

# GASB Update

AGA – San Antonio Chapter  
9/14/23

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# GASB Statement Effective Dates - 6/30

## 2022

- Statement 87 – Leases (and Implementation Guide 2019-3)
- Statement 89 – Accounting for Interest Cost Incurred before the End of a Construction Period
- Statement 92 – Omnibus 2020 (*multiple effective dates*)
- Statement 93 – Replacement of Interbank Offered Rates
- Statement 97 – Certain Component Unit Criteria, and Accounting and Financial Reporting for IRC Section 457 Deferred Compensation Plans
- Statement 98 – The Annual Comprehensive Financial Report
- Implementation Guide 2020-1 (*multiple effective dates*)

## 2023

- Statement 91 – Conduit Debt Obligations
- **Statement 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements**
- **Statement 96 – Subscription-Based Information Technology Arrangements**
- Statement 99 – Omnibus 2022 (*multiple effective dates*)
- Implementation Guide 2021-1 (*multiple effective dates*)

## 2024

- Statement 100 – Accounting Changes and Error Corrections
- Implementation Guide 2023-1

# **GASB Statement 96**

Subscription-Based Information Technology Arrangements  
(SBITAs)

Effective Date: Periods Beginning After June 15, 2022 (FY23)

# What is a SBITA (or Subscription-Based Information Technology Arrangement)?

- A contract that conveys control of the right to use another party's (a SBITA vendor's) information technology software, as specified in the contract for a period of time in an exchange or exchange-like transaction
  - Alone or in combination with tangible capital assets (IT assets)
- Control requires both of the following:
  - the right to obtain the present service capacity from use of the underlying IT assets, as specified in the contract, and
  - the right to determine the nature and manner of use of the underlying IT assets, as specified in the contact

# What is a SBITA (or Subscription-Based Information Technology Arrangement)?-*shortcut*

- Contract – legally enforceable
- Control of the right to use – control of the right to use the IT assets, but not the control of the IT assets themselves
- Underlying IT asset – focus on the IT software
- Period of time – not perpetual
- Exchange or exchange-like transaction – give/receive equal value

# Why SBITAs?

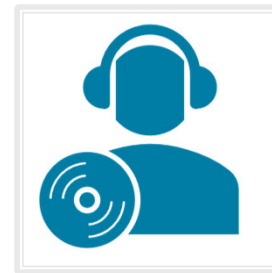


## Traditional IT arrangements

Purchased software and used existing IT hardware

Purchased (or included) a perpetual license

*GASB 51, Accounting and Financial Reporting for Intangible Assets*



## Subscription-Based IT arrangements (SBITAs)

Right-to-use a vendor's software and underlying IT assets

Can include remote access to software applications and/or cloud data storage

Use ends when the subscription expires

# What is Not a SBITA

- Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets that meets the definition of a lease in GASB 87, in which the software component is insignificant when compared to the cost of the underlying tangible capital asset
  - Example: a computer with operating software or a smart copier that is connected to an IT system
- Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs

# What is Not a SBITA

- Contracts that meet the definition of a public-private and public-public partnership (GASB 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*)
  - A PPP is an arrangement in which a government (the transferor) contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.



# What is Not a SBITA

- Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software (GASB 51, *Accounting and Financial Reporting for Intangible Assets*, as amended)
  - Purchased or licensed computer software
- Contracts that provide IT support services (but includes contracts that contain both a right-to-use IT asset component and an IT support services component)

# Relationship between Leases and SBITAs

- All SBITAs meet the definition of a lease
- The underlying asset dictates the GASB to use
  - Tangible capital asset alone – Statement 87
  - IT software alone – Statement 96
  - IT software in combination with tangible capital assets:
    - If the software component is insignificant to the cost of the tangible capital asset – GASB 87
    - Otherwise – GASB 96

# Short-Term SBITA Exception

- A short-term SBITA is one that, at the beginning of the SBITA, has a “maximum possible term” under the contract, including any options to extend, of 12 months or less
- The “maximum possible term” includes noncancellable periods, as well as government-only options to extend and vendor-only options to extend
  - Regardless of whether the options will be exercised

# Implementation Guide 2020-1, 4.11

- Q—A city leases boat slips in its marina to boat owners. Each lease is for 12 months and does not contain an option to extend. A certain boat owner has signed a new lease every year for the past 20 years, and the city expects her to continue to do so. Is this a short-term lease?
- A—Yes. Whether a lease is a short-term lease depends on the terms of the contract. The history of new leases being signed every year and the likelihood of a new lease being signed next year are not relevant for making the determination of whether a lease is a short-term lease.

# Examples and Items to Consider

## SBITA

- Monthly or yearly fees
- Operates through a web-browser; cloud-based
- Use the software until expiration, after a certain amount of time
- After expiration, software cannot be used

## Not (or may not) be SBITA

- Up-front, one-time fee
- Perpetual license
- Installed on local hardware
- Annual maintenance and support costs
- Additional fees to upgrade
- Use the software after expiration, but with no maintenance fee or security patches and updates

# Examples and Items to Consider

## Software as a Service (SaaS)

- Cloud-based software system
- Cloud-based conferencing system



## Platform as a Service (PaaS)

- Environment for Software Development



## Infrastructure as a Service (IaaS)

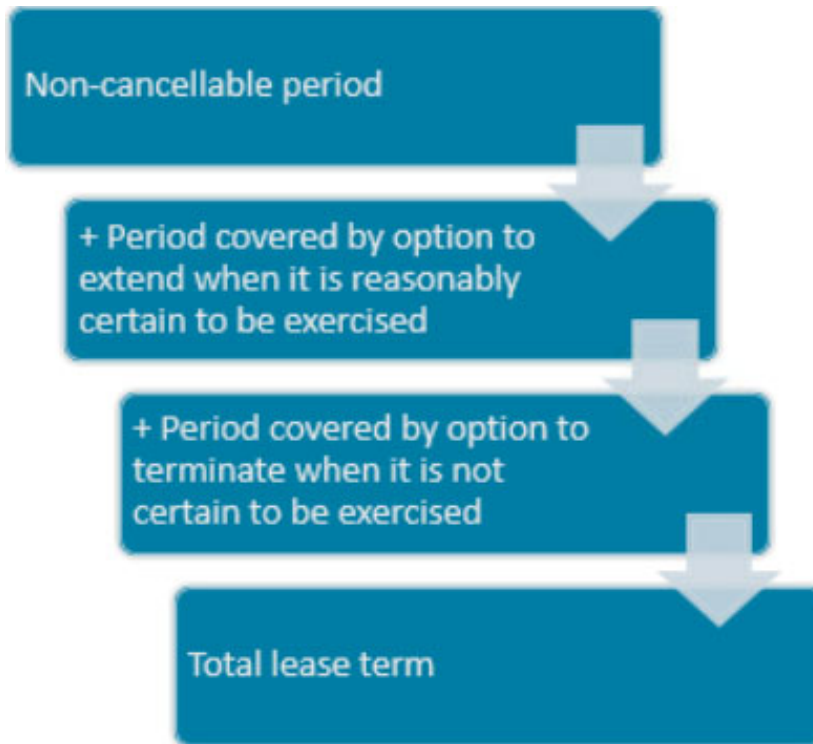
- Cloud-based data storage



# Examples and Items to Consider

- Departments that may have SBITAs
  - Business/Finance Office
  - Human Resources
  - Transportation
  - Federal Programs

# SBITA Term



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Exclude cancellable periods – periods for which the government and SBITA vendor both have the option to extend or terminate without permission from the other party (rolling month-to-month or year-to-year)

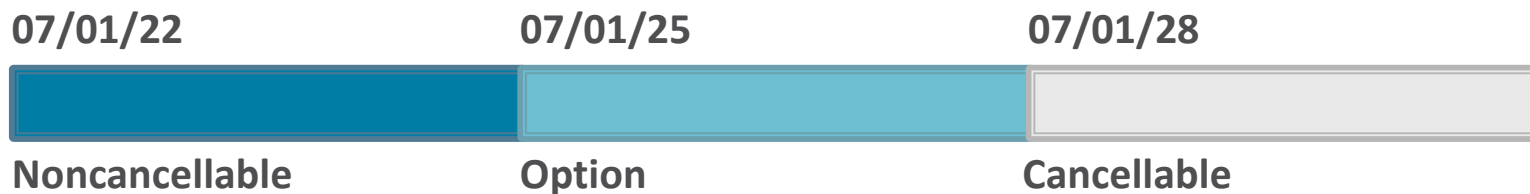
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A fiscal funding or cancellation clause that allows a government to cancel a SBITA (i.e., on an annual basis) if it does not appropriate funds should only be considered if it is reasonably certain to be exercised



# SBITA Term Example

- A government and SBITA vendor enter into a contract that meets the definition of GASB 96. The contract and right to use the underlying IT asset begin on 07/01/22. The initial term of the contract is for three years and is noncancellable by either party. The second term of the contract is an option to extend by only the government for three years. The third term of the contract is cancellable by either party at anytime.



# SBITA Term Assessment

- Economic incentives (ex. favorable term payments)
- Potential change in technological developments that affect the IT assets
- Potential change in government's demand for IT assets
- Economic disincentives (ex. cancellation penalty, renegotiation costs, implementation costs, costs of identifying another suitable SBITA vendor)
- History of exercising options to extend or terminate
- Extent to which the IT assets are essential to government services

# Recognition and Measurement

- Recognize a SBITA liability and SBITA asset at the commencement of the SBITA term
  - Commencement occurs when the initial implementation stage is completed, at which time the SBITA asset is placed into service
  - This date can be later than the date on which the agreement is signed and/or later than the date on which the contract takes effect
- Apply retroactively, restate prior years presented
- Use the facts and circumstances that exist at the beginning of the fiscal year of implementation (as if the SBITA term commenced on that date)
- Can, but not required, to include capitalizable implementation costs in the measurement of the SBITA asset incurred prior to implementation

# Materiality

- Governments should consider revising existing policies or adopting a new policy for determining materiality of SBITA.

The provisions of this Statement need  
not be applied to immaterial items.

# Initial Reporting

SBITA (Intangible Right-to-Use) Assets	SBITA Liability
<p>Measured at the initial measurement of the SBITA liability, to include the following adjustments:</p> <ul style="list-style-type: none"><li>• Plus, any payments associated with the SBITA contract made to the SBITA vendor at (or prior to) the commencement of term</li><li>• Plus, any capitalizable initial and additional implementation costs</li><li>• Less, any SBITA vendor incentives received from the SBITA vendor at (or prior to) the commencement of term</li></ul>	<p>Measured at the present value of the SBITA payments expected to be made during the term, to include the following:</p> <ul style="list-style-type: none"><li>• Fixed payments</li><li>• Variable payments based on an index or rate (measured as of the commencement of term)</li><li>• Variable payments that are fixed in substance</li><li>• Termination penalties, if the entity anticipates such options are to be exercised</li><li>• Incentives receivable from the SBITA vendor</li><li>• Other reasonably certain payments</li></ul>

# Initial Reporting – SBITA Liability

Payment Type	SBITA Liability
Fixed payment	Include
Variable payment – based on index or rate	Include, using the rate at commencement
Variable payment – fixed in substance	Include
Variable payment – performance, usage, or user	Exclude
SBITA contract incentives	Include amounts received from vendor
Termination penalties	Include, if reasonably certain and reflected in term
Any other payments	Include, if reasonably certain

# Initial Reporting – SBITA Asset

Amount Type	SBITA Asset
Initial measurement of the SBITA liability	Include
Payment made to the vendor at the commencement of the term	Include
Capitalizable initial implementation costs	Include
Incentives received from the vendor at the commencement of the term	Include as a reduction

- For payments before the commencement of the term (either payments made to the vendor or payments made for capitalizable initial implementation costs), record as a prepayment; at commencement, reclassify as SBITA asset

# Subsequent Reporting

SBITA (Intangible Right-to-Use) Assets	SBITA Liability
Amortize the intangible right-to-use SBITA asset over the shorter of the SBITA term or the useful life of the underlying IT asset, in a systematic and rational manner	Reduce the liability by the SBITA payments (less amount for interest expense)



# Discount Rate (use for SBITAs and Leases-lessee only)

- Use the interest rate charged by the vendor
  - This may be the interest rate implicit (GASB 62)
- If not readily determined, use the incremental borrowing rate
  - The government should consider adopting a policy on determining the incremental borrowing rate and apply it consistently
    - Risk free rate + adjustment for government
    - EMMA
    - U.S. Department of Treasury
      - ❖ [https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily\\_treasury\\_yield\\_curve&field\\_tdr\\_date\\_value\\_month=202304](https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value_month=202304)

# Contracts with Multiple Components

- Account for the SBITA and non-SBITA components separately, or as separate contracts
- Account for multiple underlying IT assets as separate SBITA components in certain circumstances (i.e., different SBITA terms).
- Allocate the contract price to the different components
- Exception:
  - The contract does not include prices for individual components and an estimate (allocation) is not practical

# Stages of Implementation (Cheat Sheet)

1

Preliminary project stage (and prior to) – expense

2

Initial implementation stage – capitalize (included in SBITA asset)

3

Operation & additional implementation stage

- Operation – expense
- Additional implementation – capitalize (included in SBITA asset)

4

Training – always expense

# Stages of Implementation

- 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 outlays should be expensed

# Stages of Implementation

- Initial Implementation Stage
  - Activities in this stage include ancillary charges related to designing the chosen path, such as configuration, coding, testing, and installation
  - Ancillary charges necessary to place the asset into service
  - The stage is completed when the asset is placed into service
- Data conversion should only be considered an activity of the initial implementation stage to the extent that it is determined to be necessary to place the SBITA asset into service
- These outlays should be capitalized

# Stages of Implementation

- Operation and Additional Implementation Stage
  - Activities in this stage include maintenance, troubleshooting, and other activities associated with the ongoing access to the assets
  - Additional implementation activities, such as those related to additional modules that occur after the asset is placed into service
- Data conversion should be considered an activity of the operation and additional implementation stage (see previous slide exception).
- These outlays should be expensed, with the exception of outlays for SBITA modifications, or increased functionality or efficiency, that meet capitalization criteria

# When Do I Need to Remeasure the SBITA?

- Changes in one or more of the following:
  - Term
  - Estimated amount for payments
  - Interest rate charged by the vendor (if used as the discount rate)
  - Variable payments become fixed payments
  - Discount rates should only be reassessed if there is a change in term and that change significantly affects the SBITA liability
- *No remeasurement of the liability solely for a change in variable payments based on an index or rate*
- *No reassessment of the discount rate solely for a change in the incremental borrowing rate*

# Note Disclosures

- General description of the SBITA arrangement
  - The basis, terms, and conditions on which variable payments not included in the measurement of the SBITA liability are determined
- The amount of outflows of resources recognized in the reporting period for variable and other (ex. termination penalties) payments not previously included in the measurement of the SBITA liability
- Commitments under SBITAs before the commencement of the SBITA term



# Note Disclosures

- Principal and interest requirements to maturity, presented separately, for the SBITA liability for each of the five subsequent fiscal years and in five-year increments thereafter
- The total amount of SBITA assets and related accumulated amortization (disclosed separately from other capital assets)
- The component of any loss associated with an impairment

# Differences from Leases (GASB 87)

- Overall, the structure of the standard, and recognition or disclosure of SBITA amounts are very similar to Leases; however, there are a few significant differences:
  - Intangible asset (subscription software) vs. tangible asset
  - Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs (no lessor arrangements)
  - Measurement of the subscription asset; specifically, the assessment of outlays other than subscription payments including implementation costs

# How to Prepare?

- Don't implement in a silo – involve IT, procurement, vendors, auditors, etc.
  - Reach out to auditors to see if they can provide tools to assist in implementation
- Start as soon as possible in gathering agreements and assessing them against SBITA criteria (evaluate based on substance rather than what the agreement is called)
- Completeness in the identification of agreements presents the highest risk (review detailed GL, reoccurring payments, board minutes)

# **GASB Statement 94**

Public-Private and Public-Public Partnerships (PPPs) and  
Availability Payment Arrangements (APAs)

Effective Date: Periods Beginning After June 15, 2022 (FY23)

# PPPs & APAs

- PPPs – an arrangement in which a government ( the transferor) contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset (the underlying PPP asset), such as infrastructure or other capital asset, for a period of time in an exchange or exchange-like transaction (ex. SCA)
- APAs – an arrangement in which a government compensates an operator for activities that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction

# PPPs – Reporting

	Existing Asset Owned by the Transferor	SCA <u>and</u> A New Asset Purchased or Construction by the Operator	Not an SCA <u>and</u> A New Asset Purchased or Construction by the Operator
<b>Transferor</b>	<p>At term commencement, recognize:</p> <ul style="list-style-type: none"> <li>• Receivable for installment payments</li> <li>• Deferred inflow of resources</li> </ul> <p>Continue to recognize the underlying asset at the carry value and asset</p>	<p>At term commencement, recognize:</p> <ul style="list-style-type: none"> <li>• Receivable for installment payments</li> <li>• Deferred inflow of resources</li> </ul> <p>Recognize the asset at the acquisition value when the asset is placed into service</p>	<p>When the asset is placed into service, recognize:</p> <ul style="list-style-type: none"> <li>• Receivable for the underlying asset</li> <li>• Receivable for installment payments</li> <li>• Deferred inflow of resources</li> </ul>
<b>Operator</b>	<p>At term commencement, recognize:</p> <ul style="list-style-type: none"> <li>• Liability for installment payments</li> <li>• Intangible right-to-use asset</li> </ul>	<p>At term commencement, recognize:</p> <ul style="list-style-type: none"> <li>• Liability for installment payments</li> <li>• Intangible right-to-use asset</li> </ul>	<p>When the asset is placed into service, recognize:</p> <ul style="list-style-type: none"> <li>• Liability for the underlying asset to be transferred</li> <li>• Liability for installment payments</li> <li>• Deferred outflow of resources</li> </ul> <p>Continue to recognize the underlying asset until ownership is transferred</p>

# PPPs – Measurement

	Existing Asset Owned by the Transferor	SCA <u>and</u> A New Asset Purchased or Construction by the Operator	Not an SCA <u>and</u> A New Asset Purchased or Construction by the Operator
<b>Transferor</b>	<ul style="list-style-type: none"> <li>• Receivable for installment payments measured at the present value</li> <li>• Asset improvements measured at the acquisition value as of the date placed into service</li> <li>• Deferred inflows of resources measured as the sum of the receivable, prepayments received, and the acquisition value of assets</li> </ul>	<ul style="list-style-type: none"> <li>• Receivable for installment payments measured at the present value</li> <li>• Assets measured at the acquisition value as of the date placed into service</li> <li>• Deferred inflows of resources measured as the sum of the receivable, prepayments received, and the acquisition value of assets</li> </ul>	<ul style="list-style-type: none"> <li>• Receivable for installment payments measured at the present value</li> <li>• Receivable for underlying asset measured at the carrying value as of expected date of ownership transfer</li> <li>• Deferred inflows of resources measured as the sum of the receivable, prepayments received, and the receivable for underlying asset</li> </ul>
<b>Operator</b>	<ul style="list-style-type: none"> <li>• Liability for installment payments measured as the present value</li> <li>• Right-to-use asset measured as the sum of the liability, prepayments made, and the cost of asset improvements</li> </ul>	<ul style="list-style-type: none"> <li>• Liability for installment payments measured as the present value</li> <li>• Right-to-use asset measured as the sum of the liability, prepayments made, and the cost of the assets</li> </ul>	<ul style="list-style-type: none"> <li>• Liability for installment payments measured as the present value</li> <li>• Liability for underlying asset measured at the carrying value as of the expected date of ownership transfer</li> <li>• Deferred outflows measured as the liability of the underlying asset</li> </ul>

# APAs – Recognition/Measurement

- Payments are based entirely on the underlying asset's availability for use rather than on tolls, fees, or similar revenues, or other measures of demand
- If the APA contains both (1) design, construction, or financing components, and (2) operation or maintenance components, account for each separately
  - Design, construction, or financing components of the underlying nonfinancial asset should be reported as a financed purchase
  - Operation or maintenance components of the underlying nonfinancial asset should be reported as an outflow (expense)



# Questions?

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