PERSPECTIVE

CHANGES EVERYTHING.

Accounting and Auditing Update

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WIPFLI

Overview

Leases – Understand complexities in this first year of the new standards

GASB 96 – Like lease accounting for governments, but for IT subscriptions

PRF Update – Walkthrough of keys dates

CECL Update – New accounting rules for credit losses

ASC 842

Leases

An update on lessons learned and progress adopting the new lease standard

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ASC 842 (And GASB 87) Update

Difficulties

- Everyone should be on new lease standard by now
- Pain points in adoption
  - Identifying the lease term (length of contract in months/years)
  - Correctly estimating the discount rate
  - Variable payments
  - Accounting for existing deferred rent liabilities

ASC 842 (And GASB 87) Update Continued

Related party leases - Leases under common control

Estimated completion Q1 2023 (End of this month) – Final standard to be issued

This project would clarify the accounting for leases and leasehold improvements for arrangements between parties under common control for nonpublic business entities.

The main aspect of this pending guidance would allow parties to leases with common control entities to use the written terms of the agreement for accounting for leases and related lease classification.

GASB 96

SBITAs

Learning the accounting rules for accounting for subscription-based technology arrangements for state and local governments

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Effective Date and Transition

fiscal years beginning after June 15, 2022

- Fiscal year 2023 for most governments (6/30/2023, 9/30/2023, etc)
- This statement came out after GASB Statement No. 95, so the effective date was not delayed by the global pandemic

SBITAs Defined

Paragraph 6

- a SBITA is 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

Equal to the noncancellable RTU term PLUS:

- Periods available to the government to extend, if those options are reasonably certain to be exercised by the government
- Periods covered by a government's option to terminate if it is reasonably certain the option will *not* be exercised by the government
- Periods available to the IT vendor to extend, if those options are reasonably certain to be exercised by the IT vendor
- Periods available to the IT vendor to terminate, if those options are reasonably certain not to be exercised by the IT vendor

Short-Term SBITAs

Definition

- At the *commencement* of the subscription term has a maximum possible term under the contract of 12 months including any options to extend, regardless of their probability of being exercised
- Recorded as outflows of resources (expenses)

Measurement

Liability should include

Fixed payments
Variable payment dependent on known index rate
Incentives receivable from vendor
Payments for penalties and other reasonably certain payments

Discount rate

Either the rate the vendor charges the government OR an estimate of the IBR

Recognize interest expense over the subscription term

Measurement

Asset should include

Initial subscription liability
Payments made to vendor at the commencement of the term (if applicable)
Capitalizable initial implementation costs (coming up)

Amortize the subscription asset in a systematic and rational manner over the shorter of the subscription term or the useful life of the underlying IT assets

Implementation Costs

Stages of implementation	Accounting treatment
Preliminary project stage	**Expense as incurred**
Initial implementation stage	**Capitalize as part of subscription asset**
Operation and additional implementation stage	**Expense as incurred (unless functionality or efficiency is improved)**

Notes to financial statements

General description of SBITAs

Including terms, variable payments not included in measurement

Total amount of subscription assets

And related accumulated amortization, disclosed separately from capital assets. Does not need to be by asset class (such as with leases)

Amount of expenses recognized

Not included in the initial measurement of the subscription liability, termination payments, penalties, etc

Principal and interest requirements to maturity

For five years then five-year brackets

Commitments

Before the commencement of the subscription term

Impairment losses

PRF
Update

Submission dates and the related audit periods

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From Compliance Supplement April 2022

- Two additional reporting periods added – To be addressed in future compliance supplements
- Additional money is not expected to be allocated; additional periods added in order to facilitate delayed payments

	Payment Received Period (Payments Exceeding $10,000 in Aggregate Received)	Period of Availability	PRF Portal Reporting Time Period	Fiscal Year Ends (FYEs) to include each PRF Period on the Schedule of Expenditures for Federal Awards (SEFA) Reporting
Period 1	April 10, 2020 to June 30, 2020	January 1, 2020 to June 30, 2021	July 1, 2021 to September 30, 2021	Fiscal Year End (FYEs) of June 30, 2021 through June 29, 2022
Period 2	July 1, 2020 to December 31, 2020	January 1, 2020 to December 31, 2021	January 1, 2022 to March 31, 2022	FYEs of December 31, 2021 through FYEs December 30, 2022.
Period 3	January 1, 2021 to June 30, 2021	January 1, 2020 to June 30, 2022	July 1, 2022 to September 30, 2022	FYEs of June 30, 2022 through June 29, 2023
Period 4	July 1, 2021 to December 31, 2021	January 1, 2020 to December 31, 2022	January 1, 2023 to March 31, 2023	FYEs of December 31, 2022 through FYEs June 29, 2023.
Period 5	January 1, 2022 to June 30, 2022	January 1, 2020 to June 30, 2023	July 1, 2023 to September 30, 2023	FYEs of June 30, 2023, guidance will be included in 2023 Compliance Supplement

CECL
Update

Understanding accounting and policy changes for current expected credit losses (ASC 326)

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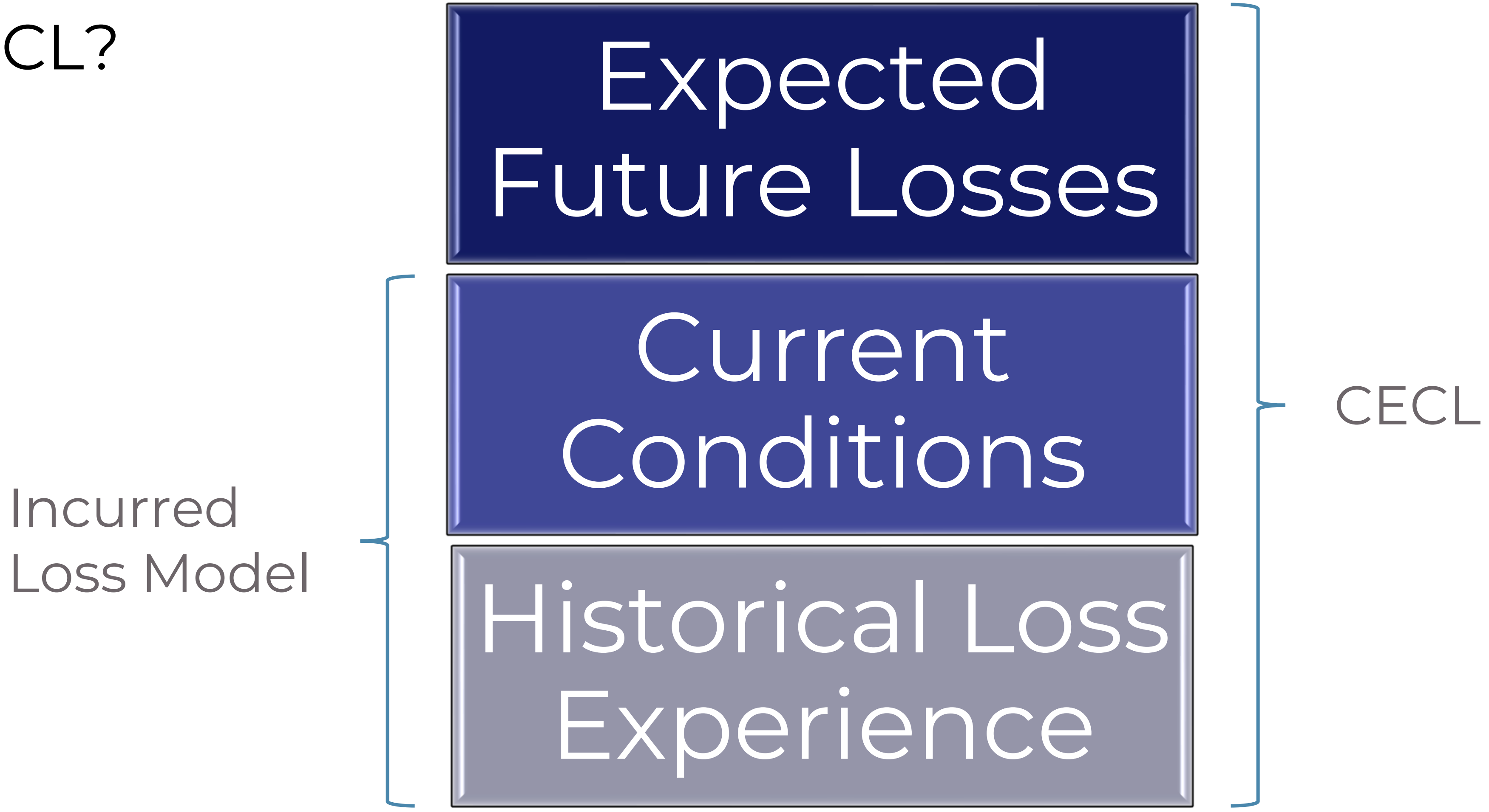
- For SEC filers that are not Smaller Reporting Companies
  - Years (and interim periods) beginning after 12/15/2019
- All other entities
  - Years (and interim periods) beginning after 12/15/2022
- Transition is a cumulative effect adjustment to beginning of year retained earnings

- Part of ASU 2016-13 (ASC 326)
- CECL stands for “Current Expected Credit Losses”
- New standard for measuring impairment / credit losses for most financial assets measured at amortized cost
  - ASC 326 also provides updated guidance for securities available for sale
- Recognize an allowance for “lifetime” expected credit losses
  - Currently recognize an allowance for losses incurred to date

- Legacy GAAP – Incurred loss model
  - Under the incurred loss model, impairment is recognized for credit losses that have been incurred as of the reporting date
    - Sometimes this loss is evaluated on an individual asset (e.g., impaired loan)
    - Sometimes this loss is evaluated on a pool of assets (e.g., accounts receivable)
  - The loss that is recognized is based on the estimated credit losses at the reporting date even if the loss has not been realized, but it does not include losses that may happen in the future

- What is CECL?



Expected Future Losses
Current Conditions
Historical Loss Experience
Incurred Loss Model
CECL

Thank You – Q & A

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