



# Tennessee Association of School Business Officers

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November 20, 2024  
Murfreesboro, TN

**John M. Troyer, CPA**  
**Administrator of Standards Research and Compliance**  
**Division of Local Government Audit**  
**[John.Troyer@cot.tn.gov](mailto:John.Troyer@cot.tn.gov)**

# Disclaimer

*The opinions and views expressed in this presentation are our own and do not necessarily represent the opinions or views of the TN Comptroller of the Treasury, his representatives, or the TN Department of Audit. Official positions are determined only after due process and deliberation.*



# TASBO Conference

## November 20, 2024



*A moment about your presenter . . .*

*“I understand.”*

**John M. Troyer, CPA**  
**Administrator of Standards Research and Compliance**  
**Division of Local Government Audit**  
**[John.Troyer@cot.tn.gov](mailto:John.Troyer@cot.tn.gov)**



# TASBO Fall Conference

*“Don’t tell me how much you know,  
until you show me how much you care.”*

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Tommy Shumpert,  
former Knox County Mayor



## TASBO Fall Conference

*“The County Commission sometimes takes the long way around the block, but they usually end up in the right place.”*

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**Bill Crisp, former Blount County  
Mayor**



# TASBO Fall Conference

## November 20, 2024

*A moment of appreciation . . .*

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*“Thank you for what you do!”*





# You may want to review:

- Subsequent Events (GASBS #56)
- Asset Impairments (GASBS #42)

## GFOA Best Practices

[VIEW ALL](#)



BEST PRACTICE

Disaster Preparedness



BEST PRACTICE

Disaster Recovery Cost Documentation



BEST PRACTICE

Disaster Recovery for Technology



BEST PRACTICE

Business Preparedness and Continuity Guidelines



FEMA

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# GASB 87

Leases

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# Leases – by the numbers . . .

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The GASB Codification (L20) includes **92 paragraphs** on leases(.101–192)

The GASB Codification Implementation Guides for leases  
*have 35 sections of Q & A related to leases (701 -735).*

*The GASB Codification has 3 lease illustrations.*

# Lease – Defined

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Statement No. 87, para. 4, includes:

*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.*

# Lease – Defined

---

As stated in Statement No. 87, para. 4, includes:

*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**.*

# Lease – Defined

As

In writing or verbal but must be legally enforceable.

Opinion No. 87, para. 4:

Right to use is distinct from the asset itself.

Capital Assets  
(e.g. land, buildings, vehicles, and equipment)

*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**.*

No perpetual type contracts.  
May be noncontinuous.

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

# Lease – Foundational Principles

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As stated in Statement No. 87, Appendix B:

*The accounting and financial reporting guidance for leases in this Statement is based on the **foundational principle that leases are financings . . .***

# Lease – Foundational Principles

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As stated in Statement No. 87, Appendix B:

*The accounting and financial reporting guidance for leases in this Statement is based on the **foundational principle that leases are financings . . .***

*The lessee has financed the acquisition of that legal right. Conversely, a lessor receives payments over time for transferring to the lessee the legal right to use the underlying asset.”*

# Why this much attention to leases?

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- ◆ Anyone remember FASBS #13?



# Why this much attention to leases?

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- ◆ Anyone remember FASBS #13?





# Lease Guidance

## Existing

- Capital lease
- Operating lease

## New

- Single model
  - No split between capital and operating
- Single model
  - Split between short-term and long-term

# Three types of “leases”

## Short-term leases

- Maximum possible term at commencement date of 12 months or less
- No recognition of lease liability or lease asset required!
- Short term payments are expensed as incurred by lessees and recognized as revenue by lessors

## Contracts that transfer ownership

- Defined as any contract that:
  - Transfers ownership of the underlying asset to the lessee by the end of the contract, and
  - Does not contain termination options
- These contracts are accounted for as financed purchases of the underlying asset by lessees and sales by lessors!

## All other leases

- Lease liability and lease asset are recognized

*The contract does not have to use the word “lease” to be a lease.*



# To be a Lease – Needs Control:

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

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



Not a 87 Lease!

# Lease Exclusions

- ◆ Intangible assets
- ◆ Biological assets
- ◆ Inventory
- ◆ Arrangements associated with conduit debt obligations
- ◆ Supply contracts

- Certain public-private and public-public partnerships (PPP)
- Service concession arrangements (SCA) (a type of PPP)
- Subscription-based information technology arrangements (SBITA)
- Assets meeting requirements of Stmt 72 – report as investments
- Regulated Leases

GASB 94

GASB 96

GASB 72

# Lease Exclusions, continued:

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- ◆ Financed Purchase, if:
  - No termination option, and
  - Transfers ownership at the end of the contract
- ◆ Leases with purchase options are not considered Financed Purchases because there is no requirement to purchase at the end of the lease term

# Initial Lease Accounting

	Assets	Liability	Deferred Inflow
<p><b>Lessee</b> ("Tenant")</p>	<p>Intangible right-to-use lease asset = Lease liability plus prepayments and any ancillary costs to place asset into use</p>	<p>Lease liability = PV of expected lease payments over lease term</p>	<p>N/A</p>
<p><b>Lessor</b> ("Landlord")</p>	<p>Lease receivable = PV of expected lease payments over lease term Continue to report underlying asset</p>	<p>N/A</p>	<p>Deferred Inflow of Resources = lease receivable plus any cash received up front that pertains to a future period</p>

# Subsequent Lease Accounting

	Assets	Liability	Deferred Inflow
<p><b>Lessee</b> ("Tenant")</p>	<p>Amortize lease asset over <i>shorter</i> of useful life of asset or lease term</p>	<p>Reduce lease liability by principal portion of lease payments made</p> <p>Recognize (accrue) interest payable</p>	<p>N/A</p>
<p><b>Lessor</b> ("Landlord")</p>	<p>Depreciate lease asset</p> <p>Reduce lease receivable by principal portion of lease payments</p> <p>Recognize (accrue) interest receivable</p>	<p>N/A</p>	<p>Recognize revenue over the lease term in a systematic and rational manner</p>

# Lease Term

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- ◆ *“Financial Statement preparers should exercise caution when assessing the lease term . . . “*
- ◆ Governmental Accounting, Auditing, and Financial Reporting (GAAFR)(GFOA Blue Book 26-5)



# Lease Term

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Lessee term

does not always =

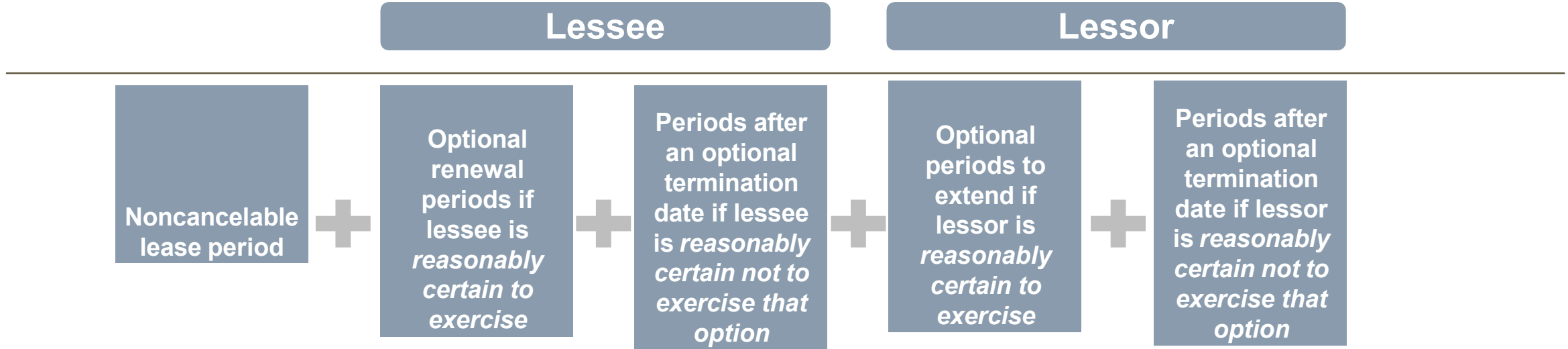
Lessor term

# What if there is a fiscal funding clause?

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- ◆ Fiscal funding clauses (*i.e. if funds are not appropriated, the lease is cancelled*) are generally **IGNORED** – unless there is a *reasonable expectation that it would be executed*.

# Lease Term




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



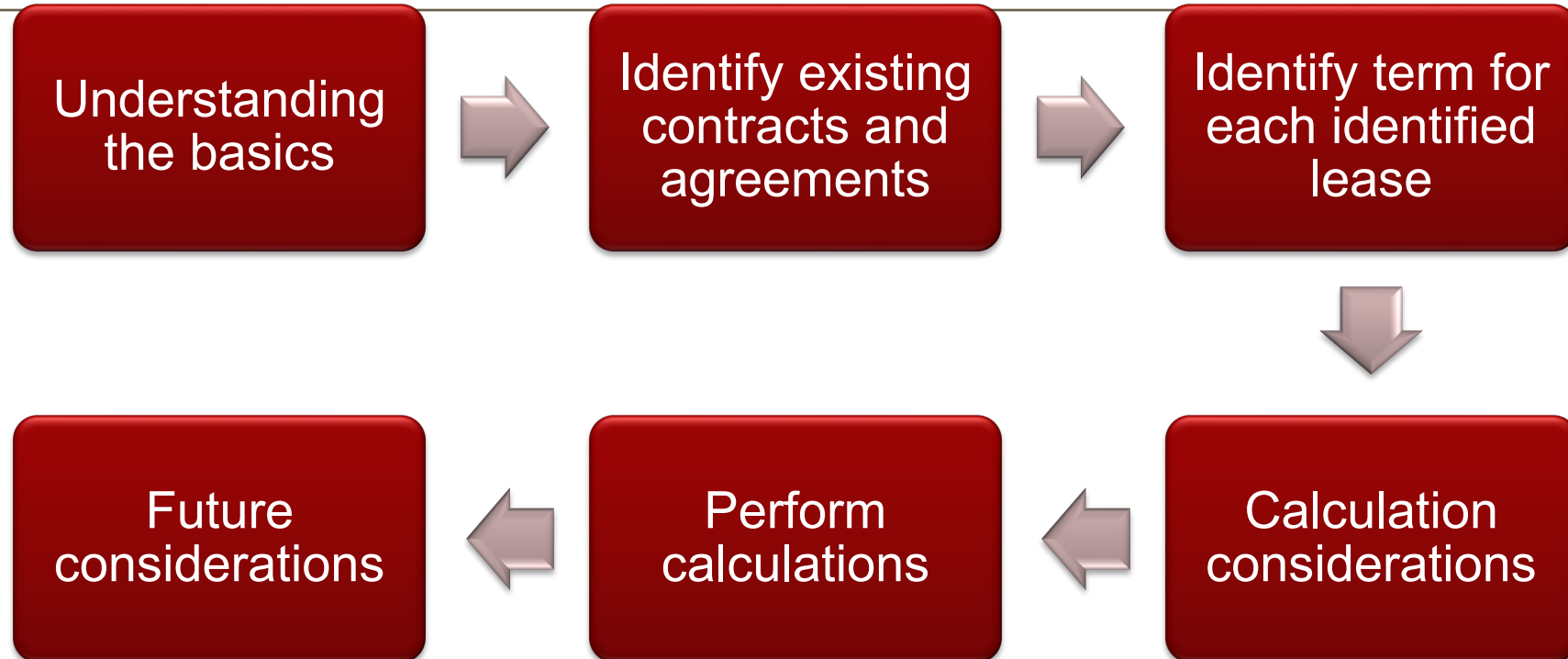
Probable:  
Likely to  
Occur



Reasonably  
Certain:  
Higher than  
Probable

U N C E R T A I N

# Implementation Process



# Lease Payment

## Lease payments include:

Type	Lessee	Lessor
Fixed payments	✓	✓
Variable payments fixed in substance	✓	✓
Variable payments that depend on an index or rate	✓	✓
Residual value guarantees <sup>1</sup>	✓	✓
Purchase options <sup>2</sup>	✓	
Termination penalties <sup>2</sup>	✓	
(Lease incentives) <sup>3</sup>	✓	✓
Any other payments <sup>2</sup>	✓	

<sup>1</sup> For lessees, RVGs are included if reasonably certain of being required. For lessors, they are included if fixed in substance.

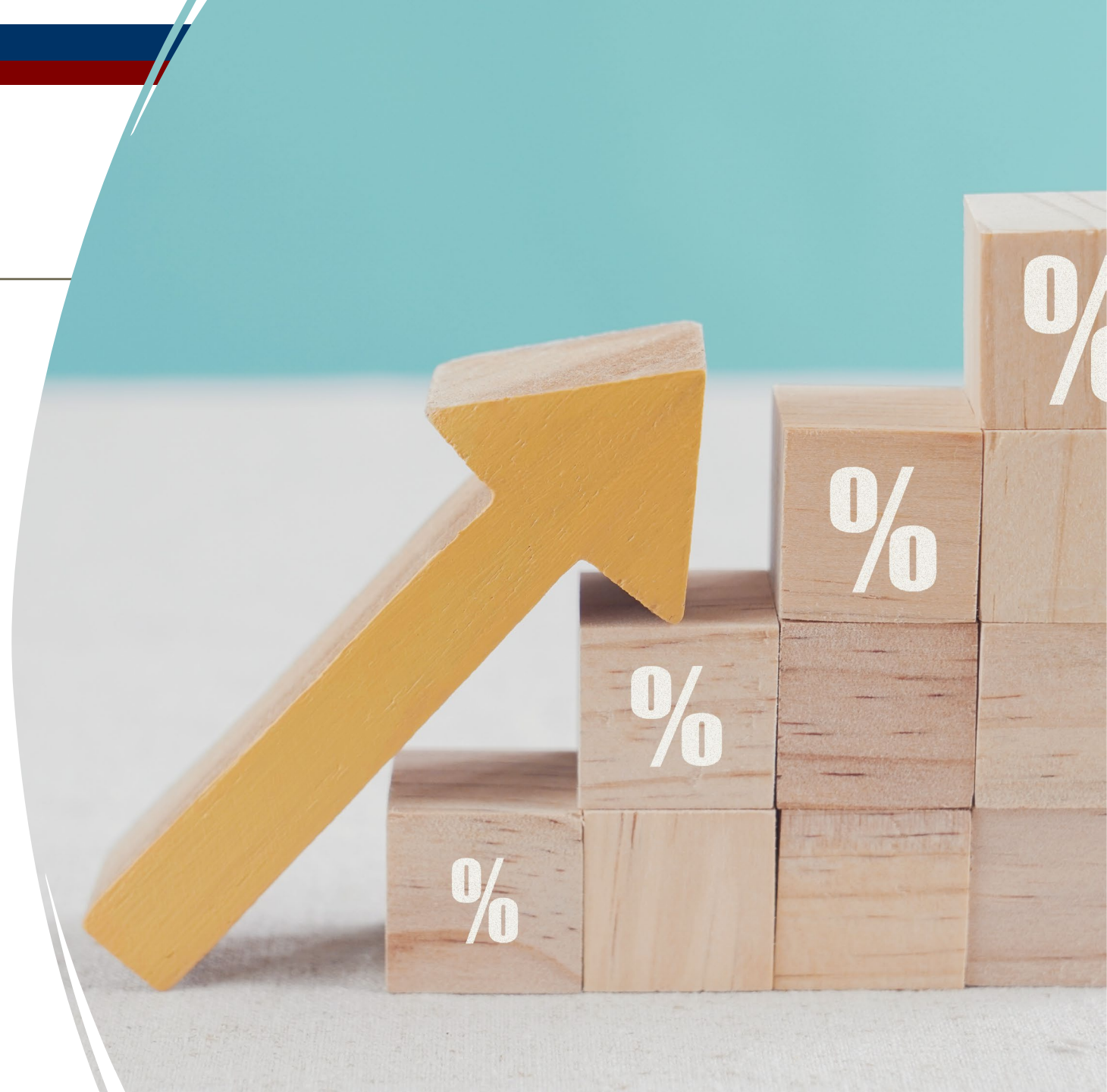
<sup>2</sup> Included only if reasonably certain to be exercised/required.

<sup>3</sup> Lease incentive receivable by the lessee (payable by the lessor) after lease commencement are ordinarily a reduction (offset) in the calculation of total lease payments.

# Discount Rate

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




# Identify Lease Agreements

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- ◆ Gather contracts and agreements.
  - Review contract files
  - Talk to the departments (including procurement and legal)
  - Review trial balance for potential lease line items (rent expense)
  - Have accounts payable personnel look for recurring or annual invoices
  - Ask Questions!
- ◆ Review written agreements for terms and intent.
- ◆ Ask about unwritten service agreements.





## Word of Caution: Embedded Leases

- ◆ “As-a-service” contracts
- ◆ Sales contracts
- ◆ Advertising contracts
- ◆ Transportation or construction arrangements
- ◆ Related-party contracts

# Calculation Considerations

- ◆ Fixed, Variable, or a Combination of Components
- ◆ Service Component
- ◆ Timing of Payments
- ◆ Up-front money
- ◆ Interest Rate
- Incentives
- Termination Clause
- Modifications
- Subleases
- Sale-Leaseback Transactions
- Lease-Leaseback Transactions

# Lease Term

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Provisions such as:

- Automatic renewals
- Options that require both parties to mutually agree to extend
- Either party may terminate with X days notice
- Termination provisions

# Perform Calculations

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- When payments start
- Amount of the payment
- Number of payments
- Interest rate

# Lessee – Bus Example

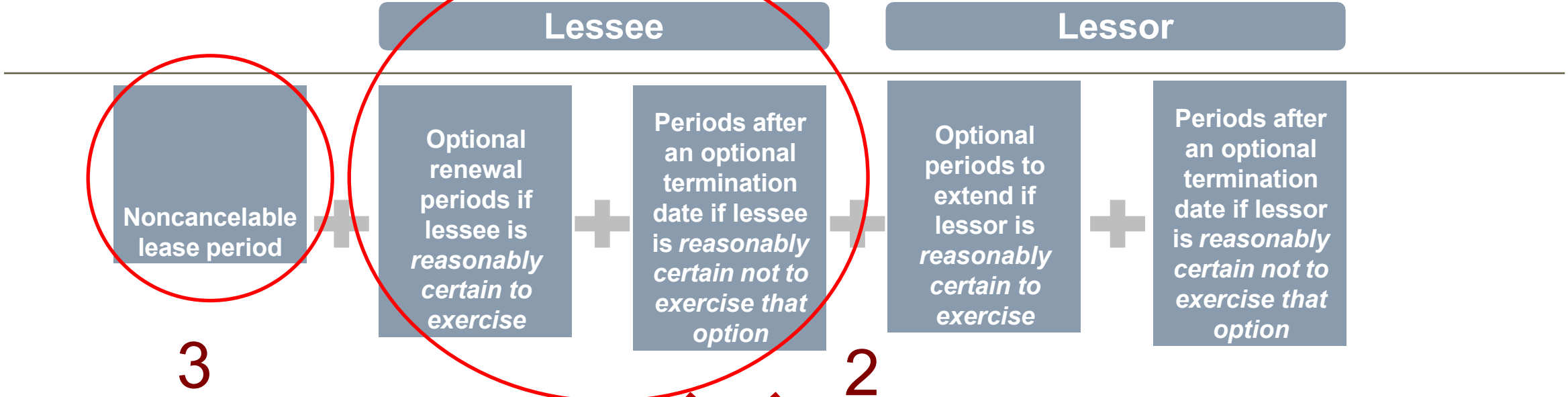
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- ◆ On July 1, 2021, the government enters into a contract for a **school bus**. The contract states the term is **5 years**, with monthly **payments of \$2,000** due every 1<sup>st</sup> of month. Lessor provided the borrowing rate of 6%.
- ◆ After three years, the government may cancel the contract.
- ◆ After the 5<sup>th</sup> year, the purchase price for the bus is \$12,000.
- ◆ The government regularly leases school buses and has historically utilized the buses for the full contract term (**never terminated** early). The contract **does not provide the lessor an option to terminate**. At the date of the contract, the government **does not have any intent to terminate** early. At the end of the lease, the government intends to return the buses; therefore, there is no transfer of ownership provision.

**Does this meet the definition of a lease? YES**

# Lessee – Bus Example

5 years



Noncancelable lease period

3

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*

2

Optional periods to extend if lessor is *reasonably certain to exercise*

Periods after an optional termination date if lessor 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 their probability.

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

# Lessee – Bus Example

Buses are delivered on July 1, 2021, date of 1st payment.

Payment schedule 5 years, assuming a 6% interest rate.

Purchase price, not certain of being exercised (exclude)

Present value of \$2,000 monthly payments for 5 years (60 months):

- ◆ Rate = (6% per year / 12 months to get rate per month)
- ◆ Nper (number of payments) = 60
- ◆ Pmt (monthly payment) = 2,000
- ◆ FV (future value) = 0
- ◆ Type = 1 if payments are made at beginning of period, 0 if payments are made at end of period

$$=PV(0.06/12, 60, -2000, 0)$$

Present  
Value =  
\$103,451

# Lessee – Bus Example

Annualized Payment Schedule			
	Principal	Interest	Total Payment
2022	\$18,290	\$5,710	\$24,000
2023	19,419	4,581	24,000
2024	20,616	3,384	24,000
2025	21,888	2,112	24,000
2026	23,238	762	24,000
Total	\$103,451	\$16,549	\$120,000
Amortization of Lease Asset			
Year 1	Amortization		20,690
Year 2	Amortization		20,690
Year 3	Amortization		20,690
Year 4	Amortization		20,690
Year 5	Amortization		20,691
	Total		\$103,451



# Lessee – Bus Example

<b>Governmental Fund - Initial Journal Entry</b>	<b>Debit</b>	<b>Credit</b>
Capital Outlay	103,451	
Other Financing Sources – Lease Proceeds		103,451

*To record the inception of the bus lease on 7/1/2021.*

<b>Government-Wide – Initial Journal Entry</b>	<b>Debit</b>	<b>Credit</b>
Other Financing Sources – Lease Proceeds	103,451	
Lease Liability – Due within One Year		18,290
Lease Liability – Due in More than One Year		85,161
Intangible Lease Asset– Vehicles	103,451	
Capital Outlay		103,451

*To record intangible asset and related liability for the fiscal year.*

# Lessee – Bus Example

<b>Governmental Fund – Year 1 Journal Entry</b>	<b>Debit</b>	<b>Credit</b>
Interest on Leases	5,710	
Principal on Leases	18,290	
Cash		24,000

*To record lease payments for the fiscal year.*

<b>Government-Wide – Year 1 Journal Entry</b>	<b>Debit</b>	<b>Credit</b>
Lease Liability – Due Within One Year	18,290	
Principal on Leases		18,290
Amortization Expense	20,690	
Accumulated Amortization		20,690

*To eliminate fund level activity and record amortization expense for the fiscal year.*

# Notes to the Financial Statements

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- ◆ General description of leases arrangements, including:
  - Basis, terms, and conditions, on which variable lease payments are determined
  - Existence, terms, and conditions of residual value guarantees provided by the lessee
- ◆ Total amount of assets recorded under leases, and the related accumulated amortization, disclosed separately from other capital assets
- ◆ Lease assets disaggregated by major classes of underlying assets, disclosed separately from other capital assets
- ◆ Variable lease payments recognized during the period but not previously included in the lease liability

# Notes to the Financial Statements

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- ◆ Other payments recognized during the period but not previously included in the lease liability (such as residual value guarantees or penalties)
- ◆ A maturity analysis of all future lease payments
  - Payments for each of the first five years
  - Payments in five-year increments thereafter
  - Show principal and interest separately
- ◆ Lease commitments, other than short-term leases, for which the lease term has not yet begun
- ◆ Components of any net impairment loss (gross impairment loss less change in lease liability)

# Future Considerations

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- ◆ Establish internal policies and procedures to ensure lease accuracy and completeness
  - How will finance track the government's leases?
  - How will finance identify new leases in future years?
  - If current leases are modified, how will finance be notified?

# TASBO Fall Conference

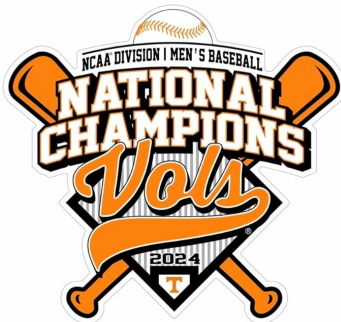
November 20, 2024

*“I was not a very good player . . .*

*I sat on the bench for years with my dad who was a coach and watched. . .*

*I got my PhD in being a good teammate.”*

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**Tony Vitello, UT Baseball Coach**  
**NCAA National Champs 2024**



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# GASB 96

Subscription-Based Information  
Technology Arrangements  
(SBITAs)

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# SBITAs – by the numbers . . .

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The GASB Codification (S80) includes 60 paragraphs on SBITAs

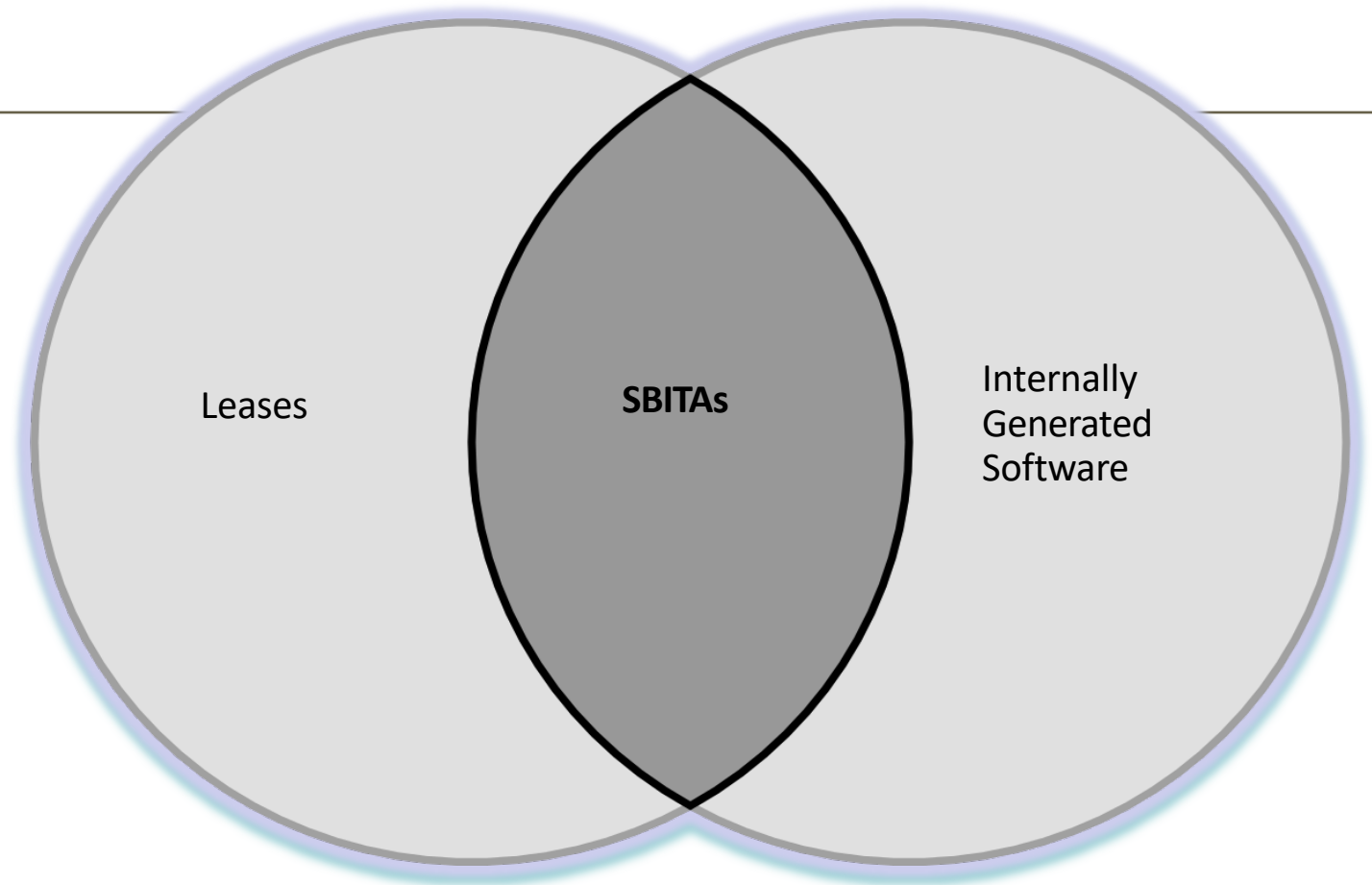
The GASB Codification Implementation Guides for SBITAs  
*have 24 sections of Q & A related to SBITAs (701 -724).*

*The GASB Codification has no SBITA illustrations.*



# Relationship Between Leases and SBITAs

Source: GFOA



# Subscription-Based Information Technology Arrangements – Defined

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*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-Based Information Technology

## Arrangements – Defined

As

In writing or verbal but must be legally enforceable.

House Bill 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)

# 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!

# Relationship Between Leases and SBITAs

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- 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
- Also excluded from Statement 96:
  - Governments acting as SBITA vendors
  - Contracts that meet the definition of a P3 in Statement 94
  - Perpetual software licenses

# SBITA Term

Lessee

Lessor

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*



Optional  
periods to  
extend if  
lessor is  
*reasonably  
certain to  
exercise*



Periods after  
an optional  
termination  
date if lessor  
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

# SBITA Payment

## SBITA payments included in subscription liability:

Type	Government (similar to "Lessee")
Fixed payments	✓
Variable payments fixed in substance	✓
Variable payments that depend on an index or rate	✓
Termination penalties	✓
(Lease incentives)	✓
Any other payments	

# 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



# 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***

# Comments or Questions?



# Infrastructure as a Service



- *One firm is marketing a short-term 30-day lease for:*
  - **Parking Garages**
  - **Turf Fields**
  - **Vehicles**



# Infrastructure as a Service

- *Does anyone remember the phrase:*
- *“Substance over form” ?*



# Infrastructure as a Service

*“Financial Statement preparers should exercise caution when assessing the lease term as it is possible for a lease that does not qualify as a short-term lease to nonetheless have a lease term of twelve months or less.”*

*Governmental Accounting, Auditing, and Financial Reporting (GAAFR) 26-4*



# Infrastructure as a Service

- Lease term is:
  - *Non-cancelable period PLUS;*
  - *Period either party or both have option (and it is reasonably certain the option will be exercised) PLUS*
  - *Any period either party can terminate if reasonably certain it will not be exercised.*

**ADD  
+  
IT  
+  
UP**

# Infrastructure as a Service

*“In situations where a contract contains both lease and non-lease components, governments, whether lessor or lessee should account for the lease and non-lease components as separate contracts.” GASB Cod Sec. L20.160*

*I.e. taxes, insurance or maintenance fees/costs*



# Infrastructure as a Service





# TASBO Fall Conference

November 20, 2024

*“The most valuable player is the one . . .  
that makes the most players valuable.”*

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**Peyton Manning, UT and NFL QB**  
**Super Bowl Champ 2007, 2016**



# My favorite GASBS provision . . .

- *It's at the back of every statement*
- *It's often overlooked*

The provisions of this Statement need  
not be applied to immaterial items.

*What's the meaning of...*

**immaterial**

# Questions?



# Thank you



- ◆ John M. Troyer, CPA
- ◆ Administrator of Standards Research and Compliance
- ◆ Division of Local Government Audit
  - ◆ 615-747-5376
  - ◆ [John.Troyer@cot.tn.gov](mailto:John.Troyer@cot.tn.gov)

*“Thank you for what you do!”*