New GASB Accounting Standards

- Effective Fiscal Year 2023
  - GASB Statement 94 – Public-Private and Public-Public Partnerships (PPP or P3’s) and Availability Payment Arrangements (APA's)
  - GASB Statement 96 - Subscription-Based Information Technology Arrangements (SBITA)
  - Identification requires contract analysis
  - Accounting similar to GASB 87 for Leases
GASB 94 – Public-Private, Public-Public Partnerships (PPP or P3) - Definition

• An arrangement in which transferor contracts with an operator to provide public services:
  o By conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying P3 asset),
  o For a specified period of time in an exchange or exchange-like transaction

P3s – Which GASB Statement Applies?

• If P3 underlying asset is existing asset of transferor and operator is not required to improve it – treat as lease under GASB 87
• If P3 underlying asset is new or improved asset of transferor – follow GASB 94
• Some P3s will meet the definition of a Service Concession Arrangement (SCA), which remains the same as GASB 60
  o For A&M System, typically fails on control over pricing criteria
Is a P3 a Service Concession Arrangement? Four Criteria – Must Meet *All*

1. Transferor conveys to operator right and related obligation to provide public services through use/operation of underlying P3 asset in exchange for **significant consideration**, i.e., an up-front payment, installment payments, a new facility, or improvements to an existing facility;

2. Operator collects and is compensated by fees from third parties;

3. *Transferor determines or has the ability to modify or approve* which services operator required to provide, to whom operator required to provide services, and *prices/rates that can be charged for services*; and

4. Transferor is entitled to significant residual interest in service utility of underlying P3 asset at end of arrangement.

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**Relationship between Leases and P3**

- Meets both lease and P3 definitions
- Meets SCA
  - Underlying PPP assets not existing assets of transferor
    - Improvements required to be made by operator
      - Statement 87
    - Improvements not required to be made by operator
      - Statement 94
  - Improvements not required to be made by operator
    - Statement 87
- Does not meet SCA
  - Underlying PPP assets existing assets of transferor
    - Statement 94
      - P3 guidance
  - Statement 94
    - SCA guidance

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**GASB 94- Potential P3 Contracts**

- During GASB 87 implementation, identified potential P3 contracts
  - Campus Bookstore
  - Campus Dining
  - Parking Garage
- Operator required to make improvements to existing asset or construct an asset

<table>
<thead>
<tr>
<th>Item</th>
<th>Member</th>
<th>Contract</th>
<th>Asset/Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>TAMU</td>
<td>Levy</td>
<td>Space/Athletic concession</td>
</tr>
<tr>
<td>2</td>
<td>TAMU</td>
<td>Chartwells</td>
<td>Building/Dining</td>
</tr>
<tr>
<td>3</td>
<td>TAMU</td>
<td>Barnes &amp; Noble</td>
<td>Building/Bookstore</td>
</tr>
<tr>
<td>4</td>
<td>TAMU</td>
<td>CWCS</td>
<td>Land/Parking Garage</td>
</tr>
<tr>
<td>5</td>
<td>TAMU</td>
<td>ACC OP</td>
<td>Ground</td>
</tr>
<tr>
<td>6</td>
<td>TAMUG</td>
<td>Chartwells</td>
<td>Building/Dining</td>
</tr>
<tr>
<td>7</td>
<td>TAMUK</td>
<td>Follet</td>
<td>Building/Bookstore</td>
</tr>
<tr>
<td>8</td>
<td>TAMUK</td>
<td>Aramark</td>
<td>Building/Dining</td>
</tr>
<tr>
<td>9</td>
<td>HSC</td>
<td>CS Investors</td>
<td>Land</td>
</tr>
<tr>
<td>10</td>
<td>HSC</td>
<td>Medistar</td>
<td>Land-Track 1</td>
</tr>
<tr>
<td>11</td>
<td>HSC</td>
<td>Medistar</td>
<td>Land-Track 2</td>
</tr>
<tr>
<td>12</td>
<td>TAMUC</td>
<td>Texas Book Company</td>
<td>Building/Bookstore</td>
</tr>
<tr>
<td>13</td>
<td>TAMUC</td>
<td>Sodexo</td>
<td>Building/Dining</td>
</tr>
<tr>
<td>14</td>
<td>TAMUSA</td>
<td>Follett</td>
<td>Building/Bookstore</td>
</tr>
</tbody>
</table>

**GASB 94 - P3 Accounting Entries**

- P3 does not fall under GASB 87 (and is not an SCA)
- When asset or improvements are placed in service, record **Receivable** and **Deferred Inflow of Resources** for estimated carrying value of the asset (or improvements to existing asset) at the end of the arrangement
- Amortize over the contract term and record revenue
- Include installment payments in the Receivable/Deferred Inflow
- At the end of the contract, eliminate the **Receivable** and record the estimated carrying value of the **Capital Asset**, these should be equal
GASB 94 –P3 Example

• University leases out dining facility for 15 years, guaranteed sum paid each year plus percentage of sales, improvements will be made by the vendor, and TAMUS will retain residual interest in building
  o Recognize Receivable for guaranteed payments with Deferred Inflow (exclude variable portion)
  o When asset improvements are placed into service, recognize estimated Receivable for carrying value of asset at end of lease
    ▪ For example, dining hall improvements were $8 million and ending carrying value is $1.5 million, record Receivable and Deferred Inflow for $1.5 million
    ▪ In future years, recognize revenue and reduce deferred inflow of resources
    ▪ At end of agreement, eliminate Receivable and recognize capital asset

Availability Payment Arrangements (APAs)

• GASB 94 defines an APA as “an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction”
• In an APA, government procures a capital asset or service, rather than receiving compensation to allow another entity to provide public services
APA Accounting

In GASB’s view, the substance of APAs is either......

A. Purchase of asset (ex: building a new dorm)
   APA related to **designing, constructing, and financing** a nonfinancial asset in which ownership transfers at the end of the contract is accounted for as a **financed purchase**

B. Payment for services (ex: operating a parking garage)
   APA related to **operating or maintaining** a nonfinancial asset is reported as an **outflow of resources**

GASB 96 – Subscription-Based Information Technology Arrangements (SBITA)

- **Definition of SBITA:**
  “...[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.”

- **Recognition basically same as a lease – recognize subscription asset and subscription liability**

- **Subscription Asset/Liability initial measurement**
  - Present value of subscription payments
  - Plus capitalized implementation costs
  - Less incentives received before commencement
SBITA Implementation Stages

Costs for Activities Associated with SBITA

- Preliminary Project Stage
  - Expensed as Incurred
- Initial Implementation Stage
  - Capitalized
- Operation & Additional Implementation Stage
  - Normally Expensed*

*Capitalized if specific criteria is met

Capitalization of Subscription Asset

<table>
<thead>
<tr>
<th>Expense</th>
<th>Capitalize</th>
<th>Expense</th>
<th>Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preliminary</td>
<td>Conceptual formulation and evaluation of alternative</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Determination of existence of needed technology</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Final selection of alternatives</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ancillary charges related to implementation, such as:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Configuration</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Coding</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Testing</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Instillation</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Additional implementation costs that occur after functionality of the software has been established</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Maintenance, troubleshooting, and other activities associated with the operation of the subscription asset</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Training Costs

Training Costs are always expensed, regardless of when they were incurred
GASB 96 – SBITA Subscription Term

- Subscription term includes the noncancelable period plus extension & early termination options that are \textit{reasonably certain} to be exercised

- Short Term Exclusion
  - SBITA agreements less than 12 months
  - Rolling month-to-month/year-to-year subscriptions

- If there is an option to extend beyond 12 months that \textbf{both} parties must agree to, those periods are cancellable and would be excluded

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Status of SBITA Implementation

- Data submitted to Comptroller in April (FY 2021 data)
- Comptroller set $100,000 materiality threshold
- Grant Thornton hosted “kick-off” training and set up SharePoint to review contracts
- Added GASB 96 functionality to existing LeaseQuery environment
- System Office will send out a new template to gather updated data to identify SBITA population
- Postponing until January to enter leases into LeaseQuery
Identify SBITA Contracts

• Analyze object codes

<table>
<thead>
<tr>
<th>Subcode</th>
<th>Description</th>
<th>Expense Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>5355</td>
<td>Consultant Services - Computer</td>
<td>Professional Fees &amp; Services</td>
</tr>
<tr>
<td>5520</td>
<td>Maintenance &amp; Repair - Computer Software - TAMU CIS</td>
<td>Repairs &amp; Maintenance</td>
</tr>
<tr>
<td>5521</td>
<td>Maintenance &amp; Repair - Computer Software - not TAMU CIS</td>
<td>Repairs &amp; Maintenance</td>
</tr>
<tr>
<td>5626</td>
<td>Computer Programming Services - not TAMU CIS</td>
<td>Professional Fees &amp; Services</td>
</tr>
<tr>
<td>5761</td>
<td>Computer Software Expensed</td>
<td>Materials &amp; Supplies</td>
</tr>
<tr>
<td>5830</td>
<td>Software Licensing or Usage Fees-Less Than $100,000</td>
<td>Rentals &amp; Leases</td>
</tr>
<tr>
<td>8345</td>
<td>Lease Purchase - Computer Software</td>
<td>Capitalized</td>
</tr>
<tr>
<td>8810</td>
<td>Computer Software-Purchased-Capitalized &gt;$100,000</td>
<td>Capitalized</td>
</tr>
<tr>
<td>8812</td>
<td>Computer Software-Internally Developed &gt;$1,000,000</td>
<td>Capitalized</td>
</tr>
</tbody>
</table>

• Involve IT to help identify software being used

Potential SBITAs

• Software-based Information Technology Arrangements

• Contract examples
  - Banner
  - TouchNet
  - Blackboard
  - Canvas
  - Campus Logic
  - Ellucian
  - DocuSign
  - Laserfiche
  - Proctorio
  - Modo Labs

• Review contract terms carefully
• Apply materiality threshold
Intra-System Activity Examples

• For software contracts where the System Office or TAMU contract with the vendor and System Members are assessed for their portion, reported by member who pays the contract

<table>
<thead>
<tr>
<th>System Office</th>
<th>TAMU</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Workday</td>
<td>• Concur</td>
</tr>
<tr>
<td>• OneStream</td>
<td>• AggieBuy (Jaggaer)</td>
</tr>
<tr>
<td>• LeaseQuery</td>
<td>• I-payments</td>
</tr>
<tr>
<td>• 1099 Pro</td>
<td>• T-Recs</td>
</tr>
</tbody>
</table>

Document Contract Analysis Process

• As contracts are analyzed, be sure to document the conclusions
• Why is the contract excluded from GASB96?
  o Short term (less than 12 months)
  o Below $100,000
• Document the reasonably certain determination for option periods
• Auditors will be interested in verifying completeness
  o What analysis was performed to identify SBITA contracts?
LeaseQuery and SBITA’s

- 15 members have GASB 87 leases in LeaseQuery
- Expect additional members may have SBITA leases to enter
- LeaseQuery added a new classification for SBITA’s

LeaseQuery - Knowledge Base

- Excellent resource
- All users have access
- Helpful tips and videos, easy to search
LeaseQuery Knowledge Base Article

GASB 51 vs. GASB 96: Similarities and Differences in Accounting Treatment

<table>
<thead>
<tr>
<th></th>
<th>GASB 51</th>
<th>GASB 96</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application</td>
<td>Intangible asset</td>
<td>Subscription agreement</td>
</tr>
<tr>
<td>Term</td>
<td>Useful life</td>
<td>Limited subscription period (as</td>
</tr>
<tr>
<td></td>
<td>One-time purchase or internal</td>
<td>established by contract)</td>
</tr>
<tr>
<td>Control/Access</td>
<td>development resulting in</td>
<td>Temporary control of underlying</td>
</tr>
<tr>
<td></td>
<td>ownership</td>
<td>assets owned by a third party</td>
</tr>
<tr>
<td>Statement of Net</td>
<td>Capital asset (net with</td>
<td>Subscription asset and</td>
</tr>
<tr>
<td>Position</td>
<td>accumulated amortization)</td>
<td>subscription liability</td>
</tr>
<tr>
<td>Statement of Activities</td>
<td>Amortization expense</td>
<td>Interest expense and amortization</td>
</tr>
<tr>
<td></td>
<td></td>
<td>expense</td>
</tr>
</tbody>
</table>

LeaseQuery Data Entry

- LeaseQuery data entry for SBITA is very similar to GASB 87
- New SBITA category allows us to isolate SBITA for reporting and journal entries
- Depending on the classification selected, screen options will vary
- Analyze payment options carefully, **dates are critical**
  - Contract dates impact the software asset and liability amount
- Enter the discount rate applicable to the lease contract period (provided by System Office)
- After date and payment information is entered, view the amortization schedule in LeaseQuery
LeaseQuery Data Entry
Multiple tabs to complete
- General - Select Classification
- Contacts
- Dates - enter contract dates
- Tasks (skip)
- Financial - Enter payment details and account numbers
- Allocations - Assign member
- Documents

LeaseQuery Journal Entries for SBITAs

<table>
<thead>
<tr>
<th>Entry Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue Voucher for Payment – Departmental Account</td>
<td>Expense</td>
<td>Cash</td>
</tr>
<tr>
<td>Establish Asset/Liability</td>
<td>Subscription Asset</td>
<td>Subscription Liability</td>
</tr>
<tr>
<td>Reduce Liability for Payment and recognize Interest Expense</td>
<td>Subscription Liability</td>
<td>Interest Expense</td>
</tr>
<tr>
<td>Amortize Subscription Asset</td>
<td>Amortization Expense</td>
<td>Accumulated Amortization</td>
</tr>
</tbody>
</table>

- Expense will remain in departmental account
- Year-end adjustment account - expense reduction and interest expense
- Amortization expense - Plant funds
**Monthly Journal Entries**

- After SBITA leases are entered into LeaseQuery, System Office will begin sending monthly journal entry files to FAMIS.
- Goal is to be ready to start posting entries in early Spring 2023.
- SBITA entries will post at the end of each month.
- After entries begin, changes to LeaseQuery lease information that impact the net present value will require adjusting entries.
  - System Office reviews LeaseQuery changes report monthly and will assist with any adjusting entries that are needed.

**Next Steps – GASB 96 Implementation**

- Members identify potential SBITA contracts.
- Analyze SBITA contracts, consult with Grant Thornton as needed.
- System Office:
  - Send out new template to gather updated SBITA contract details.
  - Set up new accounts:
    - New GL in Plant Funds – Subscription Asset (same GL for all members).
    - New Account Controls – Subscription Asset, Subscription Liability.
    - New Expense Code – Software subscription expense.
Questions/Comments