GASB-96: Lost in Translation

IMPLEMENTATION CHALLENGES NO ONE IS TALKING ABOUT

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Course Presenters

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Agenda

- Overview of GASB 96

- Clarifications on Implementing GASB 96

- Implementation Guide 2023-1 SBITA Questions

Learning Objectives

- Understand how GASB 96 and GASB 51 interact

- Identify project costs and understand how they could affect materiality

- Be able to navigate through more complex SBITA scenarios

- Become familiar with SBITA questions from Implementation Guide 2023-1

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Overview of GASB 96

What is the GASB Really Trying to Do?

Account for changes in how technology solutions are now offered, taking into account the asset similar to GASB 51 but the liability similar to GASB 87.

GASB 51

Intangible Asset
- License Costs
- Project Implementation Costs

GASB 96

Intangible Right to Use Asset
- Initial SBITA Liability
- Subscription costs before go-live
  - Less: SBITA incentives received before go-live
- Project implementation costs

SBITA Liability

GASB 87

Right to Use Asset
- Initial Lease Liability

Lease Liability

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Clarifications During GASB 96 Implementations

Subscription Term

PARAGRAPH 9

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) are cancellable periods and are excluded from the subscription term. For example, a rolling month-to-month SBITA, or a SBITA that continues into a holdover period until a new SBITA contract is entered into, would not be enforceable if both the government and the SBITA vendor have an option to terminate and, therefore, either could cancel the SBITA at any time. Provisions that allow for termination of a SBITA as a result of either payment of all sums due or default on subscription payments are *not* considered termination options.

Subscription Term (Short-Term)

13. A short-term SBITA is a SBITA that, at the commencement of the subscription term, has a maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. As discussed in paragraph 9, 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) are cancellable periods and should be excluded from the maximum possible term. For a SBITA that has cancellable periods, such as a rolling month-to-month SBITA or a year-to-year SBITA, the maximum possible term of that SBITA is the noncancellable period, including any notice periods.

Polling Question #1

Other Charges

Purchased software or perpetual licenses containing annual fees for maintenance, support, or other charges.

WHAT TO CONSIDER:

- Are the payments fixed or variable?

- Are the payments for use of the underlying software asset?

- Could you retain use of the underlying software asset without these payments?

- Is this portion of the agreement have a noncancellable term longer than 12 months?

Lump Sum/Prepaid SBITA Payments

The total payment amount included in the SBITA contract is prepaid up front, or a portion of the payments are paid up front.

WOULD THIS STILL QUALIFY AS A SBITA?

Yes, the prepayment doesn't change the definition.

6. For purposes of applying this Statement, 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[1] transaction.

Lump Sum/Prepaid SBITA Payments

The total payment amount included in the SBITA contract is prepaid up front, or a portion of the payments are paid up front.

HOW SHOULD IT BE ACCOUNTED FOR?

- Technically, the prepayment should have resulted in a prepaid being recorded in prior years and expenses being recognized each period. This is a classification issue…it is a SBITA, it just may not result in a liability.

- First, look at the contract terms > Evaluate whether or not the prepayment covers all option periods and evaluate the likelihood of exercising extension periods.

- **If you prepaid the initial term but would have to pay for option periods that you are likely to exercise, then you will have a liability and additional intangible asset.**

Increases in Price for Option Years (not based on index)

You are reasonably likely to exercise option periods but the price is subject to negotiation, if exercised.

HOW SHOULD THE PAYMENTS BE VALUED?

- Just like with leases, if you know the amount is likely to increase but you don't know how much, use the minimum amount known as of the transition date.

DO WE MAKE ANY ADJUSTMENTS ONCE THE ACTUAL PRICE HAS BEEN DETERMINED?

- No, the liability should not be remeasured unless there is something else that triggers remeasurement based on other changes in paragraph 20.

> 21. If a subscription liability is remeasured for any of the changes in paragraph 20, the liability also should be adjusted for any change in an index or a rate used to determine variable payments if that change in the index or rate is expected to significantly affect the amount of the liability since the previous measurement. A subscription liability is not required to be remeasured solely for a change in an index or a rate used to determine variable payments.

Increases in Price for Option Years (based on index)

You are reasonably likely to exercise option periods but the price is subject to increases based on an index (like CPI), if exercised.

HOW SHOULD THE PAYMENTS BE VALUED?

- Just like with leases, if you know the increase each year is based on CPI or another index, paragraph 16 says you are supposed to increase the payment amount throughout the term using the index or rate as of the commencement date.

If the increase is based on CPI, then you would build in an increase based on the CPI as of the commencement date.

Subscription Liability

16. A government initially should measure the subscription liability at the present value of subscription payments expected to be made during the subscription term. Measurement of the subscription liability should include the following, if required by a SBITA:

a. Fixed payments
b. Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), measured using the index or rate as of the commencement of the subscription term

Increases in Price for Option Years (footnotes)

If these additional amounts are recorded as expenses, does this impact our footnote disclosures?

Yes, you should be including a sentence in your footnotes that discloses the differences in additional variable rate payments that weren't originally included in the liability amount.

Example: The amount of expenses recognized during the fiscal year for variable and other payments not previously included in the measurement of the subscription liability was $_____ .

(This number is essentially the difference between the cash paid and the reduction of the liability.)

Notes to Financial Statements

60. 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:

a. 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

b. The total amount of subscription assets, and the related accumulated amortization, disclosed separately from other capital assets

c. The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the subscription liability

d. 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

e. 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

f. Commitments under SBITAs before the commencement of the subscription term

g. The components of any loss associated with an impairment (the impairment loss and any related change in the subscription liability, as discussed in paragraph 41).

Modifications & Terminations

Amendments are actual contract changes, not changes to circumstances that are already in the agreement…the agreement should be modified with new signatures to trigger a modification.

> 52. The provisions of a SBITA contract may be amended while the contract is in effect. Amendments change the provisions of the SBITA contract. Examples of amendments to SBITA contracts include changing the contract price of the arrangement, lengthening or shortening the subscription term, adding or removing underlying IT assets, and changing the index or rate upon which variable payments depend. An amendment should be considered a SBITA modification unless the government's right to use the underlying IT assets decreases, in which case the amendment should be considered a partial or full SBITA termination. By contrast, exercising an existing option, such as an option to extend or terminate the SBITA as discussed in paragraphs 12a and 12b, is subject to the guidance for remeasurement.

Modifications & Terminations

Reassessing the subscription term should occur if:

12. A government should reassess the subscription term only if one or more of the following occur:

a. The government or SBITA vendor elects to exercise an option even though it was previously determined that it was reasonably certain that the government or SBITA vendor would not exercise that option.

b. The government or SBITA vendor elects not to exercise an option even though it was previously determined that it was reasonably certain that the government or SBITA vendor would exercise that option.

c. An event specified in the SBITA contract that requires an extension or termination of the SBITA takes place.

GASB 51 vs. GASB 96

What if a project is capitalized using GASB 51 guidance, but now qualifies as a SBITA?

ACCOUNTING TREATMENT:

1. Dispose of the intangible asset and any accumulated amortization that was previously recorded, with the loss posting against net position.

   This will be shown as a change in accounting principle (if implementing GASB 100)

   If you are showing comparative statements, don't forget that the restatement is at the beginning of the prior year, and you need to unwind amortization expense in the PY column of the income statement.

2. Record SBITA liability and asset following GASB 96 guidance

GASB 51 vs. GASB 96

What if a project is capitalized using GASB 51 guidance, but is now considered an immaterial SBITA?

ACCOUNTING TREATMENT:
Subscriptions DO NOT qualify for capitalization under GASB 51 so regardless of materiality, you must dispose of all subscriptions previously recorded as intangible assets under GASB 51.

Project Costs – Stages of Implementation

STAGE 1 **Preliminary Project**	STAGE 2 **Initial Implementation**	STAGE 3 **Operational & Additional Implementation**
Expensed as Incurred **Examples:** evaluation of alternatives, determining need for technology	Capitalizable **Examples:** configuration, coding, testing, installation, staff augmentation	Expensed as Incurred **Examples:** maintenance, troubleshooting, activities related to additional modules

Polling Question #2

Project Costs – Stages of Implementation

What do I do if I incur costs after the go-live date and they relate to implementation costs for smaller or other functionalities of the software?

ACCOUNTING TREATMENT

1. Evaluate whether a. or b. would apply.

2. Be able to defend your decision to your auditors.

3. Capitalize the additional costs as a part of the subscription asset following the same JEs as in previous slides.

4. Amortize the new costs over the remaining useful service life or term

40. If outlays are a result of SBITA modifications as described in paragraphs 52–55, the outlays should be accounted for in accordance with those paragraphs. There also may be outlays associated with a SBITA already in operation that are incurred in addition to subscription payments. For example, after the subscription asset is placed into service, a government may incur outlays associated with converting its legacy data on an old server to the vendor's cloud storage. Generally, those outlays should be expensed as incurred. However, additional outlays that are not a result of SBITA modifications but that result in either of the following should be capitalized as an addition to an existing subscription asset:

a. An increase in the functionality of the subscription asset; that is, the subscription asset allows the government to perform tasks that it could not previously perform with the subscription asset

b. An increase in the efficiency of the subscription asset; that is, an increase in the level of service provided by the subscription asset without the ability to perform additional tasks.

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Project Costs – Stages of Implementation

What do I do if I incur costs after the go-live date and they relate to implementation costs for smaller or other functionalities of the software?

ACCOUNTING TREATMENT:

1. Evaluate whether a. or b. would apply.

2. Be able to defend your decision to your auditors.

3. Capitalize the additional costs as a part of the subscription asset following the same JEs as in previous slides.

4. Depreciate the new costs over the remaining useful service life or term, whichever is shorter.

Amortization Schedule			
Assets:	Initial Subscription Asset	Additional Implementation Costs	
Cost:	$ 740,000	$ 100,000	
Life (Months)*:	84	84	Total
2022	-	-	-
2023	-	-	-
2024	52,858	-	52,858
2025	105,714	14,286	120,000
2026	105,714	14,286	120,000
2027	105,714	14,286	120,000
2028	105,714	14,286	120,000
2029	105,714	14,286	120,000
2030	105,714	14,286	120,000
2031	52,858	14,286	67,144
Total	740,000	100,000	840,000

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Materiality

Does materiality play a role in determining if an agreement is a SBITA?

WHAT TO CONSIDER…TREAD WITH CAUTION:

Don't only look at the payment amount,
or the liability amount…you have to consider
the intangible asset too.

Look at the totality of the immaterial items as
well because the accumulation of them may
trigger the passed items to become material.

Talk to your auditors EARLY about this.

> B9. Some stakeholders expressed concern about the cost of applying the guidance to "small ticket" SBITAs that have a low dollar value relative to other capital assets. The Board concluded that a threshold should not be set to specifically exclude small ticket SBITAs from the scope of this Statement. The Board believes that the determination of whether the provisions of this Statement apply to the accounting and financial reporting of a particular SBITA should be left to professional judgment, taking into consideration materiality guidance provided in Questions 7.4.1 and 7.9.8 in Implementation Guide 2015-1. Similarly, some stakeholders questioned whether there should be a minimum number of user seats before a SBITA is recognized. Although more user seats may result in higher payments, the Board believes that significance should not be based on the number of user seats alone.

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Annually Renewing Agreements

4.7.   Q—Is a licensing agreement for a vendor's computer software that automatically renews until cancelled a licensing agreement that provides a perpetual license?

A—No. A provision under which a licensing agreement automatically renews until cancelled is an option to terminate the agreement at each renewal date. An agreement that includes an option to terminate is not a purchase, whereas a perpetual license is a purchase in which a government is granted a permanent right to use the vendor's computer software. Therefore, a licensing agreement for a vendor's computer software that automatically renews until cancelled does not provide a perpetual license.

What Does this Mean for You?

You are likely to have more agreements that qualify as SBITAs than you originally thought.

QUESTIONS TO ASK:

- Can either party opt not to renew the agreement at each annual renewal?
- Do the parties have to mutually agree each year to renew or does it happen automatically?
- Can either party terminate the agreement without cause?
- Can only one party choose to renew or cancel the agreement each annual period?

HOW DOES THIS IMPACT YOUR IMPLEMENTATION?

- In progress vs. already completed

SaaS, PaaS, IaaS

4.8. Q—For purposes of determining the applicability of Statement 96, do Software as a Service, Platform as a Service, and Infrastructure as a Service contain a combination of IT software and tangible capital assets?

A—Yes. Software as a Service, Platform as a Service, and Infrastructure as a Service are three common deployment models of cloud computing arrangements. Notwithstanding the labels of those arrangements, each deployment model contains IT software used in combination with tangible capital assets. To further assess the applicability of Statement 96, the substance of the arrangement should be evaluated in accordance with all aspects of paragraph 6 of that Statement to determine whether the arrangement meets the definition of a subscription-based information technology arrangement (SBITA).

What Does this Mean for You?

Software agreements are not the only agreements you need to consider.

What is a Platform as a Service?

A cloud computing model where a third-party provider delivers hardware and software tools to users over the internet.

Examples:

- Windows Azure
- Google App Engine
- OpenShift

What is Infrastructure as a Service?

A cloud computing model that provides on-demand access to computing resources such as servers, storage, networking, and virtualization.

Examples:

- Amazon Web Services (AWS)
- Microsoft Azure
- Cisco Metacloud

Software Implementation

4.9.   Q—A government enters into a six-year SBITA contract with no options to extend or terminate the contract and begins making semiannual subscription payments to the SBITA vendor immediately after the contract takes effect. The initial implementation stage is not completed until the end of the second year after the contract takes effect. What is the subscription term?

A—Although the length of the contract is six years, the subscription term is four years. The initial implementation stage is completed at the end of the second year

the subscription term commences at the beginning of the third year and ends at the conclusion of the sixth year when the SBITA contract ends.

What Does this Mean for You?

An agreement may not be considered a SBITA if the software is not yet in service.

WHAT TO CONSIDER:

- Any subscription fees paid during this period are treated as Initial Implementation Project Stage costs

- The length of the contract may not always be the length of the SBITA term

- Tracking project costs as they are incurred is an important practice

What Does this Mean for You?

There has been confusion of what the commencement date is for the subscription term.

- Commencement date ≠ the contract date

- Commencement date = the date the software is placed into service

Recognition and Measurement for SBITAs Other Than Short-Term SBITAs—Economic Resources Measurement Focus

15. At the commencement of the subscription term, a government should recognize a subscription liability and an intangible right-to-use asset (a capital asset hereinafter referred to as the subscription asset), except as provided in paragraphs 13 and 14 (short-term SBITAs). The commencement of the subscription term occurs when the initial implementation stage is completed, as described in paragraphs 29 and 30, at which time the government has obtained control of the right to use the underlying IT assets, and, therefore, the subscription asset is placed into service.

What Does this Mean for You?

What do we do with the costs prior to the commencement date?

- Subscription payments already paid
- Initial implementation stage costs

26. Payments before the commencement of the subscription term associated with the SBITA contract made to the SBITA vendor, as well as payments made for the capitalizable initial implementation costs before the commencement of the subscription term, should be reported as a prepayment (an asset). A prepayment to a SBITA vendor should be reduced by any incentives received from the same SBITA vendor before the commencement of the subscription term, if a right of offset exists (as described in paragraph 501 of Statement 62, as amended). That prepayment should be reclassified as an addition to the initial measurement of the subscription asset at the commencement of the subscription term. If the SBITA vendor incentives are greater than the SBITA vendor prepayments made to the same vendor, the difference should be reported as a liability until the commencement of the subscription term, at which time that amount should reduce the initial measurement of the subscription asset.

Fancy, but confusing, way of saying you accumulate them in WIP under full accrual and when the subscription term begins, you move all of this as an addition along with the SBITA liability amount and that's the initial right to use asset value. Modified accrual, you will report a capital outlay expenditure

Polling Question #3

Software Implementation – Example

Implementing an ERP system with the following key dates:
- Contract signed 1/1/21
- Subscription payments started 1/1/21
- Implementation costs 3/1/21-12/31/23 est
- Go-Live Date 1/1/24 est > This would likely be the term *commencement date* too

How do we account for the entries if we are a 6/30/22 YE:
- Total subscription costs through 6/30/22 = $40,000
- Initial implementation costs through 6/30/22 = $30,000

Modified Accrual – Fund Level Statements	**Full Accrual**
DR $70,000 Capital Outlay	DR $70,000 Subscription in Progress
CR $70,000 Expenditure (where these costs were recorded)*	CR $70,000 Expenditure (where these costs were recorded)
Modified Accrual – Govt-Wide Statements	
DR $70,000 Subscription in Progress	
CR $70,000 Capital Outlay	

AT 6/30/22, IT IS NOT A SUBSCRIPTION JUST YET…THERE IS NO LIABILITY, JUST AN ASSET

*This is a reclassification to record the expenses in the correct category on the financials. The costs for the subscription and the costs for the implementation costs may be in separate accounts that would otherwise be operating accounts. It's important that these be classified in a capital outlay account.

Software Implementation – Example

Implementing an ERP system with the following key dates:
- Contract signed 1/1/21
- Subscription payments started 1/1/21
- Implementation costs 3/1/21-12/31/23 est
- Go-Live Date 1/1/24 est > This would likely be the term *commencement date* too

How do we account for the entries if we are a 6/30/23 YE:
- Total subscription costs through 6/30/23 = $40,000
- Initial implementation costs through 6/30/23 = $70,000
  - Total life to date costs are $180,000

Modified Accrual – Fund Level Statements
DR $110,000 Capital Outlay
CR $110,000 Expenditure (where these costs were recorded)*

Modified Accrual – Govt-Wide Statements
DR $110,000 Subscription in Progress
CR $110,000 Capital Outlay

Full Accrual
DR $110,000 Subscription in Progress
CR $110,000 Expenditure (where these costs were recorded)

AT 6/30/23, IT IS NOT A SUBSCRIPTION JUST YET…THERE IS NO LIABILITY, JUST AN ASSET

Software Implementation – Example

Implementing an ERP system with the following key dates:

- Contract signed 1/1/21
- Subscription payments started 1/1/21
- Implementation costs 3/1/21-12/31/23
- Go-Live Date 1/1/24 > This is the term *commencement date* too

How do we account for the project cost entries at 1/1/24 as of the Commencement Date:

- Total subscription costs through 6/30/23 = $40,000
- Initial implementation costs through 6/30/23 = $20,000
    - Total life to date costs are $240,000

Modified Accrual – Fund Level Statements
DR $60,000 Capital Outlay
CR $60,000 Expenditure (where these costs were recorded)*

Modified Accrual – Govt-Wide Statements
DR $60,000 Subscription in Progress
CR $60,000 Capital Outlay

Full Accrual
DR $60,000 Subscription in Progress
CR $60,000 Expenditure (where these costs were recorded)

ALL IMPLEMENTATION COSTS HAVE BEEN RECORDED…
NOW IT'S TIME TO RECORD THE SUBSCRIPTION

Software Implementation – Example

Implementing an ERP system with the following key dates:
- Contract signed 1/1/21
- Subscription payments started 1/1/21
- Implementation costs 3/1/21-12/31/23
- Go-Live Date 1/1/24 > This is the term *commencement date* too

How do we account for the subscription entries at 1/1/24 as of the Commencement Date:

Total implementation costs in Subscription in Progress as of 1/1/24 = $240,000
Subscription liability = $500,000

Modified Accrual – Fund Level Statements
DR $500,000 Capital Outlay
CR $500,000 Other Financing Source

Modified Accrual – Govt-Wide Statements
DR $500,000 Other Financing Source
CR $500,000 Subscription Liability

DR $740,000 Intangible Right to Use Asset - Subscriptions
CR $500,000 Capital Outlay
CR $240,000 Subscription in Progress

Full Accrual
DR $500,000 Intangible Right to Use Asset - Subscriptions
CR $500,000 Subscription Liability

DR $240,000 Intangible Right to Use Asset - Subscriptions
CR $240,000 Subscription in Progress

59. An expenditure and other financing source should be reported in the period the subscription asset is initially recognized. The expenditure and other financing source should be measured as provided in paragraphs 16–18. Subsequent governmental fund subscription payments should be accounted for consistent with principles for debt service payments on long-term debt.

Software Implementation – Example

Implementing an ERP system with the following key dates:
- Contract signed 1/1/21
- Subscription payments started 1/1/21
- Implementation costs 3/1/21-12/31/23
- Go-Live Date 1/1/24 > This is the term *commencement date* too

Balances as of 1/1/24:

Intangible Right to Use Asset – Subscriptions = $740,000
Subscription Liability = $500,000

Amortization of the Intangible Right to Use Asset

Subscriptions begins as of 1/1/24 and is amortized over the shorter of the subscription term or the useful life of the asset.

27. A subscription asset should be amortized in a systematic and rational manner over the shorter of the subscription term or the useful life of the underlying IT assets. The amortization of the subscription asset should be reported as an outflow of resources (for example, amortization expense), which may be combined with depreciation expense related to other capital assets for financial reporting purposes. Amortization should begin at the commencement of the subscription term as described in paragraph 15.

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What Does this Mean for You?

What do we do once the software is live and we officially have a commencement date?

The asset is placed in service and amortization begins > SBITA payable is recorded

For modified accrual, you will also:

- Record capital outlay for CY costs through the commencement date (costs in the PY would have already been recorded in capital outlay)

- Record an other financing source for the value of the SBITA liability as of the commencement date.

59. An expenditure and other financing source should be reported in the period the subscription asset is initially recognized. The expenditure and other financing source should be measured as provided in paragraphs 16–18. Subsequent governmental fund subscription payments should be accounted for consistent with principles for debt service payments on long-term debt.

Software Implementation

In Progress Implementations or New Implementations:

- Create New Project

- Add any costs incurred for the project, including Subscription payments prior to software being placed in service

- Categorize costs into proper stage using drop down menu

- Upon completion of project, costs can be assigned to associated Subscription
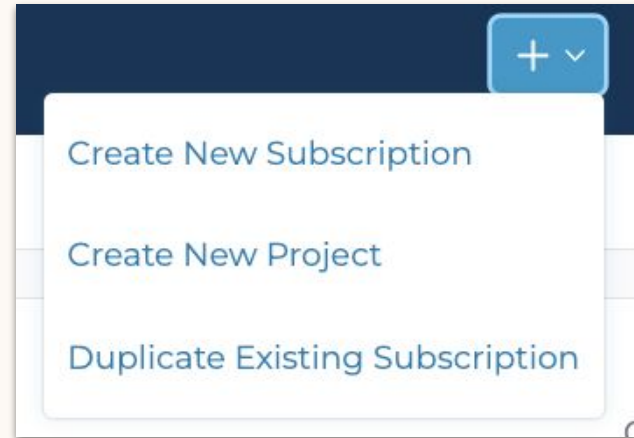
Polling Question #4

Wrap-Up

There are A LOT of unique situations and ultimately, you have to look to the GASB itself to help guide you through each situation. At this point, you should:

- Have a better understanding of how GASB 96 interacts with GASB 51 and GASB 87
- Have a better understanding of accounting for project costs
- Have a better understanding of some of the more complex SBITA scenarios
- Have become more familiar with SBITA questions from Implementation Guide 2023-1

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WEBINAR

GASB 91 & 94: Practical Applications

1 CPE CREDIT AVAILABLE

Thur, Aug 17
10:00ᴀᴍ PST

Questions...

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Thank You!