

GASB Update 2023

Continued Fun in the Accounting World!!!!



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Introductions

Speaker: Matt Geerdes, CPA
- Advisory Senior Manager, Crowe LLP



Speaker: Andy Mace, CPA, CFE
- Partner, Wipfli LLP



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Presentation Agenda

- New Standards Released – 2023 Impacts and Beyond
- GASB Projects and Exposure Drafts – What’s in the Pipeline?
- GASB 96 – SBITAs. What are they? What do I have to do with these?



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New Standards Released - 2023

2023 Implementations

- GASB 91 – Conduit Debt
- GASB 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements
- GASB 96 – Subscription-Based Information Technology Arrangements
- GASB 99 – Omnibus 2022 (paragraphs 11-32)

Long Term Implementations

- GASB 99 – Omnibus 2022 (paragraphs 4-10) – FY24
- GASB 100 – Accounting Changes and Error Corrections – FY24
- GASB 101 – Compensated Absences – FY25



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New Standards Released – GASB 99

GASB 99 – Omnibus 2022

- Issued in April 2022
- Similar to other Omnibus standards (last one being GASB 92) – a “potpourri” draft
 - Remeasurement of Certain Assets and Liabilities
 - Effect of a Purchase Option on Contract Terms and Measurement of Liability
 - Derivative Instruments that are neither Hedges or Investments – **FY24**
 - Exchange Financial Guarantees – **FY24**
 - Other Technical Corrections



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GASB Projects and Exposure Drafts

GASB's Technical Agenda: <https://www.gasb.org/preagendaaresearch>

Exposure Drafts

- Implementation Guide 2023 – Exposure Draft redeliberations
- Risks and Uncertainties Disclosures – Exposure Draft redeliberations

Major and Comprehensive Projects

- Revenue and Expense Recognition – Preliminary Views redeliberations
- Governmental Funds Financial Statements – Exposure Draft redeliberations
 - Potential NEW model!!!!



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GASB 96 – An Overview

- Accounting guidance for SBITAs – Subscription Based Information Technology Arrangements
- Applies many lease accounting concepts in GASB Statement No. 87, *Leases*
- Similar to lease accounting - new guidance requires balance sheet recognition of a liability and a capital-like asset for SBITAs
- Unique guidance for recognition of SBITA-related liabilities and assets depending on the project stage costs are incurred



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GASB 96 – 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” (Para 6, GASB 96)

- Control Criteria
 - Does the government have the right to obtain the present service capacity of the underlying IT assets?
 - Does the government have the right to determine the nature and use of the IT assets?

Beginning to sound familiar?



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GASB 96 – Carve-Outs and Exceptions

- NOT APPLICABLE:
 - Contracts that convey the right to use a combination of IT assets and tangible capital assets (GASBS 87)
 - *Example: A computer with operating software*
 - Governments that provide the right to use their IT software and other tangible assets to other entities
 - *“Lessor” accounting does not apply*
 - Public-partnerships (GASBS 94)
 - Perpetual licensing agreements (GASBS 51 – Intangible assets)
 - Contracts solely for IT support services, but contracts including support services with SBITA *are* included

Short-term IT arrangements (12 months or less):
TECHNICALLY A SBITA BUT DIFFERENT ACCOUNTING



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GASB 96 vs GASB 87

GASB Statement No 87 (Leases)	GASB Statement No 96 (SBITA)
✓ Recognizes a Leased Asset & Lease Liability	✓ Recognizes a Subscription Asset & Subscription Liability
✓ Effective as of 6/15/2021	✓ Effective as of 6/15/2022
✓ A contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract	✓ A contract that conveys control of the right to use another entity's (SBITA vendor) IT software, alone or in combination with tangible capital assets (the underlying IT asset) as specified in the contract



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GASB 96 vs GASB 87

GASB Statement No 87 (Leases)	GASB Statement No 96 (SBITA)
<ul style="list-style-type: none"> ✓ Lease right-to-use asset/liability initially measured at present value of future lease payments 	<ul style="list-style-type: none"> ✓ Subscription right-to-use asset/liability initially measured at present value of future subscription payments
<ul style="list-style-type: none"> ✓ Short Term = Maximum possible term at commencement of the lease term of 12 months or less 	<ul style="list-style-type: none"> ✓ Short Term = Maximum possible term at commencement of the subscription term of 12 months or less
<ul style="list-style-type: none"> ✓ Term = noncancelable period to right to use the underlying asset + options to extend, if reasonably certain lessor/lessee will extend + termination periods if reasonably certain lessor/lessee will not exercise. 	<ul style="list-style-type: none"> ✓ Term = noncancelable period to right to use the underlying IT asset + options to extend, if reasonably certain end government/vendor will extend + termination periods if reasonably certain government/vendor will not exercise.

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GASB 96 vs GASB 87

GASB Statement No 87 (Leases)	GASB Statement No 96 (SBITA)
✓ Amortize leased asset over shorter of useful life of asset or lease term	✓ Amortize subscription asset over shorter of useful life of asset or lease term
✓ Lease liability is reduced by the principal portion of lease payments	✓ Subscription liability is reduced by the principal portion of subscription payments
✓ Different major classes of underlying assets (if any) must be accounted for separately for disclosure purposes.	✓ Major classes of subscription assets (if any) is not required for disclosure purposes.



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GASB 96 – Subscription Term

Term = NONCANCELLABLE Right-to-use term plus:

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



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GASB 96 – Recognition and Measurement

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

Asset Includes	Liability Includes
Initial subscription liability	Fixed payments
Payments made to vendor at the commencement of the term (if applicable)	Variable payment dependent on known index rate
Capitalizable initial implementation costs	Incentives receivable from vendor
Amortize the subscription asset in a systematic and rational manner over the shorter of the subscription term or the useful life of the underlying IT assets	Payments for penalties and other reasonably certain payments



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GASB 96 – Recognition and Measurement

- Discount Rate
- Recognition and Measurement - recognize interest expense over the subscription term
 - Use either the rate the vendor charges the government OR an estimate of the IBR
- Discount Rate Considerations
 - *Most SBITAs do not explicitly include the vendor's rate*
 - Most government entities will use their Incremental Borrowing Rate (IBR)
 - Different rates should be considered for SBITAs with different terms, payment amounts, payment structure, etc.
 - Process should be documented for internal and external audit purpose
 - Rate should reflect the creditworthiness of a government
 - Other ways of obtaining discount rate – reach out to financial institutions and request rate quotes based on SBITA terms and amounts (useful for governments that have no public debt)
 - IBR should be reviewed each year.
 - Prior year IBR(s) determined for GASB 87 purposes should also be re-evaluated in current year for GASB 96 purpose.



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GASB 96 – Implementation Costs

GASB 96 requires costs of implementation activities associated with a SBITA to be grouped into the following three stages and their costs to be accounted for accordingly:

Stage of Implementation	Stage Description	Accounting Treatment
Preliminary Project Stage	Activities such as evaluating alternatives, determining needed technology, and selecting a SBITA vendor	Costs expensed as incurred
Initial Implementation Stage	Include all ancillary charges necessary to place the subscription asset into service	Costs capitalized as an addition to the subscription asset
Operation and Additional Implementation Stage	Activities such as subsequent implementation activities, maintenance, and other activities for the governmental entity's ongoing operations related to a SBITA	Costs expensed as incurred (unless functionality or efficiency is improved)



GASB 96 – Other Considerations

- Contracts with Multiple Components
 - Examples include contracts that contain a subscription component and a non-subscription component
 - Allocate based on contract price as long as it's reasonable
 - If prices are not present or not reasonable, allocate based on professional judgement
- Note Disclosure Requirements

Requirement	Details
General description of SBITAs	Including terms, variable payments not included in measurement
Total amount of subscription assets	Cost and related accumulated amortization, disclosed separately from capital assets. Does not need to be by asset class (such as with leases)
Amount of expenses recognized	Pertains to expense not included in the initial measurement of the subscription liability, such as termination payments, penalties, etc.
Principal and interest requirements to maturity	For five years then five-year brackets/buckets
Commitments	Before the commencement of the subscription term
Impairment losses	If any

GASB 96 - Examples

Example 1 – Both GASB 96 and GASB 87 Components Present

- 2. TERM.** Subject to the provisions of this Agreement and upon full execution of this Agreement, [REDACTED] hereby leases the equipment and licenses the software described in Exhibit A (“**Equipment**”), attached hereto and incorporate by reference. The Lease will commence on October 1, 2021 and continue for a period of thirty six months (36) months (the " Term") unless earlier terminated as provided in this Lease. This Lease may be extended at the option of Customer after the Term on a month-to-month basis in accordance with Section 6. [REDACTED] will invoice (i) new Customers (who currently do not have existing [REDACTED] Equipment), after initial delivery, installation and Acceptance has occurred (“the Commencement Date”) and (ii) existing Customers (currently using [REDACTED] Equipment) and leasing additional Equipment under this Leasing Exhibit, on the date upon which all of the Equipment has been shipped by [REDACTED] (“Commencement Date”).

- The agreement is for both the equipment and licenses the software
- Initial Term is for 36 months commencing on 10/1/2021, assuming this is also the client’s GASB 96 adoption date
- After the initial term, the customer can convert to a month-to-month basis (becoming short term under GASB 96)



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GASB 96 - Examples

Example 1 – Both GASB 96 and GASB 87 Components Present

Exhibit A Equipment and Price

Term of lease: (36mos/3 yrs)

Lease Type: End-of-term renewal/ extension of lease

Depreciable life of asset (per AHA Guidelines): 10 yrs

Total purchase price of asset(s): \$ 249,600

Annual Value of Use and Service of Products:

Equipment Component: \$23,836.80

Software Component: \$5,001.60

Maintenance and Support Service Component: \$9,561.60

Monthly payment for GASB87= $\$23,836.80/12=\$1,986.40$
Monthly payment for GASB96= $\$5,001.60/12=\416.80

- Monthly base rent for the equipment component is \$1,986.40 (GASB 87)
- Monthly base rent for the software component is \$416.80 (GASB 96)
- Maintenance and support service component is expensed as incurred (non lease component)
- Assuming no purchase of the equipment at the end of the term
- Assuming an IBR of 3.75%

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GASB 96 - Examples

Example 1 – Both GASB 96 and GASB 87 Components Present

- First FY GASB 87 Sample Entries:

10/1/2021	Right-to-use Leased Asset	67,746.03		Initial Recognition
10/1/2021	Lease Liability		67,746.03	Initial Recognition
9/30/2022	Interest Expense	2,094.81		Interest Expense Accrual
9/30/2022	Accrued Interest Liability		2,094.81	Interest Expense Accrual
9/30/2022	Amortization Expense	22,582.01		Amortization Expense Accrual
9/30/2022	Accumulated Amortization		22,582.01	Amortization Expense Accrual
9/30/2022	Lease Liability	21,885.30		Lease Payments
9/30/2022	Accrued Interest Liability	1,951.50		Lease Payments
9/30/2022	Cash/AP		23,836.80	Lease Payments

- First FY GASB 96 Sample Entries:

10/1/2021	Right-to-use Subscription Asset	14,214.93		Initial Recognition
10/1/2021	Subscription Liability		14,214.93	Initial Recognition
9/30/2022	Interest Expense	439.55		Interest Expense Accrual
9/30/2022	Accrued Interest Liability		439.55	Interest Expense Accrual
9/30/2022	Amortization Expense - SBITA	4,738.31		Amortization Expense Accrual
9/30/2022	Accumulated Amortization - SBITA		4,738.31	Amortization Expense Accrual
9/30/2022	Subscription Liability	4,592.12		SBITA Payments
9/30/2022	Accrued Interest Liability	409.48		SBITA Payments
9/30/2022	Cash/AP		5,001.60	SBITA Payments



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GASB 96 - Examples

Example 2 – a 30-year “Paid-up” License

3. To enter into a License, you must accept the terms of this Agreement as a schedule to your agreement with ■■■ Your agreement with ■■■ specifies whether your License is a paid-up License or is a subscription License. The term (“License Term”) of a paid-up License shall be 30 years from the Effective Date. The License Term of a subscription License begins on the Effective Date and is renewed automatically from year to year on the anniversary of the Effective Date unless proper notice of non-renewal is provided. The License Term of a paid-up or a subscription License is subject to earlier termination in accordance with Section 6 below.
- Based on the language in the contract, confirmed that this was a 30-year paid-up license, meaning everything was paid up front before go-live date
 - Software license fee total of \$95,825 will be capitalized and amortized over 30 years (360 months), although no subscription liability will be recorded (see sample entry), assuming 7/1/2021 go-live date
 - Training fee total of \$75,800 is expensed as incurred
 - Support fee total of \$16,456.50 is expensed as incurred



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GASB 96 - Examples

Example 2 – a 30-year “Paid-up” License

- First FY GASB 96 Sample Entries:

7/1/2021	Right-to-use Subscription Asset	95,825.00		Initial Recognition
7/1/2021	Expense Account previously used		95,825.00	Initial Recognition
9/30/2022	Amortization Expense - SBITA	3,194.17		Amortization Expense Accrual
9/30/2022	Accumulated Amortization - SBITA		3,194.17	Amortization Expense Accrual

- Amortization expense = $\$95,825 / 360 \text{ months} * 12 \text{ months}$



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GASB 96 - Examples

Example 3 – Early Termination Clause

Article 4. Term and Termination

4.1. Initial Term and Renewals.

The initial term of this Agreement shall be for a period of ten (10) years from the Effective Date (the “Initial Term”). Upon expiration of the Initial Term, the Agreement shall automatically extend for successive one (1) year periods (“Renewal Term(s)”), unless written notice of termination is given by either party sixty (60) days prior to the end of the Initial Term or any Renewal Term.

4.2. Termination.

4.2.1. Upon expiration of the fifth (5th) year of the Initial Term of this Agreement, Client may terminate this Agreement during the remaining five (5) years of the Initial Term, without cause and for convenience, upon one-hundred-eighty (180) days’ written notice to [REDACTED] prior to the end of each year remaining in the Initial Term. Payment for all undisputed invoices for work or services performed or committed to by the parties up to the effective date of termination shall be paid in full.

- Initial term is for 10 years
- Upon expiration of the 5th year, client can early terminate with a 180-day written notice, which makes the 6th year cancelable – **TERM IS 5 YEARS**



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GASB 96 - Examples

Example 4 – Short Term Contracts

2. Renewal Term. The parties agree that the term set forth in Section 3 of the Agreement shall be extended, through October 31, 2021, with the period from November 1, 2018 through October 31, 2021 being the (“Renewal Term”).

- GASB 96 adoption date is 10/1/2021
- This contract was renewed from 11/1/2018 – 10/31/2021
- Only one month remaining on the contract term (10/1/2021 – 10/31/2021) thus short term (Assume here that this contract was not renewed)



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GASB 96 - Examples

Example 5 – Perpetual License Agreements

3.3 Financials

The following is the project investment summary based on your requirements. The below costs exclude any applicable state or local taxes that are required. [REDACTED] standard license module is a **Perpetual License which is a one-time license cost to use [REDACTED] indefinitely.** The Annual Support and Maintenance Contract entitles the customer to download all updates to the software and to receive technical support via online, phone or email based support.

[REDACTED] does not charge by number of end users, content contributors, designers and/or developers. Nor do we place no restrictions on the Production Servers that [REDACTED] needs to be installed on. [REDACTED] does not place any restriction on number of sub-domains you create using an [REDACTED] license making it ideal for organizations like yours to help leverage your initial investment for other websites and portals on [REDACTED]

- Perpetual license with a one-time cost is not subject to GASB 96
- Perpetual license could be defined in different language – for example, maintaining a current subscription unless terminated = no defined subscription term, thus considered perpetual

7. TERM; TERMINATION

- 7.1 Term. The license term and Agreement shall commence upon effective date of this agreement, and shall continue upon maintaining a current subscription term unless sooner terminated as provided herein.



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GASB 96 - Examples

Example 6 – Unilateral Termination Clause

14. **Termination:** Either Party may terminate this Agreement at any time with or without cause for any reason or for no reason by giving the other Party at least thirty (30) days prior written notice. In addition, [REDACTED] may terminate this Agreement by written notice to the Customer if the license fee due hereunder is not timely paid and such non-payment is not cured within 90 days from the due date. Notwithstanding the foregoing, however, each Party reserves the right to terminate this Agreement if: (a) the other Party ceases to function as a going concern in the normal course of business; or (b) the other Party commits or suffers any act of bankruptcy or insolvency. If this Agreement for service is terminated for any reason, Customer will be provided access to a backup of the Customer's data. [REDACTED] will retain a copy of Customer's data for up to one (1) year from date of termination. After this one year period, [REDACTED] will exercise best efforts to remove or eliminate Customer's data from its systems.

- Assume contract is for 12 months
- Either party can terminate the agreement without cause with a 30-day notice, which makes the noncancelable period 11 months, thus making the agreement short term.



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GASB 96 - Examples

Example 7 – Service Contracts

- These are sample contracts to provide professional services, no software subscription was entered – NOT IN SCOPE OF GASB 96

1.0 CONTRACT SERVICES

By entering into this Agreement, Client hereby authorizes [REDACTED] to provide the employment or payroll related services (the "Services") as described in each applicable schedule, or schedule set, and any exhibits attached thereto (the "Schedule(s)"). The parties may enter into one or more Schedule(s), each Schedule corresponding to a service or group of services provided by [REDACTED] and such schedules, whether attached hereto or entered into after the execution of this Agreement, shall be a part of this Agreement. The terms of this Agreement shall apply to each Service, except as the parties may otherwise provide in the Schedule(s).

Section 1 — Services

1.1 The CONTRACTOR's responsibility under this Contract is to provide professional services in the area of intellectual technology migration requirements analysis and solution design, as more specifically set forth and detailed in the Scope of Work, Exhibit "A" attached hereto and incorporated by reference herein. The [REDACTED]'s representative/liaison during the performance of this Contract shall be [REDACTED]



GASB 96 - Examples

- Cloud Computing Arrangements
- Cloud computing arrangements have three common models, Software as a Service (SaaS), Platform as a Service (PaaS), and Infrastructure as a Service (IaaS). All three models involve a SBITA vendor providing the customer with the right to use the SBITA vendor's IT resources.
- The two key factors to consider are:-
 - If the contract meets the definition
 - If the contract for the SaaS, PaaS, or IaaS conveys control of the right to use the vendor's IT software.
- Governments need to carefully consider their IT arrangements, with cloud computing contracts being no exception. The decision of in-scope or out of scope for GASB 96 will need to be carefully considered for each of these agreements.



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GASB 96 - Examples

*WHAT ELSE ARE YOU SEEING THAT
COULD BE A GASB 96 EXAMPLE?*



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GASB 96 – Implementation Recommendations

- Determine adoption date and whether a restatement of prior period(s) is needed.
- Gather all active IT contracts active on or after the adoption date.
- Identify SBITAs that qualify for GASB 96.
- Extract key data from the SBITA including commencement date, subscription term, interest rate (or IBR), payments etc.
- Identify all Implementation Costs associated with the SBITA that occurred on/after adoption date and group them into the appropriate stage.
- Model SBITAs in software and/or excel to calculate initial recognition and supporting schedules.
- Prepare journal entries and footnote disclosure to financial statements.
- Completeness review – ensure all applicable SBITAs were identified and properly accounted for under GASB 96



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Questions and Answers

We thank you for your time!



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