

GASB 96 – WHAT YOU NEED TO KNOW ABOUT IMPLEMENTATION

Aug. 9, 2023

With you today

Michelle Horaney

Assurance Partner

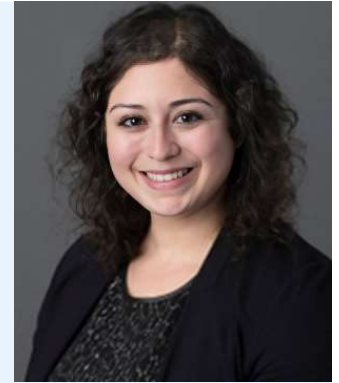
National Director State and
Local Government, Education
and Gaming



Ashley Alejos

Assurance Manager

National Professional Standards
Group



Agenda

Subscription-Based Information Technology Arrangements (SBITAs) overview	15
Accounting for SBITAs	25
Required disclosures	5
SBITA example	15

Learning objectives

- By the end of this course, you will be able to:
 - Explain the implementation considerations specific to your organization
 - Understand potential GASB 96 issues related to subscription term, payments, and discount rate
 - Recognize other considerations that are key to implementation

SBITAs OVERVIEW

GASB statement no. 96

GASB statement no. 96; Subscription-Based Information Technology Arrangements (SBITA)

- Effective: Fiscal years beginning after June 15, 2022 (**June 30, 2023**)
- Applied retroactively to all periods presented
 - If restatement for prior periods is not practicable, the cumulative effect (if any) of applying the statement should be reported as a restatement of beginning net position
- Preexisting SBITAs are required to be recognized on the first day of the first fiscal year restated or reported

SBITA defined

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

SBITA defined

Software as a service

- Software license that allows the user to access an application over the internet instead of downloading software or maintaining hardware to run the application

Platform as a service

- Allows a customer to use a SBITA vendor's tools or coding language (software) to create applications that will run on the SBITA vendor's cloud infrastructure

Infrastructure as a service

- Allows a customer to remotely access the SBITA vendor's network, server, and other fundamental computing tools to process, store, and operate the customer's data

SBITA defined

- Cloud based general ledger system
- Cloud based gaming system
- Cloud based enterprise resource planning software
- Website subscriptions
- Digital textbooks
- Online conferencing subscriptions
- Cloud based storage



Adobe® Creative Cloud™



Contracts scoped out of GASB 96

Contracts that meet the definition of a lease

Contracts that meet the definition of a P3 arrangement

Government's providing the right to use their IT software & associated tangible capital assets to other entities

Perpetual licensing arrangements

GASB 87 versus GASB 96

Underlying Asset per Contract	GASB 87	GASB 96
Tangible capital assets only	X	
IT software only		X
Tangible capital assets & IT software – software component is insignificant	X	
Tangible capital assets & IT software – all others		X

ACCOUNTING FOR SBITAs

What are the most significant challenges to implementation?

Population completeness

- SBITAs can exist in several departments
 - All need to be involved in identifying potential SBITAs (not just IT or accounting)
 - Review GL for recurring payments

Stages of implementation

- Appropriately identifying and supporting the type and timing of activities other than subscription payments
 - Dictates the accounting treatment

Stages of implementation



Accounting for SBITAs

Determine Subscription Term and Related Classification

Subscription term

Review contracts to assess term:



Subscription term

- Any non-cancellable periods
- Periods covered by a government's option to extend the SBITA if the government is reasonably certain to exercise that option
- Periods covered by a government's option to terminate the SBITA if the government is reasonably certain not to exercise that option
- Periods covered by a SBITA vendor's option to extend the SBITA if it is reasonably certain, that the SBITA vendor will exercise that option
- Periods covered by a SBITA vendor's option to terminate the SBITA if it is reasonably certain that the SBITA vendor will not exercise that option

- Option to terminate = unconditional right that exists within the SBITA contract
- Cancellable periods = periods for which both the government and the SBITA vendor have an option to terminate the SBITA without permission from the other party (or if both parties have to agree to extend); excluded from the subscription term

Subscription term

The commencement of the subscription term occurs when the initial implementation stage is completed; this is when the government has obtained control of the right to use the underlying IT assets, and, therefore, the subscription asset is placed into service.

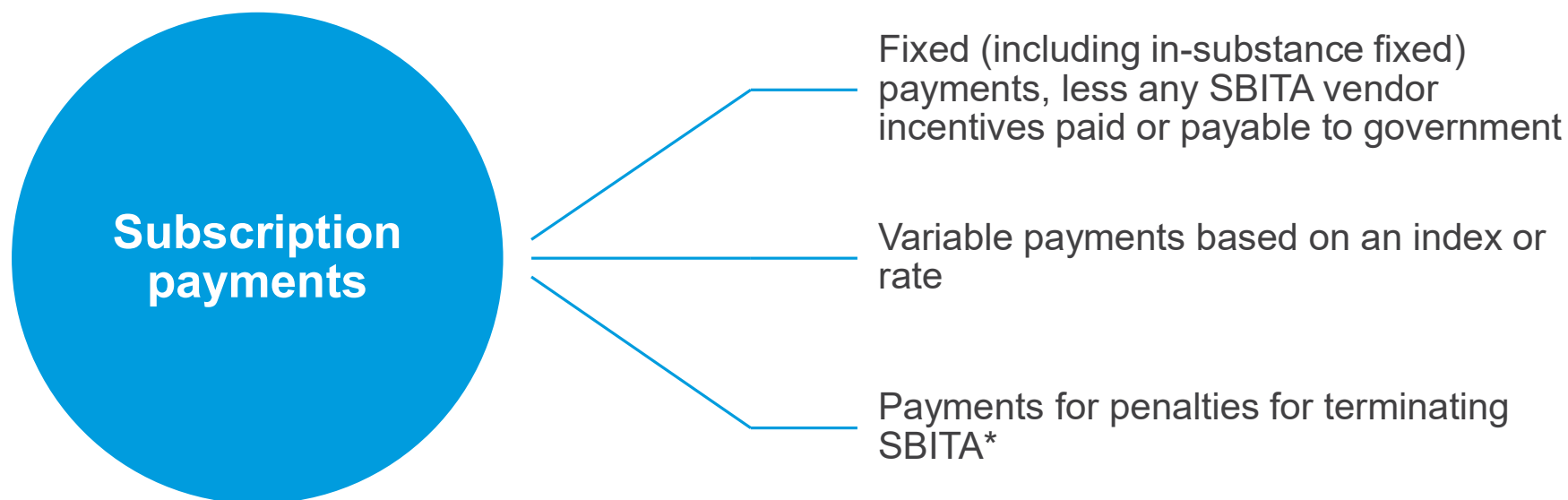


Accounting for SBITAs

Measurement and Recognition

Assessing key inputs – Subscription payments

Subscription payments should be consistent with the subscription term



* Include only if the subscription term reflects the government exercising an option to terminate the SBITA or a fiscal funding or cancellation clause

Variable payments that are performance or usage-based are not included in the measurement of the subscription liability

Assessing key inputs – Discount rate

Subscription payments should be discounted using the interest rate the SBITA vendor charges the government

Stated rate

If the SBITA contract contains a stated interest rate, the stated rate generally is used as the discount rate

Implicit rate

If there is no stated rate (or if the stated rate is not the rate the SBITA vendor charges the government), the government may determine whether the rate implicit in the SBITA can be estimated

Government's incremental borrowing rate

Governments should use professional judgment to determine their best estimate for the interest rate, maximizing the use of observable information; for example, using the government's estimated incremental borrowing rate (IBR) or published market rates for similar instruments

Incremental borrowing rate analysis example

Borrower	S&P Rating	Type of Debt	Dated Date	Maturity Date	Initial Offering Yield
The Commonwealth of Massachusetts	AA	General Obligation Refunding Bonds	7/9/2020	7/1/2024	0.38%
Massachusetts School Building Authority	AA+	Senior Dedicated Sales Tax Refunding Bonds	7/15/2020	8/15/2024	0.79%
Massachusetts State College School Building Authority	AA-	Revenue Refunding Bonds	7/1/2020	5/1/2024	1.04%
Massachusetts Bay Transportation Authority	AA	Subordinated Sales Tax Bonds	6/11/2020	7/1/2024	0.40%
				Incremental Borrowing Rate	0.65%
Source: https://emma.msrb.org/					
For reference, the 5 year Treasury yield was 0.31% at 7/1/2020.					

Implementation reminders

- Variable payments based on index rates used in calculating the subscription liability could differ from actual payments made
- Discount rate applied, like IBR, should be the rate as of the beginning of the earliest period restated
 - Comparative FS for 6/30/2023: July 1, 2021
- Consider the stages of implementation to determine the appropriate treatment of costs incurred
 - Training costs should always be expensed
- Prepayments to the SBITA vendor should be added to the initial measurement of the subscription asset

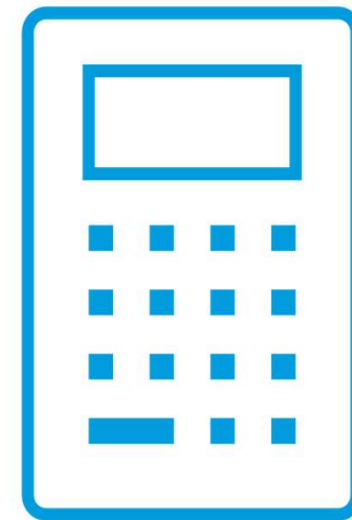
Assessing key inputs – Subscription/non-subscription components

- Separate subscription and nonsubscription components
 - Treat as separate contracts
- Multiple underlying IT assets with different subscription terms
 - Treat each asset as a separate component – allocate contract price
- Use price included in the contract or stand-alone prices
 - Depending on the nature of the asset, the vendor will be the best source for the stand-alone selling price
- If unable to determine an allocation, treat as a single SBITA



When to remeasure

- Contract amendments made in accordance with provisions for initial measurement of a subscription liability
- Changes arising from existing options within the original contract
 - Update of the following is only required if the change is expected to have a significant effect on the subscription liability
 - Discount rate
 - Index or rate used to determine a variable payment



Remeasurement is not necessary solely because of

- A change in an index or rate that is used to determine amount of variable payments
- A change in the government's incremental borrowing rate

Accounting for SBITAs

Modifications and Terminations

SBITA modifications

- The provisions of a SBITA contract may be modified while the contract is in effect
- Modifications change the provisions of the SBITA contract
- Examples of modifications to SBITA contracts include:
 - Changing the contract price
 - Lengthening or shortening the subscription term
 - Adding or removing underlying IT assets
 - Changing the index or rate upon which variable payments depend



This Photo by Unknown Author is licensed under CC BY-SA

SBITA modifications

- **Exceptions:**
 - Government's right to use the underlying asset decreases = SBITA termination
 - Reduce carrying value of subscription asset/liability; Recognize a gain/loss for difference
 - Exercising an existing option = remeasurement

SBITA modifications – Separate (new) SBITA

Considered a separate SBITA if:

1

The SBITA modification gives the government an additional subscription asset by adding access to more underlying IT assets that were not included in the original SBITA contract, and

2

The increase in subscription payments for the additional subscription asset does not appear to be unreasonable based on:

- the terms of the amended SBITA contract and
- professional judgment, maximizing the use of observable information

SBITA modifications – Modification to existing SBITA

- If a SBITA modification does not meet the requirements to be reported as a separate SBITA:
 - Remeasure the subscription liability
 - Adjusted subscription asset = difference between the remeasured liability and the liability immediately before the SBITA modification
- If the change reduces the carrying value of the subscription asset to zero, any remaining amount should be reported as a gain/loss

REQUIRED DISCLOSURES

Required disclosures

General description
(including basis, terms,
and conditions for
excluding variable
payments)

Subscription assets and
related amortization
(separately disclosed
from other capital assets)

Outflows of resources
recognized for variable
payment not included in
measurement of
subscription liability

Outflows of resources
recognized for other
payments, like termination
penalties, not included in
measurement of
subscription liability

Required disclosures

Principal and interest requirements to maturity, presented separately, for each subscription liability

Commitments under SBITAs before the subscription term begins

Components of any loss associated with impairment

SBITA IMPLEMENTATION ENTRIES

Example details

- Contract between Anywhere ISD and LTR for digital textbooks
 - Provides Anywhere ISD with the use and control of digital textbooks for a certain number of users
 - Is an exchange transaction
 - The agreement doesn't meet the definition of a lease or P3
- Terms
 - Subscription start date: July 1, 2022
 - Subscription end date: June 30, 2026
 - First payment date: July 1, 2022
 - Payments: \$10,000 annually, paid in advance on July 1
 - Discount rate: 4 percent

Example details

- Additional costs were incurred during the following stages:
 - \$1,500 – Consulting fees associated with the selection and evaluation of digital textbooks
 - \$200 – Additional support costs incurred after the digital textbooks were placed in service due to operational challenges, that did not add to the functionality of the digital textbooks
 - \$3,000 Anywhere ISD staff time for implementation, of which \$500 is related to training

Step 1: Assess costs other than subscription payments

- \$1,500 Consulting fees
 - As this was during the evaluation and assessment of digital textbook options, the costs would be considered part of the preliminary project stage and would be expensed as incurred
- \$200 – Operational support services
 - As these costs were incurred after the digital textbooks were placed in service and did not increase the efficiency or add to the functionality of the digital textbooks, they should be expensed as incurred
- \$3,000 – ISD staff time
 - As \$2,500 is related to implementation of the digital textbooks, that portion is capitalizable. The remaining \$500 related to training should be expensed

Step 1: Assess costs other than subscription payments

Account	DR	CR
Expenditure - Consultant	\$1,500	
Expenditure - Operational support services	\$200	
Cash		\$1,700

To record non-capitalizable costs incurred during the preliminary project stage and operational stage

Step 2: Calculate subscription liability and asset

Annual Subscription (Advance) Payment	\$ 10,000
Subscription Term (Years)	4
Borrowing Rate	4%
Initial Subscription Liability	<u>\$37,751</u>
Initial Subscription Liability	\$37,751
Implementation costs (capitalizable)	<u>2,500</u>
Initial Subscription Asset	<u>\$40,251</u>
Initial Subscription Asset	\$40,251
Subscription Term (Months)	<u>48</u>
Monthly Amortization	<u>\$839</u>

Step 2: Calculate subscription liability and asset

Period #	Payment Date	Amortization of Subscription Liability					Amortization of Subscription Asset	
		Subscription Payment Amount	Interest @ monthly rate of	Interest Payment	Principal Payment	Subscription Liability	Monthly Periods Straight-line Amortization	Unamortized Balance
			4.00%			37,751	48	40,251
1	7/1/2022	10,000	-	-	10,000	27,751	839	39,412
2	8/1/2022	-	93	-	-	27,751	839	38,574
3	9/1/2022	-	93	-	-	27,751	839	37,735
4	10/1/2022	-	93	-	-	27,751	839	36,897
5	11/1/2022	-	93	-	-	27,751	839	36,058
6	12/1/2022	-	93	-	-	27,751	839	35,220
7	1/1/2023	-	93	-	-	27,751	839	34,381
8	2/1/2023	-	93	-	-	27,751	839	33,543
9	3/1/2023	-	93	-	-	27,751	839	32,704
10	4/1/2023	-	93	-	-	27,751	839	31,865
11	5/1/2023	-	93	-	-	27,751	839	31,027
12	6/1/2023	-	93	-	-	27,751	839	30,188
13	7/1/2023	10,000	93	1,110	8,890	18,861	839	29,350

6/30/23: \$1,018 interest expense

Step 2: Calculate subscription liability and asset

Governmental Funds – Account	DR	CR
Capital outlay	\$40,251	
Expenditure – Training	\$500	
Other financing source		\$37,751
Cash		\$3,000

Step 2: Calculate subscription liability and asset

Governmental activities – Account	DR	CR
Subscription asset	\$40,251	
Capital outlay		\$40,251
Subscription liability		\$37,751
Other financing source	\$37,751	

Governmental activities – Account	DR	CR
Amortization expense	\$839	
Accumulated amortization – Subscription asset		\$839
Interest expense – Subscription	\$1,018	
Interest payable - Subscription		\$1,018

CLOSING REMARKS



THANK YOU FOR
YOUR TIME AND
ATTENTION

RSM US LLP

One South Wacker Drive, Suite 800
Chicago, IL 60606
312.634.3400

+00 (1) 800 274 3978
www.rsmus.com

This document contains general information, may be based on authorities that are subject to change, and is not a substitute for professional advice or services. This document does not constitute audit, tax, consulting, business, financial, investment, legal or other professional advice, and you should consult a qualified professional advisor before taking any action based on the information herein. RSM US LLP, its affiliates and related entities are not responsible for any loss resulting from or relating to reliance on this document by any person.

RSM US LLP is a limited liability partnership and the U.S. member firm of RSM International, a global network of independent audit, tax and consulting firms. The member firms of RSM International collaborate to provide services to global clients, but are separate and distinct legal entities that cannot obligate each other. Each member firm is responsible only for its own acts and omissions, and not those of any other party. Visit rsmus.com/aboutus for more information regarding RSM US LLP and RSM International.

RSM® and the RSM logo are registered trademarks of RSM International Association. The power of being understood® is a registered trademark of RSM US LLP.

© 2023 RSM US LLP. All Rights Reserved.

