P3 term

If underlying P3 asset is a new asset or an existing asset that has been improved...

- ...and the P3 is an SCA: also recognize the capital asset at acquisition value when placed into operation
- ...and the P3 is not an SCA: also recognize a receivable for the capital asset, measured at operator's estimated carrying value as of the future date of the transfer in ownership

TENNESSEE COMPTROLLER OF THE TREASURY



Operator Reporting

For all P3s, recognize:

- Liability for installment payments to be made, if any

If underlying P3 asset is (a) existing asset or improvement or (b) new asset and the P3 is an SCA...

- ...also recognize an intangible right-to-use asset

If underlying P3 asset is a new asset and the P3 is not an SCA...

- Also recognize the underlying P3 asset until ownership is transferred
- And a liability for the underlying P3 asset, measured at the estimated carrying value as of the future date of the transfer

Availability Payment Arrangements (APA): Defined

Availability payment arrangements (APA) is an “arrangement in which a **government compensates an operator** for activities that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.”

Key Points:

- Government contracts with another entity to operate or maintain the government’s nonfinancial asset
- 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

Availability Payment Arrangements (APA): Reporting

- If APA contains multiple components, recognized separately
- APA components that design, construct, or finance a nonfinancial asset are treated as financed purchases
- APA components that are service-oriented (e.g. operations) are recognized as outflows of resources (e.g. expenses) in the related reporting period

Public-private partnerships work their way into state government

Democrats likely to balk at allowing private firms to control roadways

BY: SAM STOCKARD - DECEMBER 22, 2022 6:02 AM



■ Middle Tennessee has the greatest number of road miles and highest population of the state's four quadrants, yet will get the least amount of funding in a proposed transportation plan.(Photo: Getty Images)

Not long after the Tennessee Department of Transportation proposed public-private partnerships to build express lanes and cut congestion on highways, the University of Tennessee-Knoxville sought permission for a joint venture to build dorms and an indoor athletic facility.

The State Building Commission authorized the university's plan to take bids for a public-private partnership for three multi-use student housing facilities on campus and construction of the infield practice facility.

The General Assembly will have to pass legislation enabling the Department of Transportation to enter a public-private partnership in which a company would invest the money in a road project, then recoup it through fees.

Under the UT-Knoxville proposal, which didn't require legislative action, the university will "engage" a developer to design, construct, finance and maintain the buildings, which will meet growth needs and allow renovation or replacement of older dorms. The university is requesting proposals from developers on each project.

"The added facilities will help us meet our campus housing needs and position UT-K for anticipated enrollment growth while supporting the Volunteer student experience. This process has been utilized in various other states," the university said in a statement.

It is unclear what impact these public-private partnerships would have on the university's finances, though UT-K would remain in charge of dorm assignments and programming.

State transportation officials prefer to use the term "choice lanes" for their proposal on express routes, but Sen. Todd Gardenhire, R-Chattanooga, contends they are "toll roads" in essence because motorists would have to pay to drive on them.



P3 Example – Provide Services

3. The Lessee covenants and agrees to pay to the Lessor during the first three years of this Lease, rental in monthly installments calculated at a rate of 3.45 per occupied bed, per day, with the first payment due and payable on the 1st day of July, 1996, and on the tenth (10th) day of each month thereafter;

4. After the first three years of this lease, the monthly rental shall be negotiated between the Lessor and the Lessee on an annual basis, but in no event shall be less than 3.45 per occupied bed, per day;

P3 Example – Provide Services

WHEREAS, the OWNER is authorized to operate a sixty-two (62) bed, skilled and intermediate care facility in [REDACTED] County, and owns the land, building and equipment necessary for the operation of said facility currently known as [REDACTED] Health Center", and

WHEREAS, the Manager represents that it has personnel skilled in the management of a health care facility similar in size, scope and type to the [REDACTED] Health Center, and it is able to provide the services as contemplated by this Agreement; and

WHEREAS, the parties wish to enter into a Management Agreement for the Manager to manage the [REDACTED] Health Center on the terms and conditions herein set forth;

NOW, THEREFORE, IN CONSIDERATION OF THE PREMISES, and the considerations hereafter mentioned, the parties do hereby agree as follows:

(1) The OWNER hereby contracts with the MANAGER to perform the functions and to provide the services described in this Agreement, and the MANAGER hereby accepts such obligations on the terms and conditions herein set forth.

(2) It shall be the duty of the MANAGER to operate a high-quality facility known as [REDACTED] Health Center" and to provide a consistent level of high-quality service to the residents of said facility and to operate the same on a sound financial basis and to maintain a high-quality public image for the facility.

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P3 Example – Consideration

2. CONSIDERATION

a. The rent due to [REDACTED] County, Tennessee in consideration of this lease shall be eight percent (8%) of gross receipts. The total gross receipts for each rental payment period will be multiplied by the percentage rate and the resulting total due and payable within twenty-one (21) days to [REDACTED] County, Tennessee at the office of County Trustee whose address is Post Office Box [REDACTED]

Terminology Comparison

Leases	SBITAs	PPPs
Lessor	Vendor (non-governmental)	Transferor
Lessee	Government	Operator
Lease asset	Subscription assets	Right-to-use asset
Underlying assets	Underlying hardware and software	Underlying PPP asset
Lease liability	Subscription liability	PPP liability (and, in some cases, liability to transfer underlying PPP asset)
Lease receivable	N/A	PPP receivable (and, in some cases, receivable for underlying PPP asset)
Deferred inflows of resources	N/A	Deferred inflow of resources from PPP (and, in some cases, deferred inflow of resources for receipt of underlying PPP asset)

GASB 99

Omnibus 2022

Omnibus 2022

- Leases (Statement 87)
 - 7 paragraphs
- P3s (Statement 94)
 - 5 paragraphs
- SBITAs (Statement 96)
 - 3 paragraphs

[To see Statement 99, Omnibus 2022](#)

TENNESSEE COMPTROLLER OF THE TREASURY



GASB 91

Conduit Debt Obligations

Conduit Debt - Defined



A Venn diagram consisting of three overlapping circles. The top-left circle is labeled 'Government-issuer', the top-right circle is labeled 'Third-party obligor', and the bottom circle is labeled 'Debt Holder'. The circles overlap in a way that creates three distinct intersection areas: one between the government issuer and the third-party obligor, one between the government issuer and the debt holder, and one between the third-party obligor and the debt holder. The central area where all three circles overlap is also present.

Government-
issuer

Third-party
obligor

Debt Holder

- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation.

Conduit Debt – Types of Commitments

- Issuers' commitments are **limited** to the resources provided by 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
 - Extending a moral obligation pledge
 - Extending an appropriation pledge
 - Extending a financial guarantee
 - Pledging its own property, revenue, or other assets as security
- Issuer may also extend a **voluntary commitment**, in which the issuer voluntarily decides to make a debt service payment or request an appropriation for a payment in the event that the third is, or will be, unable to pay

Conduit Debt – Recognition

- Issuer should **not** recognize a liability for a conduit debt obligation
- Possible to have a related liability as a result 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

Re-evaluate, at least annually, the recognition criteria for voluntary and additional commitments

Conduit Debt Example

WHEREAS, [REDACTED] Special School District (“District”) is a special school district located partially in [REDACTED] County, Tennessee and partially in [REDACTED] County, Tennessee; and

WHEREAS, the City of [REDACTED] (“City”) is an incorporated municipality of the State of Tennessee, lying partially within [REDACTED] County, and partially within [REDACTED] County, Tennessee; and

WHEREAS, the citizens and taxpayers of the City and the District have indicated their desire to build a school within the District serving preschool through third grade (the “School Facility”), so that the youngest school children residing within the District can attend a school within the [REDACTED] community rather than being split between schools in [REDACTED] County and [REDACTED] County and being required to travel to schools outside the community; and

WHEREAS, it is the desire of the District and the City to provide adequate facilities and equipment to meet the standards of state and federal law and to arrange for provision of an educational program within the District for children in preschool through third grade with minimum transportation of such children; and

WHEREAS, the parties agree that this cooperative agreement is the best method for providing such school facilities and programs;

TENNESSEE COMPTROLLER OF THE TREASURY



Conduit Debt Example

2. (A) The City shall issue general obligation bonds (the "Bonds") in the principal amount of \$1,680,000.00, bearing interest at fixed rates of interest not to exceed six and one-half percent (6.50%) per annum, payable semi-annually on June 1 and December 1 in each year so long as any of the Bonds shall remain outstanding, commencing December 1, 2001. The Bonds shall mature serially on June 1 of each year beginning June 1, 2004 through and including June 1, 2027. The dates and terms of payment of the Bonds may be altered by the City prior to the issuance of the Bonds so long as such alteration does not materially change the financial obligations of the District hereunder. The proceeds of the sale of the Bonds shall be used to pay the costs of constructing, furnishing, fixturing, and equipping of the School Facility, including, as necessary, payment of all legal, fiscal, administrative, architectural, engineering, accounting and similar incidental costs thereto, and all costs of either the District or the City in negotiating and preparing this Agreement or any agreement incident hereto or related hereto and accomplishing the conveyances and performing the obligations described herein. The District covenants and agrees to pay to the City not later than fifteen (15) days prior to a principal or interest payment date of the Bonds, or any Refunding Bonds hereinafter described, an amount equal to the payment then coming due on the Bonds or Refunding Bonds. Each such payment shall be made by the District to the City in such manner and by such means of payment as shall be acceptable to the City.



TENNESSEE COMPTROLLER OF THE TREASURY



Conduit Debt Example

4. The City shall lease the School Facility to the District for a term of seventy-nine (79) years from the date of substantial completion of construction. The purpose of the lease shall be for the operation of a school for preschool through third grade students residing within the District, regardless of whether such students reside on the [REDACTED] County or [REDACTED] County side of the District. The parties agree that the District may sublease the facility for purposes of providing for the operation of such school. The parties agree that the City shall retain title to the facility and shall provide property and liability insurance at all times during the term of this Agreement.

The background image shows a close-up of a calculator on the left and a magnifying glass in the center. The magnifying glass is focused on a spreadsheet cell containing the value '\$169.23', which is circled in red. Other values visible in the spreadsheet include '142.75' and '\$178.57'. A red pen is also visible, pointing towards the bottom right.

Materiality



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