



**Office of the Washington State Auditor
Pat McCarthy**

Local Government Advisory Committee (LGAC)

Meeting Agenda

June 7, 2023

9:00am – 11:00 am

Virtual Meeting – Microsoft Teams

Topics:	Speaker	Time
Welcome and Attendance	Stacie	
Approval of Minutes from December 2022	Stacie/LGAC	5 minutes
SAO Executive Update	Kelly Collins	10 minutes
LGAC Bylaws Proposed Update and Approval Vote	Stacie/LGAC	15 minutes
BARS Updates and Discussion	BARS Team	60 minutes
a. Annual update list –		
i. Preliminary list for Dec 23/Jan 24 update		
ii. GASB Update and impact on BARS		
1. Subscription Based Information Technology Arrangements		
2. Accounting Changes and Error Corrections		
b. SAO's annual report filing system update		
c. Open Discussion - BARS		
SAO Resources	Center	30 minutes
Open Discussion	LGAC	As needed

Meeting Schedule for 2023

Wednesday, June 7, 2023, 9:00am-11:00am

Virtual

Wednesday, October 4, 2023, 9:00am-10:30am

Virtual

Wednesday, December 6, 2023, 9:00am-11:00am

Virtual

NAME	GOVERNMENT/ASSOCIATION	BASIS OF ACCOUNTING	ORGANIZATION REPRESENTED	E-MAIL ADDRESS	TERM EXPIRES
Vacant	AWC	N/A	AWC - Association of Washington Cities		Dec-21
Gall, Sheila	AWC	N/A	AWC - Association of Washington Cities	sheilag@awcnet.org	Dec-22
Mann, Michael	LEAP	N/A	LEAP - Legislative, Evaluation, Accountability Program	Mann.Michael@leg.wa.gov	Exempt
Brodersen, Bret	City of Centralia	CASH & GAAP	WFOA - Washington Finance Officers Association	bbrodersen@cityofcentralia.com	Dec-25
Clark, Kathy	Spokane Housing Authority	GAAP	WA Housing Authorities Acctg Professionals/Assoc of WA Housing Authorities	kathy@spokanehousing.org	Dec-24
Corin, Shannon	Kitsap County	GAAP	WFOA - Washington Finance Officers Association	scorin@kitsap.gov	Dec-24
Goodrich, Scott	Port of Vancouver	GAAP	WPPA - Washington Public Ports Association	sgoodrich@portvanusa.com	Dec-23
Hendren, Alisha	Sno-Isle Regional Library	Cash	SCCFOA - Snohomish Co. Clerks & Finance Officers Assoc.	ahendren@sno-isle.org	Dec-24
Hunt, Heidi	Adams County	CASH	WACO - Washington Association of County Officials	HeidiH@co.adams.wa.us	Dec-24
Huynh, Phung	City of Kent	GAAP	PSFOA - Puget Sound Finance Officers Association	phuynh@kentwa.gov	Dec-23
Jimenez, Grace	Lewis County	GAAP	WSAC - Washington State Association of Counties	Grace.Jimenez@lewiscountywa.gov	Dec-25
Kelly, Mitchell	Clark County	GAAP	SWFOA - Southwest Washington Finance Officers Assoc.	mitchell.kelly@clark.wa.gov	Dec-23
Kinley, Leana	City of Stevenson	Cash	WCCMA - WA City/County Management Association	leana@ci.stevenson.wa.us	Dec-25
Knudson, Erin	Whatcom Transportation Authority	GAAP	WSTA - Washington State Transits Association	erink@ridewta.com	Dec-23
Lundeen, Ann	Thurston County	GAAP	WACO - Washington Association of County Officials	Ann.lundeen@co.thurston.wa.us	Dec-24
McMillan, Sandi	Birch Bay Water and Sewer District	CASH	WASWD - Washington Association of Sewer and Water Districts	Sandi@bbwsd.com	Dec-23
Olander, Scott	Kittitas Valley Healthcare	GAAP	AWPHD - Association of WA Public Hospital Districts	solander@kvhealthcare.org	Dec-25
Payne, Randy	Skamania PUD	GAAP	WPUDA - Washington Public Utility Districts Assoc.	rpayne@skamaniapud.com	Dec-24
Pohle, Derek	CRAB	N/A	CRAB - County Road Administration Board	derek@crab.wa.gov	Exempt
Robacker, Tanya	Central Pierce Fire and Rescue	CASH	WA Fire Comm Association/Fire Chiefs Association	TRobacker@Centralpiercefir.org	Dec-24
Rupe, Sara	OFM	N/A	OFM - Office of Financial Management	Sara.Rupe@ofm.wa.gov	Exempt
Scott, Jill	City of Mount Vernon	GAAP	WFOA - Washington Finance Officers Association	jills@mountvernonwa.gov	Dec-25
Steffen, Philip	City of Anacortes	GAAP	WPTA - Washington Public Treasurer's Association	steffenp@cityofanacortes.org	Dec-23
Tellers, Stacie -Chair	State Auditor's Office	N/A	SAO - State Auditor's Office	tellerss@sao.wa.gov	Exempt

LOCAL GOVERNMENT ADVISORY COMMITTEE BYLAWS

~~December 2020~~ June 2023

Statement of Purpose

The Local Government Advisory Committee (Committee) takes a lead role in setting statewide financial policies, including accounting, budgeting, and financial reporting.

The Committee may make recommendations to the Legislature and respond when lawmakers change policies that affect the Budgeting, Accounting and Reporting System (BARS) prescription.

The Committee and its task forces review state and federal legislation and proposed statements and implementation guides of the Governmental Accounting Standards Board (GASB) that affect BARS prescription. GASB is the primary authority that determines Generally Accepted Accounting Principles (GAAP) for state and local governments.

The Committee also advises the State Auditor's Office (SAO) on issues relating to the prescription of a uniform financial reporting system for local governments. Members of the Committee are appointed by the organizations listed in the Committee Membership section.

Process and Calendar for the BARS Manuals

Committee members work to achieve an appropriate and effective financial information structure for local governments. SAO generally implements updates to the BARS Manuals around January 1 each year. Updates may occur during the year if required by state or federal legislation, immediate implementation of accounting and reporting standards, or to provide clarification to existing prescription.

SAO will provide a list of suggested and required BARS updates to the Committee for discussion and review at its spring meeting, for updates that are to take effect around the beginning of the next year

The Committee may recommend updates to the annual list, such as earlier implementation of approved suggested or required BARS Manual updates or additional BARS Manual guidance on a specific topic.

The Committee may approve, via a majority vote of the members voting, a recommendation to delay implementation of only a suggested BARS Manual update. Implementation of required BARS Manual updates may not be delayed by Committee vote.

At its fall meeting, the Committee reviews the final BARS updates.

BARS Manual Updates

Local governments, SAO and other user groups can suggest updates to the BARS Manuals. These suggestions will be brought to the Committee for review with SAO representatives for applicability to the BARS Manuals' purpose. The Committee will approve appropriate suggestions for research and review of potential BARS Manual updates via a majority of the members voting.

Updates to the BARS Manuals required by state and federal legislative action and approved GASB pronouncements, as well as accounting and reporting requirements for cash-basis governments to maintain comparability in government reporting, will be included in the annual list of BARS Manual updates, as discussed below.

SAO will provide the technical support and research, and present recommendations, for the BARS Manual updates for discussion at each Committee meeting. The Committee will review suggested updates for approval, and required updates for accuracy and completeness. The Committee will approve the recommendation to SAO to move forward with the updates by a simple majority vote. Updates will be added to the annual list of BARS Manual updates and included in the next scheduled BARS Manual update, unless otherwise required for an earlier or later update.

LOCAL GOVERNMENT ADVISORY COMMITTEE MEMBERSHIP: MEMBERS, NOMINATIONS, APPOINTMENTS, AND TERMS

Members Representing Organizations

The organizations and number of representatives as of ~~January 1, 2021~~ June 2023 are as follows:

Number of members	Nominated by
1	SAO - State Auditor's Office (chair)
2	AWC - Association of Washington Cities
1	CRAB - County Road Administration Board
1	LEAP - Legislative, Evaluation, Accountability Program
1	OFM - Office of Financial Management
2	WACO - Washington Association of County Officials
1	WCMA - Washington City/County Managers Association
3	WFOA - Washington Finance Officers Association
1	WPTA - Washington Public Treasurers Association
1	WSAC - Washington State Association of Counties
1	AWPHD - Association of WA Public Hospital Districts
1	ESD - Educational Service Districts
1	Fire Chief Association/Fire Commissioners Association
1	PSFOA - Puget Sound Finance Officers Association
1	SCCFOA - Snohomish Co. Clerks & Finance Officers Association
1	SWFOA - Southwest Washington Finance Officers Association
1	WASWD - Washington Association of Sewer and Water Districts
1	WHAAP - WA Housing Authorities Accounting Prof/Assoc of WA Housing Authorities
1	WPPA - Washington Public Port Association
1	WPUDA - Washington Public Utility Districts Association.
1	WSTA - Washington State Transits Association

Note: Bolded organizations are new additions to the Committee.

Commented [TS1]: Will update with new chart - to remove LEAP, unbold the organizations that were added in 2020, and sort by alpha.

Appointments

Appointments to the Committee will be made by the State Auditor upon receipt of an organization's nomination.

Nominations

The Committee Chair will notify the applicable organization of a vacant position. A nomination for the vacant position must be submitted in writing to the Committee Chair. The nomination will be reviewed to ensure the nominee is within the member term limits established below and forwarded to the State Auditor for appointment.

Vacancies

Vacancies occur when: a member reaches their term limit, fails to attend Committee meetings, or leaves the employment represented by the nominating organization; an organization requests removal of their member; or by the member's request to leave the Committee.

Members' Terms and Term Limits

The term will be for three years, and members are eligible for renomination. Members may serve two consecutive terms, totaling six years. The State Auditor may approve one additional term based on the organization's request. After a term off (three years), members may be renominated and may again serve two terms.

~~Effective 2021~~

~~Initial implementation of the reduced member seats for WACO and WFOA: The Committee Chair will evaluate the remaining term limits of the organization's active members and allow for the reduced positions to remain on the Committee until their term is complete.~~

~~Initial implementation of the new positions for associations added to the Committee (ESD, Fire, PSFOA, SCCFOA, SWFOA, WASWA, WPPA, WPUDA, WSTA): The Committee Chair will evaluate the new positions for a 3-year or one-time 4-year term to smooth the term end dates for continuity of the Committee in future years.~~

The following organizations are exempt from term limits — SAO, Office of Financial Management, ~~Legislative Evaluation Accountability Program~~, and County Road Administrative Board. One of the two members nominated by the Association of Washington Cities (AWC) will be filled by an AWC employee which will be exempt from term limits. These organizations are exempt due to the nature of their membership and/or size of their organizations.

Membership and Attendance Requirements

Membership requirements include current employment at a state or local government. If a member changes employment, the nominating organization must reconfirm the member's committee appointment or nominate a new member.

The following will appoint a representative from their organization — ~~Legislative Evaluation Accountability Program~~, State Agencies, County Road Administrative Board, and Association of Washington Cities (applicable to only one of two seats held by AWC).

Members may attend either in person or virtually (video conference, teleconference, etc.). Attendance is taken at each meeting via physical sign-in sheets, roll call, or some other appropriate method. Members must notify the committee chair before a scheduled meeting if they will be absent. The nominating organization for the absent member may appoint a substitute to attend the meeting. The appointed substitute may vote on presented topics during the meeting.

If a member fails to attend two consecutive meetings without proper notification to the Committee Chair, the nominating organization will be contacted. If a nominating organization wishes to nominate a new person to replace a Committee member who, in its opinion, no longer represents that organization, it may do so. The organization should notify the individual it wishes to replace in writing, including the reason(s) for removal, and send a copy of the notification to SAO.

Members are expected to participate on the Committee by their meeting attendance, voting, and sharing information regarding the effects of accounting and reporting changes on their nominating organization membership.

Committee Operation

The Committee is chaired by the SAO representative. Decisions and approved recommendations will be made by a majority vote of the members voting. When a vote is taken, any member may vote or abstain as he/she sees appropriate. Abstained voting will not be counted as a cast vote, thus not affecting majority vote calculations.

The chair may vote only in the event of a tie.

The committee may delegate certain projects to task forces that may include noncommittee members. It is expected that much of the technical work to carry out the purpose of the Committee will be done by task forces. The Committee must provide clear expectations of the project to the taskforces. A chairperson for each task force will be an SAO employee. The SAO employee will be responsible for promptly communicating updates to the Committee.

Committee Projects

Each item for consideration by the Committee should be stated in writing by members or nonmembers as follows:

- Problem statement
- Solution sought
- Rationale for change
- Expected deadlines

Minutes

Minutes of all meetings are taken by SAO, and will be distributed to all members and other interested entities. [Meeting minutes are posted to the committee page on the SAO website.](#)

Agendas

Agendas are prepared for meetings in advance. Tentative agendas will be available to all members and other interested parties ~~two weeks~~one week before meetings. [Agendas are posted to the committee page on the SAO website.](#)

Meeting Schedule

All Committee meetings are open to the public, and nonmembers are encouraged to attend. Meetings take place at least twice a year. Meeting dates for the subsequent year usually will be determined ~~at the fall~~[during the final meeting of the committee of the previous year-meeting.](#) Additional meetings of the Committee and/or its task forces will be scheduled as needed, and members will be notified at least two weeks before a scheduled meeting.

Amendments to the Bylaws

Once adopted, the Committee bylaws may be amended at any time by a majority vote of the members voting. Proposed amendments should be forwarded to the Committee Chair, who will communicate the recommendations before the next meeting. Revisions to the bylaws will be distributed to the members after the vote is taken.

Approved by the Committee on ~~December 9, 2020~~

Commented [TS(2)]: Update based on approval date



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Local Government Advisory Committee

What is coming to BARS in 2024

as of May 25, 2023

Both Manuals

- Hot topics
 - SBITA – Subscription Based Information Technology Arrangements, see project page on SAO website (accounting, reporting, BARS codes, annual filing impacts – schedule 09 and BARS Codes).
- Accounting and Reporting updates
 - Arbitrage rebate – update GAAP section and create new section for Cash to provide clarified guidance.
 - Notes to the financial statements – clarify that multiple year statements require single year notes packages, not combined notes. (Excludes comparative year statements).
 - Public-Private and Public-Public Partnerships and Availability Payment Arrangements – new section in accounting, possible updates to reporting section.
 - *Continue to clarify and improve note disclosure instructions.*
- BARS Coding / Charts of Accounts
 - 311.30 - Sale of Tax Title Property, RCW 36.35.110, removing from BARS chart of accounts, effective for FY2023 filed in 2024. **Counties only.**
 - 348 – Internal Service Fund Sales and Services – clarify self-insurance funds would report both employee and employer contributions to the ISF using the 348 BARS revenue code.
 - General Ledger Accounts – adding “optional” to section title in BARS as these are not prescribed/required codes.
 - Object code section – updating section to clarify when object code 10, 20, 30, and 40 are used.
 - *Continue to clarify and improve account titles and descriptions.*
- **In review** – not finalized at this time for Dec 2024 update
 - Annual filing system
 - Clarification and updates to the reporting section will be needed as they relate to the new annual filing system.
 - Intergovernmental and Forgivable Loans BARS Section 3.4.7 - add guidance regarding revolving loan funds accounting.



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- Limitation of Indebteness BARS Section 3.10.5 - review RCW references and update as appropriate
- Voter Registration and Election Costs Allocation BARS Section 3.8 - working with the Secretary of State to update as appropriate. **Counties only.**

Cash Manual

- Accounting and Reporting updates
 - Note X – Long-term Debt: add installment sales disclosures to template and instructions.

GAAP Manual

- Accounting and Reporting updates
 - Working Advances from the Department of Social and Health Services (DSHS) BARS Section 3.6.10 - updating section for required long-term liability reporting requirements per GASB 62. **Counties only.**

What is coming to BARS in 2025

Both Manuals

- Hot topics
 - Accounting Changes and Error Corrections – GASB 100. Will impact the following BARS areas: accounting, reporting, BARS codes).
 - Compensated Absences – GASB 101. Will impact the following BARS areas: accounting and reporting).

Pending future updates

- Both manuals - Clarification to the Equipment Rental and Revolving Fund sections
- Both manuals – Schedule 15, clarify when to recognize expenses
- *GAAP – Upcoming GASB implementations*
- Cash - Providing more details in Note 1 – Summary of Significant Accounting Principles



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GASB Update

May 2023

The Governmental Accounting Standards Board (GASB) establishes generally accepted accounting principles (GAAP) for U.S. state and local governments. All statements, exposure drafts and other documents for public comment are available from the GASB website, www.gasb.org, free of charge.

Here is a summary of current and upcoming accounting and financial reporting standards.

GASB Pronouncements Effective for Reporting Year 2022

- **Statement No. 87, *Leases***

This statement's scope includes definition of a lease, lease term, short-term leases, subleases, and sale-leasebacks. Guidance related to accounting and reporting for lessee and lessor. An implementation guide is available: **Implementation Guide 2019-3 - *Leases***. The statement and guidance were originally effective for the 2020 reporting year but was postponed by GASB 95.

GAAP – Please see the Leases project page for accounting and reporting requirements. Early implementation allowed.

CASH - Please see the Leases project page for accounting and reporting requirements. No early implementation allowed.

- **Statement No. 91, *Conduit Debt Obligations***

The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement was originally effective for the 2021 reporting year but was postponed by GASB 95.

GAAP - Conduit debt will not be reported unless certain criteria has been met.

CASH - Conduit debt will not be reported unless certain criteria has been met.

- **Statement No. 92, *Omnibus 2020***

This statement addresses a mix of implementation issues related to leases, reinsurance recoveries, and derivative instruments (**effective immediately for reporting year 2020**). Other items effective for reporting year 2022 include intra-entity transfers of assets, postemployment benefit arrangements, government acquisitions, etc. This guidance was originally effective for the 2021 reporting year but was postponed by GASB 95.

GAAP – Most of the required changes have been implemented in BARS.

CASH - Most of the required changes have been implemented in BARS.

- **Statement No. 93, *Replacement of Interbank Offered Rates***

This statement provides exceptions to derivatives hedge accounting termination provisions and lease modifications solely to replace an interbank offered rate (IBOR). This guidance was originally effective for the 2021 reporting year but was postponed by GASB 95.

GAAP – LIBOR has been removed from the hedging derivative section of the BARS manual.

CASH – Does not apply to cash due to only apply to hedging derivatives.

- **Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for IRC Section 457 Deferred Compensation Plans***

This statement supersedes GASB Statement No. 32. IRC section 457 deferred compensation plans that meet the definition of a pension plan should follow the accounting and financial reporting requirements of pension plans.

GAAP – Most of the required changes have been implemented in BARS.

CASH - Most of the required changes have been implemented in BARS.

- **Statement No. 99, *Omnibus 2022***

This statement addresses a mix of implementation issues related to LIBOR, nonmonetary transaction disclosures, future revenue pledges, and terminology updates to leases, reinsurance recoveries, and derivative instruments (**effective immediately for reporting year 2021**). Other items effective for reporting years after 2022 include clarification issues with leases, PPP, and SBITA, and financial guarantees and derivative instrument requirements.

GAAP – Most of the required changes have been implemented in BARS.

CASH - Most of the required changes have been implemented in BARS.

GASB Pronouncements Effective for Reporting Year 2023

- **Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements***

This statement establishes the definition of PPP's and APA's and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions.

GAAP – Adds more situations for Service Concession Arrangements to apply and updates the accounting and reporting requirements in these areas.

CASH – Does not apply due to the fact that Service Concession Arrangements are not reported in Cash.

- **Statement No. 96, *Subscription Based Information Technology Arrangements***

This statement brings the guidance on the accounting and financial reporting for “SBITA’s” in line with that of GASB 87 - Leases.

GAAP – Adds leased software to similar accounting and reporting requirements as leases.

CASH – Adds leased software to similar accounting and reporting requirements as leases.

- **Implementation Guide 2021-1**

This guide's objective is to provide guidance that clarifies, explains, or elaborates on GASB Statements. This statement brings the guidance on the accounting and financial reporting for derivatives, fiduciary activities, leases, and more.

GAAP – Most of the required changes have been implemented in BARS.

CASH - Most of the required changes have been implemented in BARS.

GASB Pronouncements Effective for Reporting Year 2024

- **Statement No. 100, *Prior Period Adjustments, Accounting Changes, and Error Corrections***

This statement improves the accounting and financial reporting guidance for prior-period adjustments, accounting changes, and error corrections – amendment of GASB Statement 62.

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

CASH – BARS will provide clearer guidance and updated BARS codes regarding these types of transactions.

- **Statement No. 101, *Compensated Absences – Reexamination of Statement 16***

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

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

CASH – BARS will provide clearer guidance and requirements for reporting specific types of absences.

GAAP – For all statements, earlier application is encouraged.

CASH – Implementation will be at the time of BARS prescription.

Current GASB Exposure Drafts, Invitations to Comments, etc.

Documents for public comments are posted to <https://www.gasb.org/exposuredocument>.

3. ACCOUNTING

3.4 Liabilities 3.4.X SBITA

GAAP BARS DRAFT

3.4.X.10 **Definition**

A Subscription Based Information Technology Arrangement (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.

3.4.X.XX **Exclusions**

The following items should not follow SBITA accounting and reporting guidance:

- Short-term SBITAs – One that, at the beginning of the SBITA, has a maximum possible term of 12 months or less, including any options to extend – e.g. rolling month-to-month contracts
- Contracts that convey control of both IT software and tangible capital assets if the software component is insignificant – e.g., a smart copier
- Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs
- Contracts that meet the definition of a public-private and public-public partnership (see **LINK TO NEW BARS PAGE**)
- Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software

3.4.X.XX **Perpetual License versus Subscription**

Perpetual license arrangements are indefinite, whereas SBITAs are for a finite period of time. With a perpetual license, the software is directly downloaded onto your governments computer or servers. After you pay for the software, you will never lose access to the software (you can access it perpetually).

A subscription contract requires a monthly or annual fee to continue to access the software. If you do not pay the subscription fee, you will lose access to the software. A subscription contract with indefinite renewal periods, is not the same as a perpetual license.

One way to determine whether it is a perpetual license or a subscription based contract is to ask yourself: "Can I still log in and access the IT software after the engagement term ends?" If the answer is "no," it is not a perpetual license, and the contract should be further evaluated to determine if it meets the definition of a SBITA.

3.4.X.XX **Subscription Term**

The subscription term includes:

- The period during which a government has a non-cancelable 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)

- and periods covered by the government's **or** SBITA vendor's option to terminate the SBITA (if reasonably certain the option will not be exercised)
- Subscription term **excludes** periods for which both the government and SBITA vendor each have the option to terminate or both parties must agree to extend.

Determining whether an extension or termination option is reasonably certain of being exercised requires professional judgement and should take into consideration the specific facts and circumstances at your government. Examples of items to consider in this analysis:

- A significant economic incentive, such as contractual terms and conditions for the optional periods that are favorable compared with current market rates
- A potential change in technological development that significantly affects the technology used by the underlying IT assets
- A potential significant change in the government's demand for the SBITA vendor's IT assets
- A significant economic disincentive, such as costs to terminate the SBITA and sign a new SBITA (for example, negotiation costs, costs of identifying another suitable underlying IT asset or another suitable SBITA vendor, implementation costs, or a substantial cancellation penalty)
- The history of exercising options to extend or terminate
- The extent to which the underlying IT assets in the SBITA are essential to the provision of government services

3.4.X.XX **Short-Term SBITA**

A short-term SBITA is one that has a maximum possible term of less than 12 months. The maximum possible term includes all options to extend regardless of whether those options will be exercised or not.

Example: A SBITA contract has an initial noncancelable term of 6 months with an option for the government to extend for another year. The government will most likely not exercise that option.

This is **not** a short-term SBITA because the maximum possible term is 18 months. The extension option is included in the maximum possible term even if it will not be exercised. The subscription term for accounting purposes would only be 6 months.

For a short-term SBITA, a government should recognize an expense/expenditure when subscription payments are due based on the payment provisions of the SBITA contract.

3.4.X.XX **Renewals**

Many SBITA contracts have automatic annual renewals. Renewals are different from extension options, because in most cases, the SBITA vendor and the government can cancel the contract at each renewal date. Since both parties can cancel the contract, any periods covered by the renewal terms are considered cancellable periods. Cancelable periods are always excluded from the maximum possible subscription term.

For example, if a government has a one year SBITA contract for their online teleconferencing and the contract automatically renews each year, then the maximum possible term is only 1 year because each renewal date is an opportunity for both the SBITA vendor and the government to terminate the contract. This would be considered a short-term SBITA.

3.4.X.XX **Discount Rate**

The subscription payments should be discounted using the rate the SBITA vendor charges the government. This may be a rate stated in the contract (if it's a reasonable rate) or the implicit rate can be estimated. Governments are also allowed to apply GASB Statement 62, paragraphs 173 – 187 for imputation of interest, but are required to. If the implicit rate is not determinable, the lessee's estimated incremental borrowing rate may be used. A lessor can use their own incremental borrowing rate if it is not practicable to determine their lessee's rate.

The incremental borrowing is the interest that a borrower would have to pay to finance an asset of that same type, over a similar term, in the current economic environment, and of a similar amount. This is the borrowing rate at the margin for new debt, and not necessarily the rate of other previously negotiated debt which may have a dissimilar borrowing profile.

Governments should use professional judgment to determine their best estimate for the interest rate, maximizing the use of observable information to get a base rate (a starting point). For example, a prime rate would be a reasonable starting place for determining the incremental borrowing rate. Another example would be reviewing a local bank's website for their published interest rates.

If the government determines that they could finance an asset at that base rate (the prime rate, or another reasonable starting point), then that base rate should be used. However, if there are economic factors that would make that rate unobtainable, then the base rate should be adjusted accordingly. It is up to governments to determine the most appropriate discount rate.

3.4.X.XX **Remeasurement**

The government is required to remeasure the subscription liability in the following circumstances:

- Change in subscription term
- Change in estimated amounts for payments already included in the subscription liability
- Change in the interest rate the SBITA vendor charges (if used as the discount rate)
- Contingency for variable payments is resolved.

If the subscription liability is remeasured for any of the changes above, the index or rate used for variable payments and the discount rate should also be updated. However, the liability does not need to be remeasured solely for a change in the index or rate used for variable payments or a change in the incremental borrowing rate (if used as the discount rate).

A subscription asset should generally be adjusted by the same amount as the subscription liability. If the change reduces the carrying value of the subscription asset to zero, any remaining amount should be reported as a gain.

3.4.X.XX **Schedule of Liabilities (Schedule 09) Reporting**

The government will report subscription liabilities on the Schedule of Liabilities (Schedule 09). In the year of implementation, any existing subscriptions should report a beginning balance on the Schedule 09. The beginning balance reported should be the amount calculated for the implementation of GASBS No. 96. In subsequent years, the beginning balance should match the prior year ending balance.

Any new SBITA contracts entered during the year will be reported as an addition on the Schedule 09. The addition will be the liability calculated to add the subscription to your financial statements.

Reductions are the amount the subscription liability is reduced during the year, which is typically the principal portion of payments made.

If the subscription liability is remeasured for any of the items in Section 3.4.X.60, the change in the subscription liability should be reported as either an addition or reduction on the Schedule 09.

See [Schedule 09 reporting instructions](#).

There are also required note disclosures. See template note at **Note X – SBITA**.

3.4.X.XX **Subscription Liability – Full accrual**

For full accrual reporting (such as the government wide financial statements and proprietary fund statements) at the start of the subscription term, the government will recognize a subscription liability and subscription asset.

The subscription liability is measured at the present value of payments expected to be made during the subscription term. This includes:

- Fixed payments
- Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the start of the subscription term
- Variable payments that are fixed in substance
- Payments for penalties for terminating the SBITA, if the subscription term reflects the government exercising (1) an option to terminate the SBITA or (2) a fiscal funding or cancellation clause
- Any subscription contract incentives receivable from the SBITA vendor
- Any other payments that are reasonably certain of being required based on an assessment of all relevant factors

As the government makes payments, they reduce the subscription liability and recognize interest expense. The subscription liability must be amortized using the interest method.

3.4.X.XX **Subscription Asset – Full accrual**

The subscription asset is measured at the initial subscription liability plus payments associated with the SBITA contract made at the start of the subscription term, plus any capitalizable initial implementation costs (see section 3.4.X.XX).

Payments made to the SBITA vendor and payments for capitalizable initial implementation costs that are made before the start of the subscription term should be reported as a prepayment (an asset). This prepayment should be reduced by any incentives received from the same SBITA vendor. At the start of the subscription term, the prepayment should be reclassified as an addition to the subscription asset.

The subscription asset should be amortized over the shorter of the subscription term or the underlying IT asset's useful life. GASB does not specify a required amortization method, so governments may choose which method they use (for example the interest method or straight-line).

3.4.X.XX **Initial Implementation Costs**

Implementation is grouped into three phases:

- Preliminary project stage – Activities in this stage include the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the SBITA. **These costs should be expensed.**
- Initial implementation stage – Activities in this stage include ancillary charges related to designing the chosen path, such as configuration, coding, testing, and installation. Other ancillary charges necessary to place the subscription asset into service also should be included in this stage. The initial implementation stage for the SBITA is completed when the subscription asset is placed into service (or when the first module is functional if there is more than one module being deployed). **These costs should be capitalized as a part of the subscription asset.**
- Operation and additional implementation stage – Activities in this stage include maintenance, troubleshooting, and other activities associated with ongoing access to the underlying IT assets. This also includes implementation of additional modules if more than one module is being deployed. **These costs should generally be expensed.**
If there are additional outlays that increase the functionality or the efficiency of the subscription asset, those should be capitalized.

Training costs should always be expensed.

3.4.X.XX SBITA Reporting in Governmental Funds

Governmental funds do not report a subscription asset or subscription liability. Instead, the government would record a Capital Outlay Expenditure (debit) and an Other Financing Source for SBITA (credit). As the government makes payments, they would record a Debt Service Principal Expenditure (debit), Debt Service Interest Expenditure (debit), and reduce cash (credit).

3.4.X.XX SBITA BARS Codes

In a full accrual fund, the only revenue and expense accounts used are interest expense and amortization expense.

592.PP.80	Recording interest expense payments
501.PP.00	Recording amortization expense on subscription asset

In a modified accrual there is no subscription asset or subscription liability, so the accounts used are different.

594.PP.60	Recording the capital outlay expenditure at the start of the subscription term
391.70.00	Recording the “other financing source” at the start of the subscription term
591.PP.70	Recording debt principal payments
592.PP.80	Recording interest expense payments

The “P” stands for prescribed numbers that are related to the function of government the SBITA is supporting. Review your chart of accounts to identify the applicable function and determine the full BARS Code. For example, if a government has a water utility fund and has a SBITA for software that calculates the customer water bills, the principal payment would be coded to BARS 591.34.70.

Expenses for short-term SBITA contracts should be coded to the regular, functional BARS expense/expenditure codes. For example, if a government has a short-term SBITA for software used by the water utility fund, the subscription expense would be coded to BARS 534.00.40.

3.4.X.XX Example Journal Entries – Full Accrual

A government signs a 60-month SBITA contract for their accounting software. The payments are \$1,000 per month (made at the beginning of the month) and the government uses an annual discount rate of 3%.

The government first calculates the present value of the subscription payments to be \$55,791. The government had no capitalizable initial implementation costs, so the subscription asset is the same amount as the subscription liability:

Subscription asset	55,791	
Subscription liability		55,791

The government records the first month's subscription payment. Since this payment is made at the very start of the subscription term, the present value is \$1,000 and all the payment goes towards principal and directly reduces the subscription liability.

Subscription liability	1,000	
Cash		1,000

The government also records the first month's subscription asset amortization. This example uses straight line amortization (\$55,791 initial subscription asset divided by 60 total months equals monthly amortization of \$930). This will be the exact same journal entry each month since straight line amortization is used.

Amortization expense (BARS 501.PP.00)	930	
Accumulated amortization – subscription asset		930

The government records the second month's subscription payment. This time there is interest expense, because one month of interest has accrued. The interest is calculated by multiplying the balance of the subscription liability from the prior month of \$54,791 (\$55,791 initial subscription liability minus the \$1,000 payment in the first month) by the monthly interest rate of 0.25% (annual interest rate of 3% divided by 12 months). The remaining portion of the payment is the principal amount that reduces the subscription liability.

Subscription liability	863	
Interest expense (BARS 592.PP.80)	137	
Cash		1,000

3.4.X.XX Example Journal Entries – Modified Accrual

A government signs a 60-month SBITA contract for their accounting software. The payments are \$1,000 per month (made at the beginning of the month) and the government uses an annual discount rate of 3%.

The government first calculates the present value of the subscription payments to be \$55,791. Since the modified accrual funds do not record a subscription asset or subscription liability different accounts are used. However, the amounts calculated for the full accrual journal entries are the exact same that are used for the modified accrual journal entries.

Capital outlay – subscription asset (BARS 594.PP.60)	55,791	
Other financing source – SBITA (BARS 391.70.00)		55,791

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The government records the first month's subscription payment. Since this payment is made at the very start of the subscription term, the present value is \$1,000 and all the payment goes towards principal. Since there is no subscription liability to reduce, the payment is recorded as a debt service expenditure.

Debt service expenditure – principal (BARS 591.PP.70)	1,000	
Cash		1,000

There is no subscription asset in the modified accrual fund, therefore there is nothing to amortize.

The government records the second month's subscription payment. This time there is interest expense, because one month of interest has accrued. The same amounts calculated for the full accrual journal entries are used.

Debt service expenditure – principal (BARS 591.PP.70)	863	
Debt service expenditure – interest (BARS 592.PP.80)	137	
Cash		1,000

Note X – SBITA

GAAP BARS Note Draft

4 Reporting

Note X – Subscription Based Information Technology Arrangements (SBITA)

A template for this note is not available. See “Instructions to preparer:” for disclosures that may be required.

Instructions to preparer:

A government should disclose in notes to financial statements the following information about its SBITAs (which may be grouped for purposes of disclosure) other than short-term SBITAs:

1. A general description of its SBITAs, including the basis, terms, and conditions on which variable payments not included in the measurement of the subscription liability are determined
2. The total amount of subscription assets, and the related accumulated amortization, disclosed separately from other capital assets

Example:

	Beg. Bal.	Increases	Decreases	End. Bal.
Subscription assets				
Accumulated Amortization				
Net subscription asset				

3. The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the subscription liability
4. The amount of outflows of resources recognized in the reporting period for other payments, such as termination penalties, not previously included in the measurement of the subscription liability
5. Principal and interest requirements to maturity, presented separately, for the subscription liability for each of the five subsequent fiscal years and in five-year increments thereafter

Example:

As of December 31, 20XX, the principal and interest requirements to maturity are as follows:

Year ended December 31	Principal	Interest	Total
20XX	\$	\$	\$

20XX	\$	\$	\$
20XX	\$	\$	\$
20XX	\$	\$	\$
20XX	\$	\$	\$
20XX-20XX	\$	\$	\$
20XX-20XX	\$	\$	\$
Total	\$	\$	\$

6. Commitments under SBITAs before the commencement of the subscription term
7. The components of any loss associated with an impairment (the impairment loss and any related change in the subscription liability)

3.

ACCOUNTING

3.4

Liabilities

3.4.1

SBITA

CASH BARS Draft

3.4.X.10

Definition

A Subscription Based Information Technology Arrangement (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.

3.4.X.20

Exclusions

The following items should not follow SBITA accounting and reporting guidance:

- Short-term SBITAs – One that, at the beginning of the SBITA, has a maximum possible term of 12 months or less, including any options to extend – e.g. rolling month-to-month contracts
- Contracts that convey control of both IT software and tangible capital assets if the software component is insignificant – e.g., a smart copier
- Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs
- Contracts that meet the definition of a public-private and public-public partnership (see **LINK TO NEW BARS PAGE**)
- Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software

3.4.X.30

Perpetual License versus Subscription

Perpetual license arrangements are indefinite, whereas SBITAs are for a finite period of time. With a perpetual license, the software is directly downloaded onto your governments computer or servers. After you pay for the software, you will never lose access to the software (you can access it perpetually).

A subscription contract requires a monthly or annual fee to continue to access the software. If you do not pay the subscription fee, you will lose access to the software. A subscription contract with indefinite renewal periods, is not the same as a perpetual license.

One way to determine whether it is a perpetual license or a subscription bases contract is to ask yourself: "Can I still log in and access the IT software after the engagement term ends?" If the answer is "no," it is not a perpetual license, and the contract should be further evaluated to determine if it meets the definition of a SBITA.

3.4.X.40

Accounting and Reporting

At the start of the subscription, governments will not report any inflows or outflows on the Schedule 01. Governments will record actual subscription payments made to the SBITA on the Schedule 01 using BARS Code 591.PP.70.

The "P" stands for prescribed numbers that are related to the function of government the SBITA is supporting. Review your chart of accounts to identify the applicable function and determine the full BARS

Code. For example, if a government has a water utility fund and has a SBITA for software that calculates the customer water bills, the principal payment would be coded to BARS 591.34.70.

If the SBITA includes additional fees or taxes, only include the portion of the payments related to the right to use the IT assets in the liability calculation. For example if a SBITA contract has a separate maintenance or IT service fee, do not include those in the SBITA liability calculation. When paying the maintenance and IT service fees do not use BARS Code 591, instead use the regular BARS functional expense codes.

Short-term subscription payments should be coded to normal, functional BARS expenditure codes. For example, if a government has a short-term SBITA for software used by the water utility fund, the subscription expense would be coded to BARS 534.00.40.

Governments are also required to include a note disclosure about their SBITA activity in the Notes to the Financial Statements. See template note at [Note X – SBITA](#).

3.4.X.50 **Schedule of Liabilities (Schedule 09) Reporting**

Governments will report a subscription liability on the Schedule 09 measured at the total amount of future subscription payments. See [Schedule 09 reporting instructions](#).

In the year of implementation, any existing subscriptions should report a beginning balance on the Schedule 09. The beginning balance reported should be the total amount of subscription payments that were remaining as of the beginning of the year. In subsequent years, the beginning balance should match the prior year ending balance.

Any new SBITA contracts that are entered into during the year will be reported as an addition on the Schedule 09. The addition will be the total amount of future subscription payments.

Reductions are the amount the subscription liability is reduced during the year, which is typically the amount of subscription payments made.

If the subscription liability is remeasured for any of the items listed in Section 3.4.X.70, the change in the subscription liability should be reported as either an addition or reduction on the Schedule 09.

3.4.X.60 **Subscription Term**

To calculate the total amount of future subscription payments for the Schedule 09, you need to know how many payments you are expecting to make which depends on the subscription term. Here is what should be included in the subscription term:

- The period during which a government has a non-cancelable 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)
 - and periods covered by the government's **or** SBITA vendor's option to terminate the SBITA (if reasonably certain the option will not be exercised)
- Subscription term **excludes** periods for which both the government and SBITA vendor each have the option to terminate or both parties must agree to extend.

Determining whether an extension or termination option is reasonably certain of being exercised requires professional judgement and should take into consideration the specific facts and circumstances at your government. Examples of items to consider in this analysis:

- A significant economic incentive, such as contractual terms and conditions for the optional periods that are favorable compared with current market rates
- A potential change in technological development that significantly affects the technology used by the underlying IT assets
- A potential significant change in the government's demand for the SBITA vendor's IT assets
- A significant economic disincentive, such as costs to terminate the SBITA and sign a new SBITA (for example, negotiation costs, costs of identifying another suitable underlying IT asset or another suitable SBITA vendor, implementation costs, or a substantial cancellation penalty)
- The history of exercising options to extend or terminate
- The extent to which the underlying IT assets in the SBITA are essential to the provision of government services

3.4.X.XX **Short-Term SBITA**

A short-term SBITA is one that has a maximum possible term of less than 12 months. The maximum possible term includes all options to extend regardless of whether those options will be exercised or not.

Example: A SBITA contract has an initial noncancelable term of 6 months with an option for the government to extend for another year. The government will most likely not exercise that option.

This is **not** a short-term SBITA because the maximum possible term is 18 months. The extension option is included in the maximum possible term even if it will not be exercised. The subscription term for accounting purposes would only be 6 months.

For a short-term SBITA, a government should recognize an expense/expenditure when subscription payments are due based on the payment provisions of the SBITA contract.

3.4.X.XX **Renewals**

Many SBITA contracts have automatic annual renewals. Renewals are different from extension options, because in most cases, the SBITA vendor and the government can cancel the contract at each renewal date. Since both parties can cancel the contract, any periods covered by the renewal terms are considered cancellable periods. Cancelable periods are always excluded from the maximum possible subscription term.

For example, if a government has a one year SBITA contract for their online teleconferencing and the contract automatically renews each year, then the maximum possible term is only 1 year because each renewal date is an opportunity for both the SBITA vendor and the government to terminate the contract. This would be considered a short-term SBITA.

3.4.X.70 **Remeasuring the Subscription Liability**

The subscription liability reported on the Schedule 09 must be remeasured (recalculated) if any of the following happen:

- Change in subscription term
- Change in estimated amounts for payments already included in the subscription liability
- Change in the interest rate the SBITA vendor charges (if used as the discount rate)

- Contingency for variable payments is resolved.

The subscription term might change if you were previously **not** going to exercise an extension option, but then determine you will extend the SBITA (or vice versa). In that case you should recalculate the subscription liability to include the additional payments related to extending the subscription term. If you used estimated amounts to calculate your subscription liability and those amounts become known, you should recalculate the liability using the known amounts. If your subscription payments were variable and later on all of your remaining subscription payments become known (no longer variable), then you should recalculate the liability using the known amounts.

DRAFT

Cash-basis Note X – Leases (Lessees)

Note X – Subscription Based Information Technology Arrangements (SBITA)

A template for this note is not available. See “Instructions to preparer:” for disclosures that may be required.

Instructions to preparer:

A government should disclose the following about its SBITA contracts (which may be grouped for purposes of disclosure), other than short-term leases (SBITA contracts that have a maximum possible term of less than one year):

1. In the year of implementation, state that new accounting guidance was adopted.

Example:

During the year ended (fiscal year end), the (city/county/district) adopted guidance for the presentation and disclosure of Subscription Based Information Technology Arrangements (SBITA), as required by the BARS manual. This requirement resulted in the addition of a subscription liability reported on the Schedule of Liabilities.

2. A general description of its SBITA contracts, such as the SBITA term, the amount of the monthly (quarterly/annual) payments, cancellation clauses, significant commitments before the start of the SBITA, changes in subscription term for previously reported SBITA, etc.

Example:

The (city/county/district) makes subscription payments \$300 per month for general ledger software. The SBITA contract is for 10 years and includes the option to extend the contract for another 5 years.

3. The total amount paid for SBITAs in the current reporting period and future minimum lease payments for each of the five subsequent years and in five-year increments thereafter.

Example:

The total amount paid for SBITAs in 20XX was \$3,600. As of December 31, 20XX, the future minimum lease payments are as follows:

Year ended December 31	Total
20XX	\$3,600
20XX	\$3,600
20XX	\$3,600
20XX	\$3,600
20XX	\$3,600
2026-2030	\$18,000
2031-2035	\$18,000
Total	\$54,000

DRAFT



Office of the
Washington
State Auditor
Pat McCarthy

Local Government Advisory Committee

Accounting changes and error corrections (GASB 100)

Effective for 12/31/2024 Year End Governments Reporting in 2025

The Governmental Accounting Standards Board (GASB) Statement 100 improves the accounting and financial reporting for prior-period adjustments, accounting changes, and error corrections. The statement is available from the GASB website, www.gasb.org, free of charge.

GAAP Impacts

Accounting Changes:

Change in accounting principle

This should be used when switching from one generally accepted accounting principle to another or adopting a new standard.

Changes to or within the reporting entity

1. Addition or removal of a fund that results from the movement of continuing operations within the primary government, including its blended component units
2. A change in a funds presentation as major or nonmajor
3. The addition of a component unit to the financial reporting entity or removal of a component unit from the financial reporting entity
4. A change in a component units presentation as blended or discretely presented.

Change in accounting estimate

This should be used when there is a change in the inputs used to calculate an accounting estimate.

Error Correction:

Result of a mathematical mistake, mistake in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were issued.

Financial Statement Impacts:

Change in accounting principle – retroactive application

Change to or within the reporting entity – adjustment to beginning balance

Change in accounting estimate – prospective application

Error correction – retroactive application

Cash Impacts

Accounting Changes:

Change in accounting principle

This should be used when switching from one generally accepted accounting principle to another or adopting a new standard.

Changes to or within the reporting entity

1. A change in reporting a fiduciary fund to/from within the government
2. Addition or removal of a fund

Error Correction

Result of a mathematical mistake, mistake in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were issued.

BARS Coding

New codes = *italics*

388.50.00	Change in Accounting Principle	Use this account when switching from one generally accepted accounting principle to another or adopting a new standard.
<i>388.40.00</i>	<i>Change to or within Reporting Entity</i>	<i>Use this account to report movement of funds that impact the reporting entity.</i>
<i>388.30.00</i>	<i>Error Correction</i>	<i>Use this account for corrections of errors due to mathematical mistake, mistake in the application of accounting principles or oversight/misuse of facts that existed at the time the financial statements were issued.</i>
588.50.00	Change in Accounting Principle	Use this account when switching from one generally accepted accounting principle to another or adopting a new standard.
<i>588.40.00</i>	<i>Change to or within Reporting Entity</i>	<i>Use this account to report movement of funds that impact the reporting entity.</i>
<i>588.30.00</i>	<i>Error Correction</i>	<i>Use this account for corrections of errors due to mathematical mistake, mistake in the application of accounting principles or oversight/misuse of facts that existed at the time the financial statements were issued.</i>

Notes:

No new BARS code for change in accounting estimate as this change is accounted for in the period that experienced the change.

Prior period adjustment codes (388.10/588.10) will be removed. Any changes or errors previously coded to PPA will now be coded to the new codes presented above.

Coming Soon

Detailed note disclosures in the notes to your financial statements.