



Insights from SBITA Implementation

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Technical Overview

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GASB 96 – SBITA Defined

- SBITA = Subscription-Based Information Technology Arrangements
- Definition

A contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (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.

Key Components of definition:

- Convey control
- **Underlying IT asset**
- Period of time
- Exchange or exchange-like

GASB 96 – Scoped Out

- Contracts that meet definition of lease under GASB 87, in which the software component is insignificant when compared to the cost of the underlying tangible capital assets
- Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs
- Contracts that meet the definition of PPPs under GASB 94
- Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software, which are subject to GASB 51

GASB 96 – Subscription Term

- The period during which a government has a noncancellable right to use the underlying IT assets, plus the following, if applicable:
 - ✓ Periods covered by a government's option to extend the SBITA if it is reasonably certain that the government will exercise the option
 - ✓ Periods covered by a government's option to terminate¹ the SBITA if it is reasonably certain that the government will NOT exercise that option
 - ✓ Periods covered by a SBITA vendor's option to extend the SBITA if it is reasonably certain that the SBITA vendor will exercise that option
 - ✓ Periods covered by a SBITA vendor's option to terminate¹ the SBITA if it is reasonably certain that the SBITA vendor will NOT exercise that option

¹ GASB 99 (Omnibus) – option to terminate is an unconditional right that exists within the contract.

GASB 96 – Short Term Exception

- A SBITA, at the commencement of the subscription term, has a maximum possible term under 12 months or less, including any options to extend, regardless of their probability of being exercised.
 - Classify as short-term and the subscription payments should be recognized as outflows of resources (i.e., expense).

GASB 99 (Omnibus) – a modification to extend the initial maximum possible term under the SBITA contract should be reassessed from the inception.

If > 12 months, no longer considered short-term. Measurement of the subscription liability starts at the date of modification.

GASB 96 – Measurement

	Subscription Liability	Subscription Asset
Elements for Initial Measurement	<ul style="list-style-type: none">-Fixed payments-Variable payments that depend on an index or a rate (CPI or market interest rate), measured using the index or rate as of the commencement of the term-Variable payments that are fixed in substance as described in paragraph 17-Payments for penalties for terminating the SBITA-Any subscription contract incentives receivable from the SBITA vendor-Any other payments to the SBITA vendor that are reasonably certain of being required	<ul style="list-style-type: none">-The amount of the initial measurement of the subscription liability-Payments associated with the SBITA contract made to the SBITA vendor at the commencement of the subscription term-Capitalizable initial implementation costs as described in paragraph 29b-Less any incentives received from the SBITA vendor at or before commencement of the subscription term-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

- ✓ The subscription liability should be measured at the **present value of subscription payments expected to be made** during the subscription term (i.e., using a discount rate).

GASB 96 – Implementation Costs

Stages of Implementation	Activities	Accounting Treatment
Preliminary Project Stage	<ul style="list-style-type: none">- Conceptual Formulation- Evaluation of options- Determination of the existence of needed technology- Final selection of SBITA vendor	Expensed as incurred
Initial Implementation Stage	<ul style="list-style-type: none">- Configuration- Coding- Testing- Installation- All other ancillary charges necessary to place the asset into service	Generally capitalized as an addition to the subscription asset
Operations and Additional Implementation Stage	<ul style="list-style-type: none">- Maintenance- Troubleshooting- Other activities associated with ongoing access to the asset- Additional implementation activities	Expensed as incurred, unless activity meets specific capitalization criteria

GASB 96 – After Initial Measurement

- The government should calculate the amortization of the discount on the subscription liability and report that amount as an outflow of resources (i.e., interest expense) for those periods.
- Any subscription payments made should be allocated first to the accrued interest liability and then to the subscription liability.
- The subscription liability should be remeasured¹ under certain circumstances, such as change in subscription term.
- 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.

¹ GASB 99 (Omnibus) – do not remeasure solely for a change in an index or a rate used to determine variable payments, nor should the discount rate be reassessed solely for a change in a government's incremental borrowing rate.

GASB 96 – Governmental Funds

- An expenditure and other financing source should be reported in the period the subscription asset is initially recognized.
- Subsequent governmental fund subscription payments should be accounted for consistent with principles for debt service payments on long-term debt.

GASB 96 – Other Considerations

- Contracts with Multiple Components
 - ✓ If a government enters into a contract that contains both a subscription component and a nonsubscription component, the government should generally account for the subscription and nonsubscription components as separate contracts.
- Contract combinations
- Modifications and Terminations

GASB 96 – Disclosures

- General description of SBITAs
- Assets and accumulated amortization separate from capital assets
- Outflows for variable and other payments not included in subscription liability
- Principal and interest requirements to maturity
- Commitments before the commencement of subscription term
- Any associated impairment losses

Implementation Approach and Insights

Rick Bruneau, CPA

Controller, City of San José

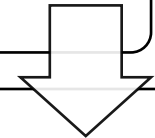
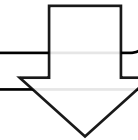
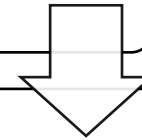
Overarching Implementation Steps

1. Establish Accounting Codes and Policy

2. Gather Data to Ensure Completeness

3. Review and Determine GASB 96 Applicability

4. Decide whether to use GASB 96 software tool



1. Establish Accounting Codes and Policy

- ✓ Internal discussion across Finance and Budget teams
- ✓ Agreement on hierarchy and setup new accounting codes;
 - Create distinct Expense, Liability, and Right-to-use Asset accounts for SBITA
- ✓ Develop or update policies
 - Define criteria and definitions
 - Identify scope and exclusions
 - Document materiality threshold
 - Present accounting transaction details
 - Identify financial statement disclosure requirements

2. Gather Data to Ensure Completeness

- ✓ Begin with IT department to understand variety of IT arrangements
 - SB272 requires local agencies to create a catalog of enterprise systems
- ✓ Meet with Purchasing team to identify applicable commodity codes and run reports on IT-related codes
- ✓ Query City Clerk public records database
- ✓ Analyze historical spend in software accounts to identify vendors and agreements
- ✓ Create template with all known software agreements and identify required data fields needed for determining applicability, term, and amounts
- ✓ Distribute accounting guidance memo and templates to departments

3. Review and Determine GASB 96 Applicability

- ✓ Review completed templates along with copies of agreements
- ✓ Separate the clear-cut agreements from those that require further review and professional judgement
- ✓ Leverage external auditor or CPA consultant to assist with uncertain examples

Examples of agreements excluded from GASB 96 reporting:

- Short-term – issue annual PO for 12-month term, cancellable at any time
- Perpetual licenses – governed by GASB 51
- Materiality threshold

4. Decide whether to use GASB 96 software

Considerations for implementing software

- Quantity of agreements
- Complexity of agreements (# of amendments)
- Resources (vendor costs and staff time) and schedule to implement
- Ability to leverage or adapt GASB 87 software for GASB 96 purposes

Implementation Approach and Insights

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Assistant Controller, County of Alameda

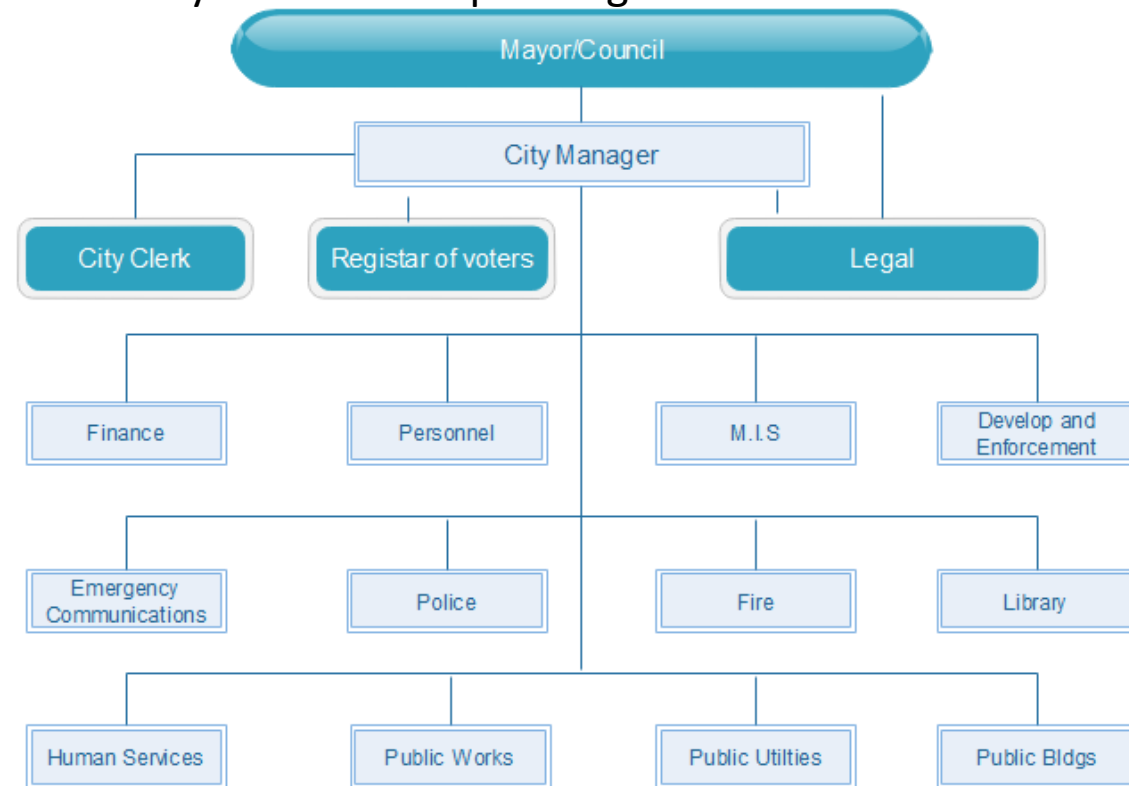
SBITDA Implementation Item:

Know where to find your subscription agreements

How does your government manage IT subscription agreements?



Where are your IT subscription agreements?



SBITDA Implementation Item: Define the threshold for recording subscription agreements

GASB Guidance?



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.



SBITDA Implementation Item: Develop appropriate policy documents

IT Subscription Policy Considerations

- Define IT subscription scope
- Identify IT subscription threshold
- Document process for calculating the borrowing rate



Questions and Answers

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