



# Upcoming GASB Pronouncements and their impact on your organization

With a Focus on GASB 96, *Subscription-Based IT Arrangements*

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# Learning Objectives

- Outline the new accounting standards affecting state and local government accounting and reporting
- Identify GASB 96, Subscription-Based IT Arrangements
- Identify applicable types of IT agreements that apply to this pronouncement, recognition and measurement, and required notes to the financial statements





# Upcoming Standards and Implementation Guides

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# *GASB 89, Accounting for Interest Cost Incurred before the End of a Construction Period*

- Effective for reporting periods beginning after December 15, 2020 (12/31/21 and 6/30/22)
- Interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.
- Interest cost will no longer be capitalized in business-type activities



# GASB 91, *Conduit Debt Obligations*

- Effective for periods beginning after December 15, 2021 (12/31/22 and 6/30/23)
- Eliminates the existing option for issuers to report conduit debt as liabilities
- Additional commitments to support debt service payments may be recorded as liabilities
- Disclosures for issuers:
  - Type of commitments
  - Description of each type
  - Aggregate outstanding principal balance



# GASB 92, Omnibus 2020

- Effective dates vary:
  - Requirements related to intra-entity transfers of assets are effective for fiscal years beginning after June 15, 2021
  - Requirements related to application of Statement 84 to postemployment benefit arrangements and nonrecurring fair value measurements are effective for periods beginning after June 15, 2021
  - Requirements related to the measurement of liabilities associated with AROs in a government acquisition are effective for periods beginning after June 15, 2021



## GASB 92, *Omnibus 2020 (Continued)*

- Intra-entity transfers of assets – clarifies how to report a transfer of capital or financial assets between a governmental employer (or non-employer contributing entity) and a defined benefit pension or OPEB plan if there are any differences between the carrying value of assets transferred and amount paid by the plan
- Applicability of Statement 84 to Postemployment Benefit Arrangements – notes that a government that reports a fiduciary activity for OPEB plans that are not administered through trusts must apply certain provisions of statement 84 to liability recognition and financial statement presentation
- Exception to acquisition value in a government acquisition – addresses the measurement of liabilities related to the acquired entity's ARO



## GASB 93, *Replacement of Interbank Offered Rates*

- Effective for periods beginning after June 15, 2020 (hedge fund accounting) and for periods beginning after June 15, 2021 (lease modifications)
- The London Interbank Offered Rate, or LIBOR, which is included in some variable rate payment agreements, no longer exists
- Statement 53 requires the termination of hedge fund accounting if a critical term, such as the variable rate, is amended
- Statement 87 considers the replacement of a rate to determine variable payments as a lease modification, requiring remeasurement
- This standard addresses hedge fund accounting and provides an exception to the lease modification guidance





# *GASB 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

- Effective for fiscal years beginning after June 15, 2022 (12/31/22 and 6/30/23)
- Establishes standards of accounting and financial reporting for public-private and public-public partnerships (PPPs) and availability payment arrangements (APAs)



## *GASB 97, Accounting and Financial reporting for Internal Revenue Code Section 457 Deferred Comp Plans*

- Section related to governing boards is effective immediately, section related to 457 plans for periods beginning after June 15, 2021 (6/30/22 and 12/31/22)
- The absence of a governing board is treated the same as the appointment of a voting majority for CU determination
- 457 plans should be classified as either a pension plan or an other employee benefit plan
- GASB 84 should then be applied to determine whether a fiduciary activity
- If considered a pension plan, all pension accounting and reporting requirements apply



## *GASB 98, The Annual Comprehensive Financial Report*

- Effective for periods ending after December 15, 2021 (12/31/21 and 6/30/22 (earlier application encouraged))
- Replaces the Comprehensive Annual Financial Report with Annual Comprehensive Financial Report or ACFR



## GASB Implementation Guide No, 2021-1, Question 5.1

Effective for periods beginning after June 15, 2023 (12/31/24 and 6/30/24)

Q – Should a government’s capitalization policy be applied only to individual assets or can it be applied to a group of assets acquired together?

A – A government should capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant.





# Comprehensive Projects

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## Financial Reporting Model – Reexamination of Statements 34, 35, 37, 41, and 46

- GASB is reexamining the current financial reporting model now that GASB 34 has been in effect for some time
- Project includes consideration of the following areas:
  - Management’s Discussion and Analysis
  - Governmental Fund Financial Statements
  - Proprietary Fund and Business-Type Activity Financial Statements
  - Budgetary Comparisons
  - Other Issues



## Management's Discussion and Analysis Considerations:

- Enhancing the financial statement analysis component
- Elimination of requirements that are boilerplate or no longer necessary
- Clarify guidance for presenting currently known facts, decisions, or conditions expected to have a significant effect on financial statements



## Governmental Fund Financial Statement Considerations:

- A conceptually consistent measurement focus and basis of accounting
- Develop a presentation format consistent with the measurement focus and basis of accounting





## Proprietary Fund and Business-Type Activity Fund Financial Statement Considerations:

- Evaluate operating indicator alternatives
- Evaluate guidance for the separate presentation of operating and nonoperating revenues and expenses



## Budgetary Comparison Considerations:

- Basic financial statements v. RSI presentation
- Whether and which budget variances should be required to be presented

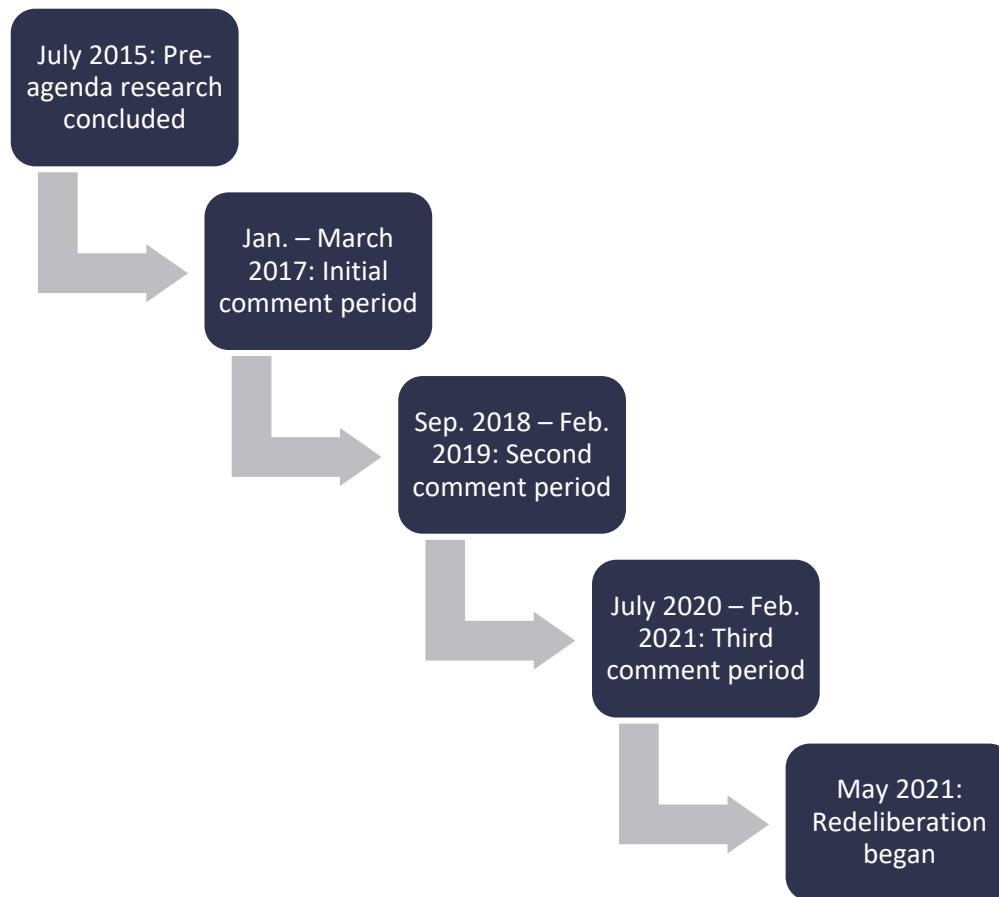


## Other Issues Considerations:

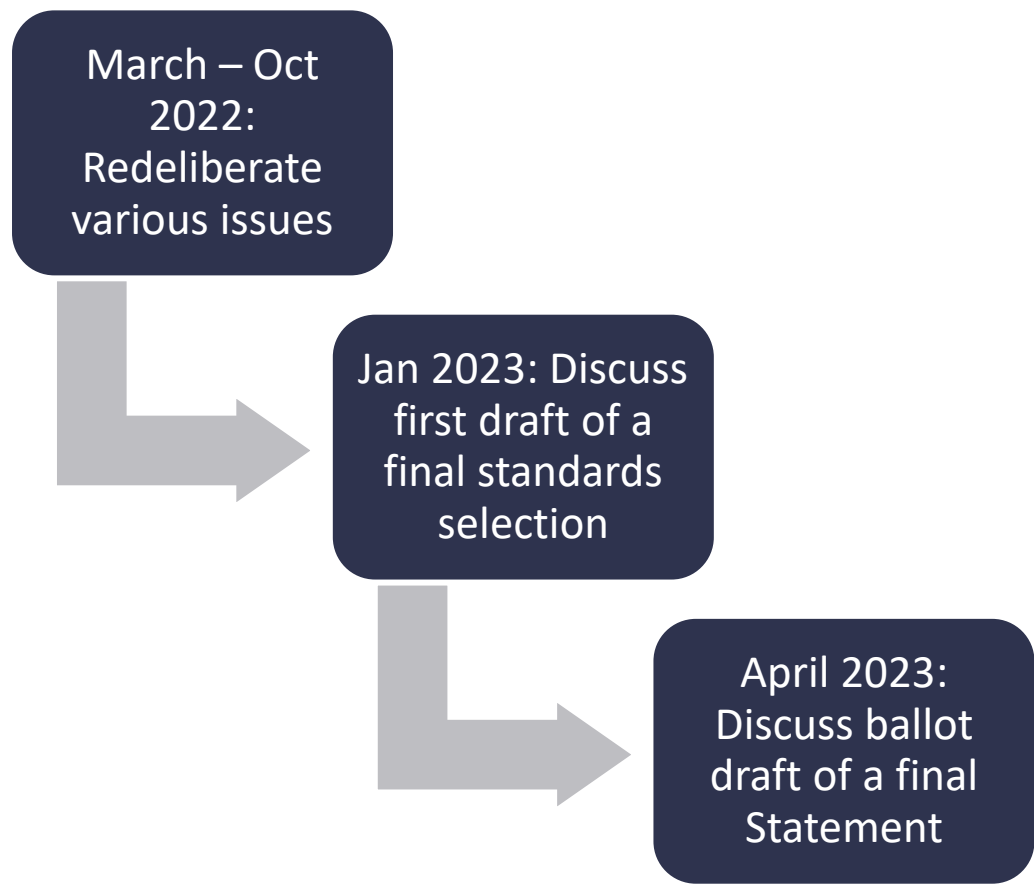
- Options for more timely financial reporting
- Options to reduce overall complexity, such as presentation of special and extraordinary items and major component unit information



# Project History Highlights



# Project Work Plan Highlights

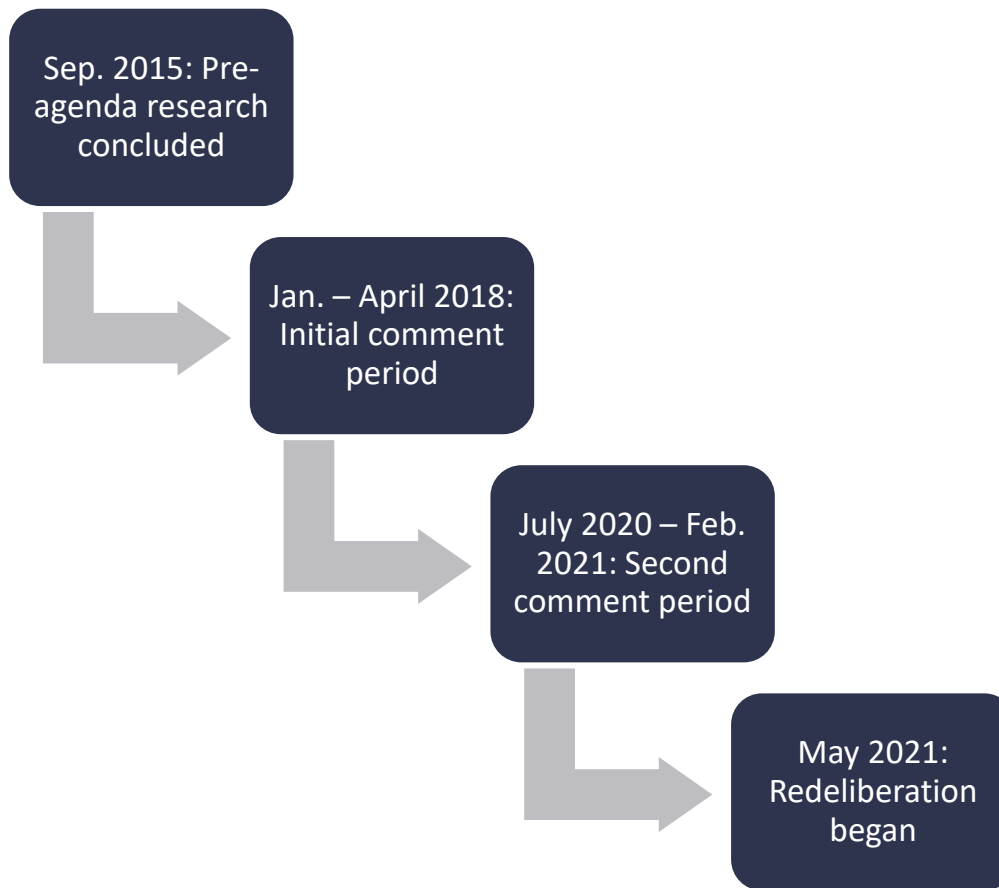


## Revenue and Expense Recognition

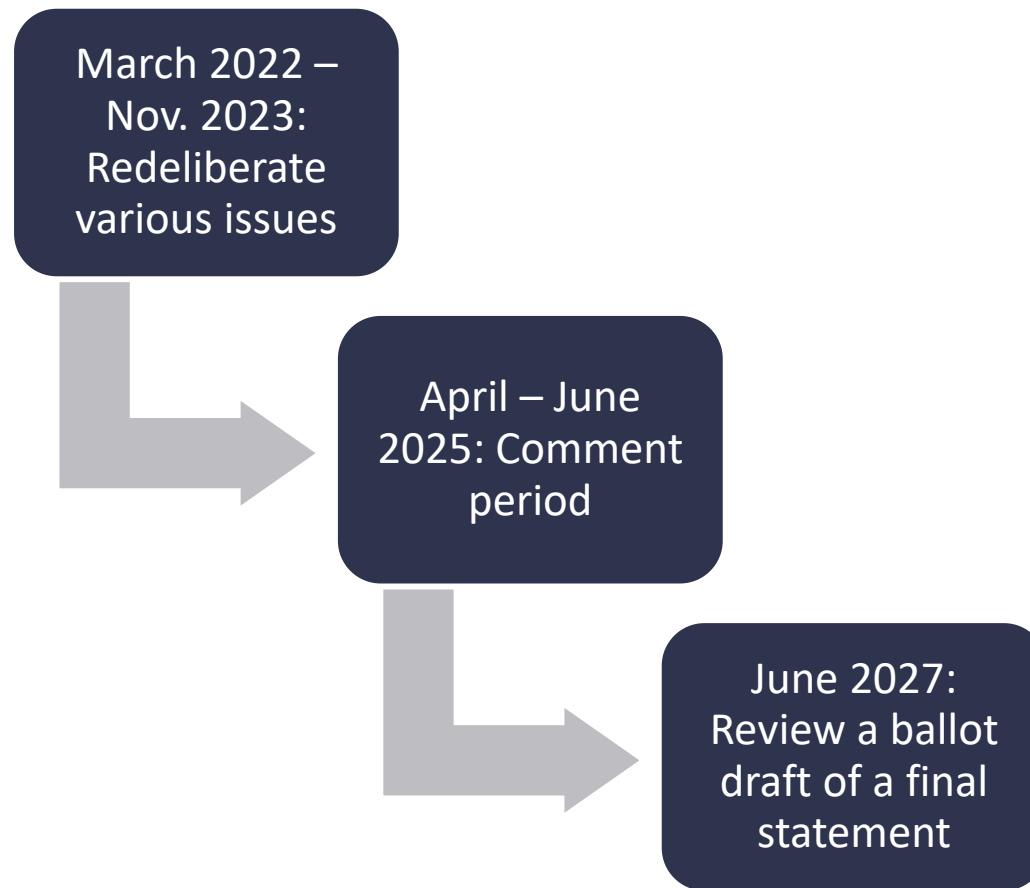
- Objective is to develop a comprehensive model that would establish guidance applicable to a wide range of revenue and expense transactions
- Issues to address:
  - Specific guidance for exchange transactions
  - Consider a performance obligation approach to recognition of revenue
  - Consider revisions to statements 33 and 36



# Project History Highlights



# Project Work Plan Highlights







# Projects in Pre-Agenda Research Phase

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Capital  
Assets

Subsequent  
Events





# *GASB 96, Subscription-Based Information Technology Arrangements*

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# GASB 96 – Subscription-Based Information Technology Arrangements

- Subscription-Based Information Technology Arrangements (SBITA) – defined as a contract that conveys control of the right to use another party’s IT software for a specified period of time
- SBITA is accounted for as a right-to-use subscription asset and a corresponding subscription liability
- GASB 96 is very similar in concept to GASB 87 for leases



# GASB 96 – Subscription-Based Information Technology Arrangements

- Effective for fiscal years beginning after June 15, 2022
- GASB encourages early application of the standard
- Impacts governmental activities by requiring a subscription asset and liability on statement of net position
- Additional disclosures required



# Exemptions to GASB 96

- Contracts that meet the definition of a lease under GASB 87
- Governments that provide other entities the right to use their own IT software and associated tangible assets through a SBITA
- Contracts that meet the scoping criteria for GASB 94
- Any licensing arrangements providing the entity a perpetual license to use a vendor's computer software falling under the scope of GASB 51
- Short term SBITA of 12 months or less



# Recognition and Measurement of a SBITA

- Once a SBITA is identified, governments recognize a subscription asset and liability at the commencement of the subscription term of the SBITA
  - This occurs once the government obtains control of the right to use the underlying IT asset



# Recognition and Measurement of a SBITA

- The subscription term is the period that the government has the noncancellable right to use the underlying IT assets, plus the following periods, if applicable:
  - Periods covered by a government's extension option if it is reasonably certain that the government **will** exercise that option
  - Periods covered by a government's termination option if it is reasonably certain that the government **will not** exercise that option
  - Periods covered by a vendor's extension option if it is reasonably certain that the SBITA vendor **will** exercise that option
  - Periods covered by a vendor's termination option if it is reasonably certain that the vendor **will not** exercise that option





# Subscription Liability

- Calculation is similar to GASB 87
- Present value of the total subscription payments expected to be made to the vendor during the subscription term
- Discount future payments by the interest rate the vendor charges the government which may be the implicit rate in the SBITA
  - If the implicit rate is not readily available, an estimated incremental borrowing rate can be utilized



# Subscription Liability

- Payments included in the present value calculation include:
  - Fixed payments
  - Variable payments based on an index or rate – measured using the index or rate as of the commencement of the subscription term
  - Variable payments that are fixed in substance
  - Termination penalties – if the subscription term reflects the government exercising either an option to terminate the agreement or a fiscal funding or cancellation clause
  - Incentives receivable from vendor
  - Any other payments government is reasonably certain will be paid



# Subscription Liability

- In subsequent periods, the government will accrue interest on the remaining subscription liability at the applicable discount rate
- The subscription payments will be allocated first to the accrued interest, and then to reduce the outstanding subscription liability



# Subscription Asset

- The subscription asset is measured as the initial value of the subscription liability **plus**:
  - Payments made to the vendor at the commencement of the subscription term
  - Capitalizable initial implementation costs
  - **Minus** any vendor incentives received at the commencement of the subscription term



# Subscription Asset

- The government will 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 asset
- Amortization of the subscription asset begins at the commencement of the subscription term, and is reported as an outflow of resources by the governmental entity



# Other Potential Outlays

- In addition to subscription payments, there can be cash outlays for other activities associated with SBITAs. The type and timing of the activity dictates the accounting treatment of these cash outlays. Other activities associated with SBITAs are grouped into three stages:
  1. Preliminary Project State
  2. Initial Implementation Stage
  3. Operation and Additional Implementation Stage



# Disclosures

- General description of the government's SBITAs including the basis, terms, and conditions of any variable payments not included in the measurement of the subscription liability
- Total amount of subscription assets and related accumulated amortization reported on a separate line item from other capital assets
- The maturity of the subscription liability separated into principal and interest for each of the five years subsequent to the reporting period and in five-year increments for the remaining term of the SBITA



# Disclosures

- The amount of outflows of resources recognized in the current period for:
  - Variable payments not included in the measurement of the subscription liability
  - Any other payments (ex. Penalties) not included in the measurement of the subscription liability
- Any SBITA commitments not yet reported as a subscription liability on the statement of net position (ex. Prior to the commencement of the subscription term)
- Any impairment loss and the applicable adjustment





# Example – Case Facts

- Below are additional details of the Mountain Town Government SBITA:
  - Subscription Start Date: July 1, 2022
  - Subscription End Date: June 30, 2024
  - First Payment Date: July 1, 2022
  - Payments: \$10,000 annually, paid in advance (on July 1st)
  - Discount Rate: 3%



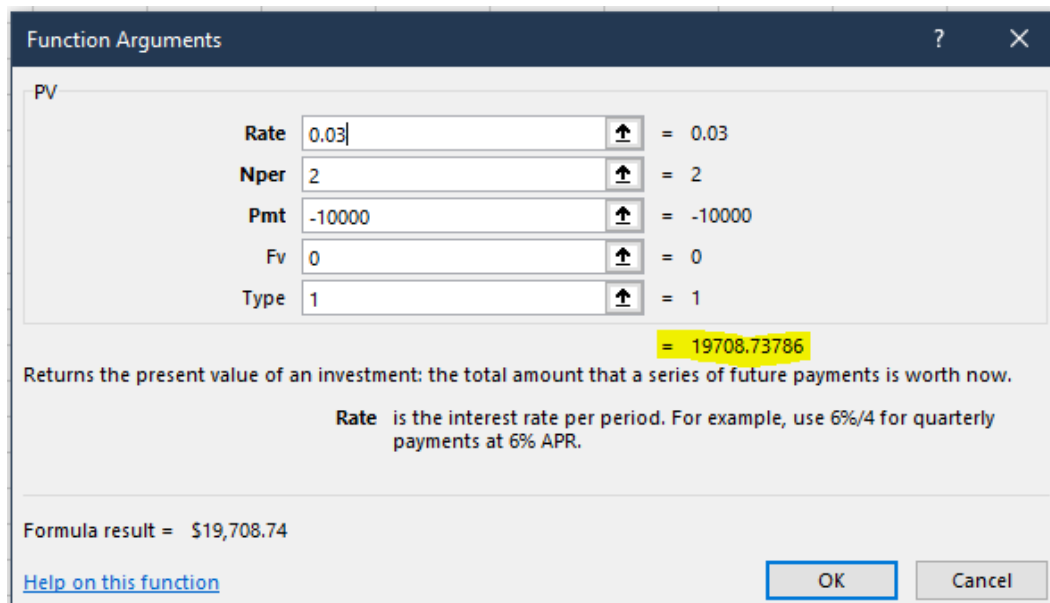
## Example – Stage Costs

- In addition to the annual \$10,000 subscription payments, the Mountain Town Government also incurs additional costs during the following stages:
  - Preliminary project stage costs - \$2,000 for outside consultant to assist with selection and evaluation of lease accounting software
  - Initial implementation stage costs - \$2,500 for data migration costs to the lease accounting software
  - Operation and additional implementation stage costs - \$1,500 for operational challenges requiring additional support services that did not add to the functionality of the lease accounting software



# Example – Present Value Calculation

- \$10,000 annual subscription payments in advance
- 2 year (24 months) subscription term
- 3% borrowing rate
- Subscription Liability:
- Present Value = \$19,708.74
- =PV(0.03,2,-10000,0,1)



The screenshot shows the 'Function Arguments' dialog box for the PV function. The arguments are: Rate: 0.03, Nper: 2, Pmt: -10000, Fv: 0, Type: 1. The result is displayed as = 19708.73786. Below the arguments, there is a description: 'Returns the present value of an investment: the total amount that a series of future payments is worth now.' and a note: 'Rate is the interest rate per period. For example, use 6%/4 for quarterly payments at 6% APR.' The formula result is shown as \$19,708.74. There are 'OK' and 'Cancel' buttons at the bottom right.

Argument	Value	Result
Rate	0.03	= 0.03
Nper	2	= 2
Pmt	-10000	= -10000
Fv	0	= 0
Type	1	= 1

Formula result = \$19,708.74



## Example – Calculation of Subscription Asset

- $\$19,708.74 + \$2,500 = \$22,208.74$
- Subscription Liability + Initial Implementation Costs = Subscription Asset
- Preliminary project stage – \$2,000 expensed as incurred (these costs are always expensed as incurred)
- Initial implementation stage – \$2,500 capitalized (these costs are typically capitalized as part of the subscription asset)
- Operation and additional implementation state – \$1,500 expensed as incurred as it did not add value to the functionality or efficiency of the software



# Example – Amortization Calculation

GABS 96 SBITA Amortization Schedule									
Period	Cash	Interest Expense	Liability Reduction	Accrued Interest	Cumulative Accrued Interest Liability	Subscription Liability	Amortization Expense	Net Subscription Asset Balance	Accumulative Amortization
<b>Beginning Balance</b>						<b>\$19,709</b>		<b>\$22,209</b>	
Jul-22	10,000	-	10,000	-	-	9,709	925	21,283	925
Aug-22	-	24	-	24	24	9,709	925	20,358	1,851
Sep-22	-	24	-	24	49	9,709	925	19,433	2,776
Oct-22	-	24	-	24	73	9,709	925	18,507	3,701
Nov-22	-	24	-	24	97	9,709	925	17,582	4,627
Dec-22	-	24	-	24	121	9,709	925	16,657	5,552
Jan-23	-	24	-	24	146	9,709	925	15,731	6,478
Feb-23	-	24	-	24	170	9,709	925	14,806	7,403
Mar-23	-	24	-	24	194	9,709	925	13,880	8,328
Apr-23	-	24	-	24	218	9,709	925	12,955	9,254
May-23	-	24	-	24	243	9,709	925	12,030	10,179
Jun-23	-	24	-	24	267	9,709	925	11,104	11,104
Jul-23	10,000	24	9,709	(267)	-	-	925	10,179	12,030
Aug-23	-	-	-	-	-	-	925	9,254	12,955
Sep-23	-	-	-	-	-	-	925	8,328	13,880
Oct-23	-	-	-	-	-	-	925	7,403	14,806
Nov-23	-	-	-	-	-	-	925	6,478	15,731
Dec-23	-	-	-	-	-	-	925	5,552	16,657
Jan-24	-	-	-	-	-	-	925	4,627	17,582
Feb-24	-	-	-	-	-	-	925	3,701	18,507
Mar-24	-	-	-	-	-	-	925	2,776	19,433
Apr-24	-	-	-	-	-	-	925	1,851	20,358
May-24	-	-	-	-	-	-	925	925	21,283
Jun-24	-	-	-	-	-	-	925	-	22,209



## Example – Journal Entries

- On July 1, 2022, the JE is made to record the subscription asset and liability:

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Gross Subscription Asset	22,209	
Subscription Liability		19,709
Cash (for initial implementation costs)		2,500

*To record initial subscription asset and liability as well as payment of implementation costs.*



## Example – Journal Entries

- In July 2022, the JE is made to recognize the activity throughout the month:

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Amortization Expense	925	
Subscription Liability (reduction)	10,000	
Accumulated Amortization		925
Cash (for subscription payment)		10,000

*To record the initial subscription payment and recognize activity for the month of July 2022.*



## Example – Journal Entries

- In the next month, August 2022, the following JE is recorded, despite the government not making a cash payment:

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Amortization Expense	925	
Interest Expense	24	
Accrued Interest Liability		24
Accumulated Amortization		925

*To record the amortization of the subscription asset and liability in August.*

- The entry would continue monthly through subscription term.





## Example – Journal Entries

- In July 2023, the JE is made to recognize the payment:

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Amortization Expense	925	
Subscription Liability (reduction)	9,709	
Accrued Interest Liability	267	
Interest Expense	24	
Accumulated Amortization		925
Cash (for subscription payment)		10,000

*To record the final subscription payment and recognize activity for the month of July 2023.*



# GASB 96 Conclusion

- Effective for fiscal years beginning after June 15, 2022
- Subscription-Based Information Technology Arrangements (SBITA) – defined as a contract that conveys control of the right to use another party’s IT software for a specified period of time
- SBITA is accounted for as a right-to-use subscription asset and a corresponding subscription liability
- GASB 96 is very similar in concept to GASB 87 for leases
- Impacts governmental activities by requiring a subscription asset and liability on statement of net position
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