



I've Got 96 Problems: A GASB 96 Update

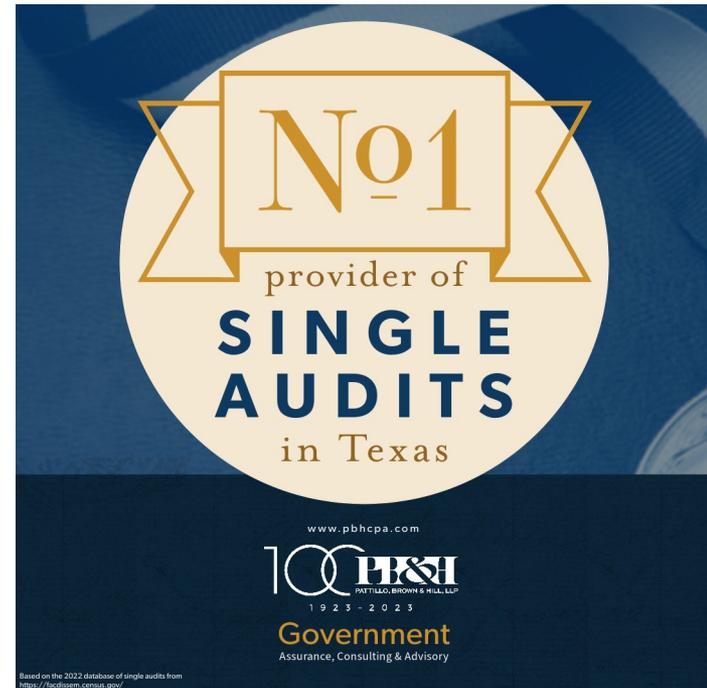
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PATTILLO, BROWN & HILL, LLP

Certified Public Accountants & Business Consultants

- Founded in 1923
- Five locations in TX & NM, 16 partners, 170 employees
- Diamond Sponsor – Texas Association of County Auditors
- 41 current county audit clients in Texas; served approximately 25% of counties in Texas



Topics

- **Broad overview and lessons learned (so far)**
 - Where SBITAs like to hide
- **SBITA example step-by-step**
 - Evaluating if it's a lease
 - Crunching the numbers
 - Journal entries
 - Financial reporting

A Decree from on High...

“GASB 96 is a *decree* by the Governmental Accounting Standards Board providing guidance on accounting and financial reporting best practices for SBITAs...”

- Quote from lease software website

Main Takeaways

- **What, when and why?** (find: “lease” replace with: “subscription” (almost))
- **Implementation:** I’ve read the standard, now what?
- **Audit considerations:** How to keep your auditor happy



Question:

How many SBITAs did you identify during implementation?

- A. 0 - 5
- B. 5 - 25
- C. 25 - 50
- D. 50+
- E. I don't know and I don't want to talk about it



What & when?

- Entirely new concept vs GASB 87
- Recognition of **subscription asset** and **subscription liability**.
- Effective for fiscal year **beginning after June 15, 2022**.



Why?

- To increase the usefulness of governments' financial statements by requiring the reporting of certain *subscription liabilities that were not previously reported*.



What's changing?

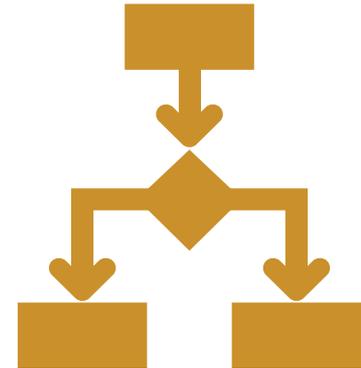
- **If a contract meets the requirements of this standard:**
 - Record a subscription capital asset (right to use), amortize
 - Record a subscription liability, amortize

What's different from GASB 87?

- To the extent relevant, **GASB 96 is based on GASB 87 except:**
 - There is no “lessor” concept in GASB 96
- **What about hardware w/ software built in (smart thermostats, smart copiers, computers)?**
 - Tangible capital assets (GASB 87) that are part of a contract that also includes IT software (think: copier, computer) **where the software component is insignificant** when compared to the cost of the tangible capital asset, keep those arrangements under GASB 87.
- **Stages of implementation**
 - The costs to research, implement, and modify software are treated differently under this standard.

What do I need to do?

1. **Identify** all potential contracts, include on inventory
2. **Evaluate** each against criteria (is this a SBITA?)
3. **Determine** the length of the subscription term
4. **Calculate** asset & liability values
5. **Record** transactions and draft note disclosures



- A contract that conveys the **control** of the right to use another party's **IT software** (the underlying asset), alone or in combination with tangible capital assets (the underlying IT assets), as specified by the contract **for a period of time** in an **exchange or exchange-like transaction**.
- Ask yourself: “Will this software no longer work once the contract term ends (or I stop paying the vendor)?” If the answer is “yes”, you may have SBITA.

- Contracts EXEMPTED from GASB 96:
 - Standalone IT services contracts that do not include the right to use an underlying IT asset (maintenance)
 - Agreements providing outside entities the right to use their own IT software and associated assets through a SBITA (no “lessor” requirement)
 - Contracts that meet the definition of a lease under GASB 87 (if software component is insignificant). May need to separate hardware and software components, otherwise.
 - Contracts that fall under Public-Private Partnerships (GASB 94) and Intangible Assets (GASB 51, think licensing arrangements).
 - Short-term SBITA contracts

Definitions

CONTROL

The right to obtain **present service capacity** from the underlying IT asset, and right to determine the **nature and manner of use** of the underlying IT asset.

Definitions

IT SUBSCRIPTION ASSET

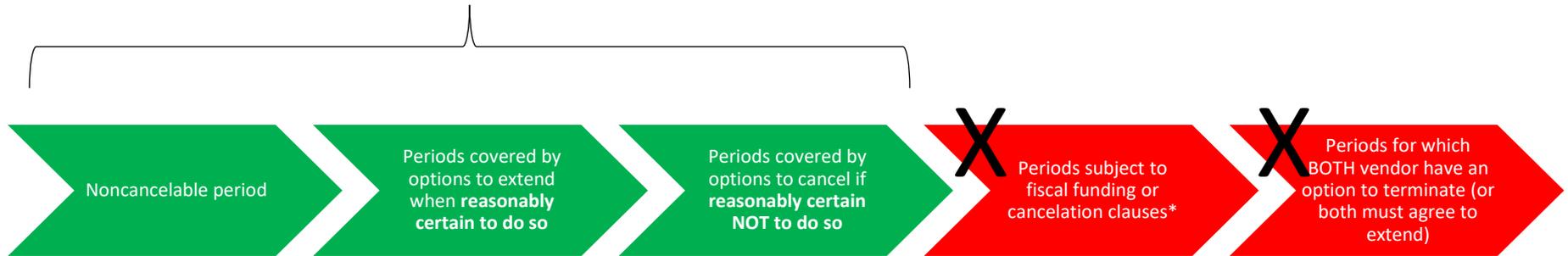
The right to use another party's **software**, alone or in combination with tangible capital assets (hardware)

Definitions

EXCHANGE OR EXCHANGE-LIKE TRANSACTION

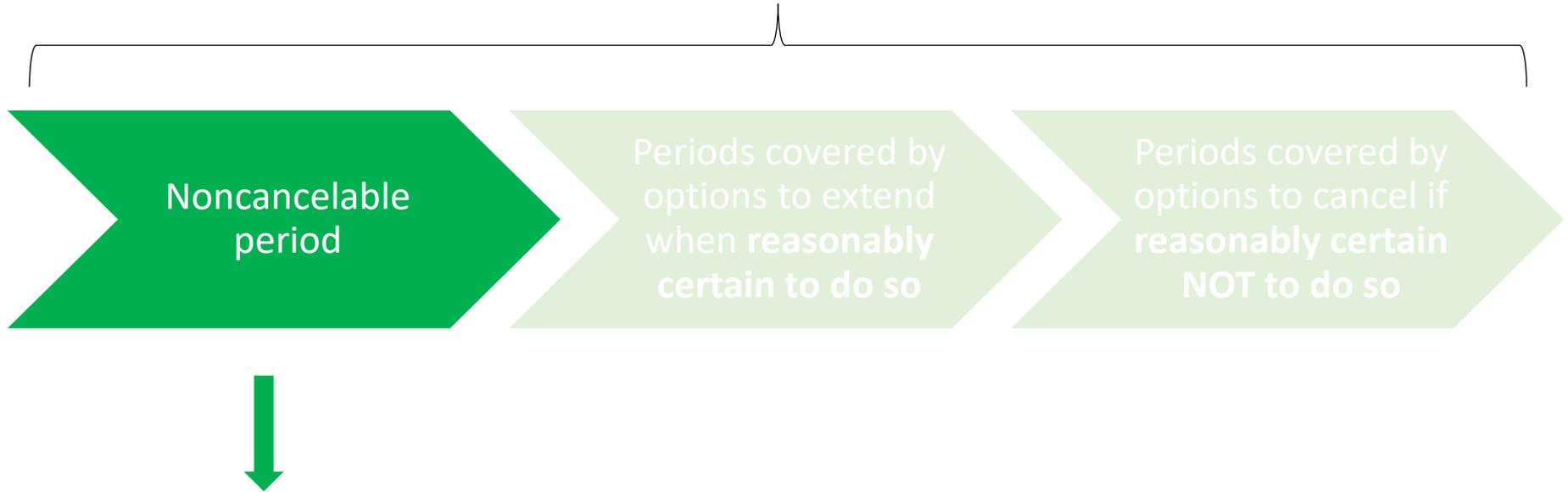
Each party to the agreement receives or gives up **essentially equal value** or almost equal value.

Subscription term



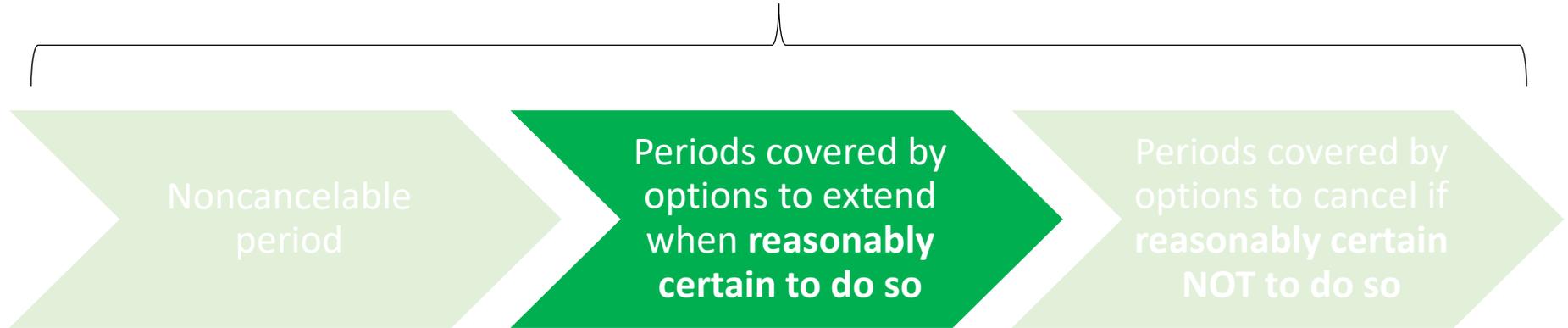
* Fiscal funding clauses are *not* a loophole to get out of this standard. Must be reasonably certain the clause will be exercised.

Subscription term



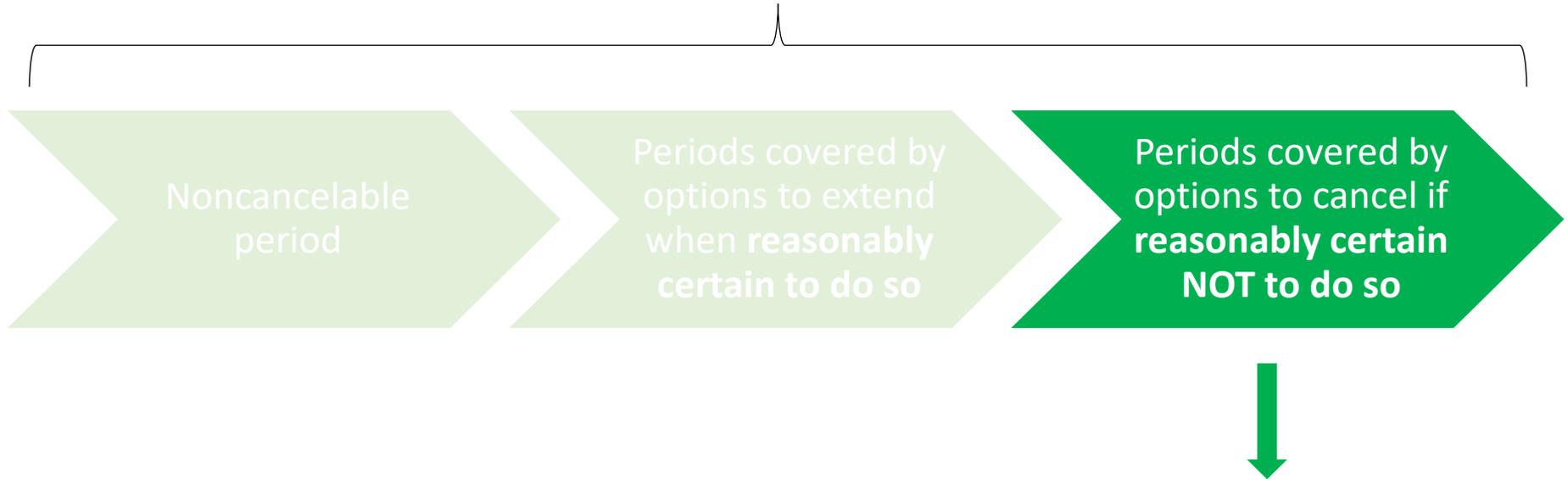
The period during which **NEITHER** party can cancel the agreement. In other words, both are legally obligated without the possibility of cancellation.

Subscription term



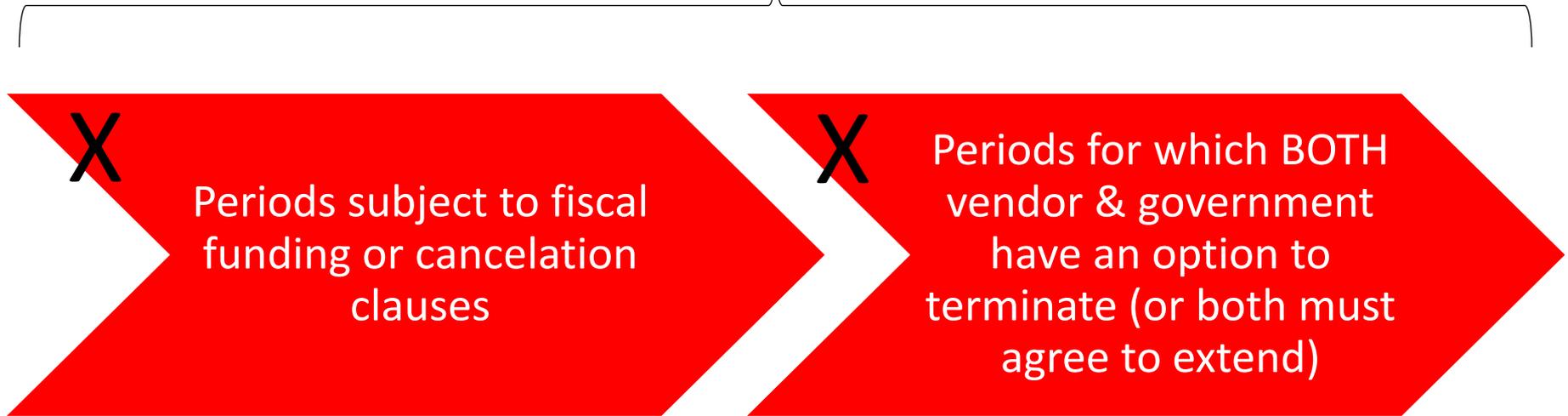
To be “reasonably certain” is a **HIGH LEVEL** of certainty. Not 51% chance... To determine this, look at similar agreements in the past and other documented intent of management.
Consider likelihood of cancellation for BOTH lessor and lessee!

Subscription term



To be “reasonably certain” is a **HIGH LEVEL** of certainty. Not 51% chance... To determine this, look at similar agreements in the past and other documented intent of management. **Consider likelihood of cancellation for BOTH vendor and government!**

Do not include



Unless it is **REASONABLY CERTAIN** the clause will be exercised!

FEES, PAYMENT AND TERMS		
Initial Term (1)	Effective Date (2)	Annual Recurring Fee (3)
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Noncancelable period

X Periods for which BOTH vendor & government have an option to terminate (or both must agree to extend)

Five 1-year renewals unless either party gives written notice...

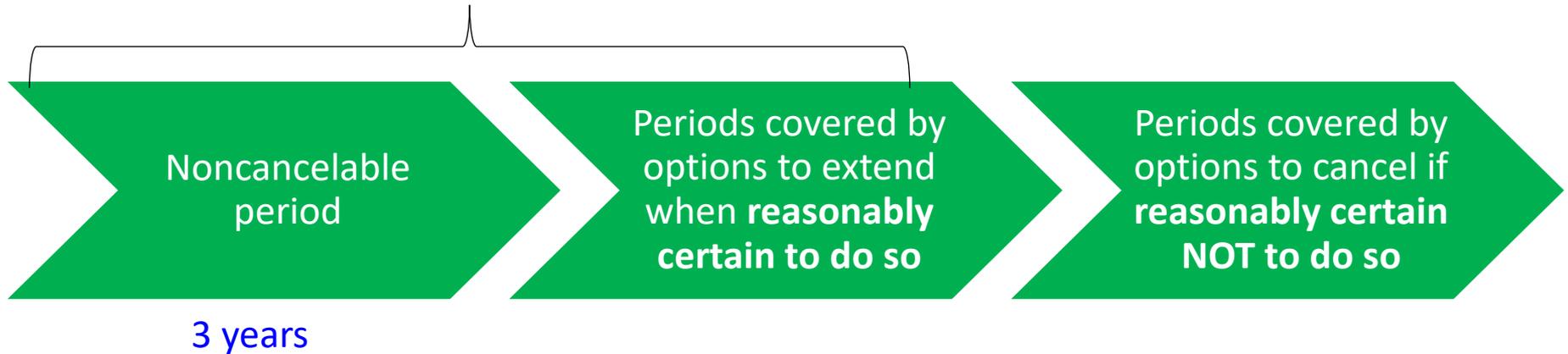
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New, executed agreement = new contract, new SBITA

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Subscription term



Short-term subscription (exception)

A subscription with a **maximum possible term** under the contract, including any options to extend, of 12 months or less. These will be somewhat rare.

- Government: expense when payments made; no disclosure requirements

Reassessment of subscription terms

The term of the subscription should be reassessed only if one or more of the following occurs:

1. Vendor or government elects to exercise an option though originally it was determined they would NOT exercise the option.
2. Vendor or government elects to NOT exercise an option, though originally it was determined they WOULD exercise the option.
3. An event specified in the contract requires an extension/termination takes place.

A game plan for implementation

- **Who is in charge?** Designate a team & leader who will identify the population of potential agreements and gather info.
- **What info do we need?** Contracts, agreements, & payment schedules for all agreements currently in effect (retroactive).
- **Who can help?** **IT department**, minutes of governing body, legal counsel.



Create a contract inventory

- **Compile a listing** of ALL agreements that could meet the requirements here (completeness is key).
- **File agreements & payment schedules** and make them easily relatable to the contract inventory.
- **Clarify ambiguous terms**, consult with legal and department heads.
- **Ask your auditor lots of questions!**



PR&H

NOW WHAT?



Accounting!

COMMITMENT to the present... **VISION** for the future.

Initial reporting:

SUBSCRIPTION LIABILITY:

Present value of subscription payments

- Fixed pmts
- Variable pmts (if based on index)*
- Termination penalties
- Contract incentives receivable
- Other payments to vendor

* Variable payments OTHER than those that depend on an index or rate, such as variable payments based on future performance of the government, usage of the underlying IT assets, **or number of user seats**, should NOT be included. These are expensed when paid.

Initial reporting:

SUBSCRIPTION ASSET:

Subscription liability PLUS:

- Payments to vendor made at commencement of subscription term
- Capitalizable initial implementation costs

LESS: Vendor incentives received

STAGES OF IMPLEMENTATION

- **Preliminary project Stage** – conceptual formulation and evaluation of alternatives, determination of the existence of needed technology, final selection of alternatives for SBITA. **EXPENSE AS INCURRED**
- **Initial Implementation Stage** – Ancillary charges related to designing the chosen path (configuration, coding, testing, and installation). This stage ends when the subscription asset is placed into service.
CAPITALIZE
- **Operation and Additional Implementation Stage** – Maintenance, troubleshooting, and other activities associated with ongoing access to the underlying IT assets. Includes additional implementation activities, such as data conversion, that occur after the subscription asset is placed into service. **EXPENSE AS INCURRED** (with exceptions, see paragraph 52-55 on modifications to subscription agreement)

Other Considerations

- Training costs expensed as incurred, regardless of the stage in which they are incurred.
- Accounting for subsequent implementation outlays
- Data conversion
- Modules
- Modifications/terminations



KEEPING YOUR AUDITOR HAPPY

- Start early
- Ask questions
- Document completeness
- Document interest rates

- Questions or discussion?



1 9 2 3 - 2 0 2 3

RESOURCES

GASB Statement 96, SBITAs



1 9 2 3 - 2 0 2 3

Questions & discussion

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