



10 Steps to GASB 96 Adoption





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CORNERSTONES TO IMPLEMENTATION	3
IDENTIFY YOUR SBITAs	4
ESTABLISH AN INTERDEPARTMENTAL TEAM	6
SELECT SBITA ACCOUNTING SOFTWARE	8
LIST ALL OF YOUR SOFTWARE SUBSCRIPTIONS	10
IDENTIFY LOCATIONS & APPLICATIONS	11
RECONCILE SBITA LISTING TO SOFTWARE SUBSCRIPTION LISTING	11
VALIDATE COMPLETENESS	12
CONSOLIDATE SOFTWARE EXPENSE	12
COMPARE SOFTWARE EXPENSE TO SBITA LISTING	13
PREPARE TRANSITION ADJUSTMENTS	14

Check out the tips in this guide to smooth the path to compliance.

GASB 96 is the first undertaking to define and improve consistency of the accounting treatment for Subscription-Based IT Arrangements (SBITAs). Adopting this standard requires implementing a whole new method of accounting, more than just updating legacy GASB. By design GASB 96 is similar to GASB 87, so if you have done the work to apply the new lease accounting standard, you are more than half way to understanding what needs to be done to adopt GASB 96.

How will you prepare?

Your organization may know the number of software agreements you have, as well as the various departments involved. However, as you begin to think about your adoption plan, consider the following:

- Which of your organization's IT arrangements are for subscriptions or licenses and which are for one-time purchases with service costs?
- Will your organization use a capitalization threshold to scope out low value contracts?
- Has the organization performed any analysis of IT agreements with multiple components to assign value to the multiple components?

Compiling your IT subscription agreements for the first time may be a time-consuming, resource-heavy process. Now is the time to start preparing. This adoption guide can start you moving in the right direction for your transition journey

Cornerstones to Implementation

People

Regardless of who is leading the charge, building a team with colleagues from other departments is essential to gathering a complete SBITA inventory.

Tools

With your IT subscriptions and contracts now being recorded on the statement of net position, it's time to consider investing in a SBITA accounting solution. Even with only a few contracts, we recommend that you invest in IT subscription arrangement accounting software.

Processes

To maintain compliance on a go-forward basis, implement protocols that are sustainable for the long term. A methodical process will ensure your SBITA listing is complete.

Start by listing your **SBITAs** today!

1

Understand your technology infrastructure and determine which contracts are in scope.

Some guidance may advise the first step in adoption is listing all your IT arrangements, but we feel this can actually be inefficient. This is especially true if you can argue that some of your subscriptions are immaterial. Beyond the larger systems, government organizations also typically have several smaller software applications for individual functions to keep their departments running smoothly.

Prior to beginning your SBITA inventory, you might be able to support that certain IT contracts are immaterial for further analysis. While GASB 96 does not specifically address the materiality threshold for immaterial software agreements, your organization may establish a capitalization threshold, similar to a lease capitalization threshold, that would allow an organization to avoid inventorying and recording low-dollar value contracts below this threshold.

Governmental entities employ IT arrangements for functions both large and small: from a jurisdiction-wide cloud-based ERP system to a cloud-based application for specific function like fleet maintenance and email; thus, a threshold established by an organization that has not been discussed and agreed to with your auditors could result in a significant amount of additional, manual effort at year-end to appropriately capitalize the originally scoped-out contracts.

The key is to establish a policy with a threshold for your SBITAs and ensure you have buy-in from your external auditors.

Here's an example of one potential method of applying materiality.

The City of Springfield has annual revenues of \$4 million and total liabilities of \$10 million. The governmental entity has 10 administrative offices, and each office has 10 computers with operating system software.

Rather than determining the exact amount of total remaining subscription payments for each license, the organization assumes the subscription term for this operating system is normally 3 years. The entity typically pays \$30/month for each system.

Undiscounted, this represents an estimate of \$108,000 (10 computers x 10 offices x 36 months x \$30) over the life of the subscription agreement. Please note, however, that this is assuming all the subscriptions commenced at the same time, which is unlikely. Some of the agreements will have three full years left, whereas others may have only months.

As such, a better assumption is that these agreements were entered into evenly through each period, so the weighted average term would be half of the normal subscription term, which is 1.5 years. The more reasonable undiscounted cash flow amount is only \$54,000. This amount is 0.54% of your total liabilities.

An organization may be able to use this type of analysis to develop a capitalization policy whereby not all IT subscription agreements are required to be recorded within the financial statements as SBITAs.



2

Establish an interdepartmental team.

Adopting the new standard will require coordination with stakeholders from numerous departments. To keep everything moving smoothly, identify a point person, ideally from the finance department or comptroller's office, to lead the project.

This person will also be the point person for your SBITA accounting solution. Depending on the size of the team and your IT contract listing, there may be several people across your organization who will be responsible for SBITA accounting and transactions.

It's important to have one person be the "owner" of establishing internal policies for the following:

- How you will use the software
- Who has access
- How you will work with the software's support staff

Choose a point person in each department to work on the adoption project.

To make this process simpler for you and the cross-functional team, have one person from each department be responsible for attending meetings, providing contracts for you to review, etc.

The selected point person from each department should create a list of all software subscriptions and IT contracts known within their department.

The listing for each software subscription and IT contract should include start date, end date, and payment information.

Depending on how tasks are allocated within your organization, it may make sense to provide colleagues from these departments access to your SBITA accounting software. If you choose a solution that allows for role-based access, you can limit how much they can do in the system without hampering your efficiency.

For instance, someone from the procurement department can be responsible for entering contracts, but you don't want them to have access to the accounting features to prevent errors from being introduced in the system. The best solution will enable you to provide them with access and create restrictions based on their role.



Which departments or agencies should be involved in your adoption project?

INFORMATION TECHNOLOGY

In some organizations, a centralized IT department is responsible for all of the systems, networks, computer applications, and software agreements in use - start here when compiling your listing of SBITAs. This department will also have information on the number of licenses and subscription terms for various contracts.

CONTRACT MANAGEMENT/PROCUREMENT

The purchasing department exists to negotiate contracts for an organization. Additionally, purchasing personnel track their contracts, so they may be a good resource for the remaining time or dollar amounts on each of their agreements.

LEGAL

Typically, a member of the legal department is involved in larger contract negotiations, therefore, this group could have a listing of reviewed SBITAs.

TREASURY

The treasury department will have a hand in liquidity and budgeting. Additionally, this group will be of assistance in determining the appropriate discount rate for measuring subscription liabilities.

BUDGET

This department prepares government-wide budgets and forecasts and will have insight into which accounts are made up of some of the larger software expenses.

DEPARTMENT OF EDUCATION

Education departments may negotiate and evaluate their own software contracts for specific functions unique to them including enrollment and grades, food services, or human resources.

DEPARTMENT OF PUBLIC SERVICES

This department may operate the police, fire, ambulance, health or utilities for the constituency, and therefore may have knowledge of the specific systems needed to operate these individual services.

3

Select SBITA accounting software.

SBITA accounting software will be a critical component of your adoption.

While it may be tempting to delay the software evaluation and selection process, many organizations have found it beneficial to secure their solution well before the compliance deadline. This allows them to take advantage of insights into their IT arrangement portfolio for savings in times of economic downturn, and to set themselves up for an efficient transition when the deadline arrives.

Some organizations also figured out that utilizing the same software vendor for GASB 87 and GASB 96 solutions provides even more efficiencies by only having one implementation:

- Load fund tree and department allocations one time
- No need for users to learn two systems
- Less time required for transition and user testing

Read these blogs to learn about IT arrangement accounting:



GASB 51 vs. GASB 96: SIMILARITIES AND DIFFERENCES IN ACCOUNTING TREATMENT



GASB 96: A COMPREHENSIVE EXAMPLE OF SBITA ACCOUNTING



SOFTWARE CAPITALIZATION RULES UNDER US GAAP and GASB



GASB 96: SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS



Governmental reporting entities with a SBITA accounting solution have indicated the following benefits:

They're taking advantage of tools, like custom reporting features, that enable them to make more informed financial decisions. Users can customize reports in a variety of ways, including the following specific examples:

Users can filter reports for contracts set to expire within a specified period. This assists with contract management and allows management to plan in advance for renewal negotiations, often leading to future cost savings.

Users can filter for subscriptions with monthly or annual payments above a certain threshold, which can assist decision-makers determining whether high-cost applications may be expendable or replaceable with a competing product on the marketplace.

They're staying on top of payment changes, contract renewals, and notification deadlines to allow plenty of time for negotiations with configurable, automatic email notifications.

They're spending less time on transition to the new SBITA accounting standard, since initial measurement calculations, as well as the necessary amortization schedules and disclosures, are instantly available at the moment of transition.

They have identified auditing efficiencies such as: a log of contract changes, easy to access documentation, detailed breakouts of summary reporting, and arrangement abstracts that will make audits - both pre- and post-transition - go more smoothly.

Organizations utilizing a solution under GASB 96 ensure the appropriateness of their accounting under the new standard, combined with a simplified year-end disclosure process.



4

List all of your computer applications and software.

For some departments, there are special instructions they can follow to ensure their listing is complete:

Each department should provide a listing of all the computer applications and software they use, along with the following data:

- ✔ Contract start date
- ✔ Contract end date
- ✔ Payment terms

PURCHASING/ PROCUREMENT

The purchasing and supply chain departments will have vendor contact information. The point person should send emails to computer application and software vendors asking them for a listing of all the contracts you have with them.

INFORMATION TECHNOLOGY

This department may be responsible for tracking and negotiating all of the organization's IT contracts and subscription arrangements. Whether IT is decentralized or under one umbrella, go here for a list of all IT contracts and their details.

During the gathering of contract details, it is important to identify the number and term of any renewal options to properly account for your SBITAs. Under GASB 96 a SBITA is in scope if the current term and any possible renewal options combined are longer than 12 months, regardless of whether or not renewal is likely or probable.

DEPARTMENTS OF EDUCATION, FACILITIES, OR PUBLIC SERVICES

If the organization is decentralized and various personnel have autonomy over their specific departments or locations, go to each individual for a listing of computer applications and software used. Beyond just obtaining the listing, further evaluation is often necessary, including whether the arrangements include the following:

- Multiple components
- Separate hardware, software, and service components
- Payments made before the commencement of the subscription term
- Implementation activities
- Outlays for activities other than subscription payments

Use these resources to identify the best solution for your organization:



HOW TO CHOOSE THE RIGHT ACCOUNTING SOFTWARE



EVALUATING FINANCIAL APPLICATION SOFTWARE FROM AN IT AND SECURITY PERSPECTIVE



5 Identify all physical locations and ask for their list of software used.

The sheer quantity of locations may be vast and not all IT subscriptions will be utilized by the whole organization; thus, it's imperative to find employees at the actual location to ensure the details within the data are accurate. Choose a point person to head the transition at each location.

Then send each point person a template to list the software they use. The template should have headers with software type, internal identification information, subscription start date, subscription end date, and payment terms. The point person from each location should complete this listing, and return it to the transition head from Step 2.

*Don't start from scratch! Use this **GASB 96 SBITA Contract Tracker** as your template.*

6 Compare software listings from all departments and all locations.

The transition point person should reconcile the data gathered in Steps 4 and 5 to eliminate duplicates. The reconciliation step should include comparing the contract identification information—contract number, vendor data, product type(s), user details, etc.—for all SBITA listings to match computer applications and software to the correct agreements and ensure there are no duplicates. Once you have an accurate listing of your SBITAs, it's time to ensure the completeness of this listing.





7

Review budget information and validate completeness.

IT contracts are very likely crucial to the departments that utilize them. Therefore during the meticulous budgeting process followed by state and local government organizations, each department will report all of their anticipated software expenditures. Gather the details of budgeted software expense in each department from the finance and administration department.

Compare the information from the most recent budget to the SBITA inventory listing from Step 6.

The adoption point person should do a thorough review of the information that's been gathered to make sure that all required fields are complete and the data appears reasonable.

8

Get the details of software expense for the most recently completed year-end.

Your organization's software expense may be recorded in multiple accounts in the general ledger. Your comptroller's office or accounts payable department can provide details for the payments that make up your various software and IT arrangement accounts. Review the accounts the SBITAs on your software listing are recorded to - are there any payments made for SBITAs not on your final listing?

ACTION REQUIRED

APPROVE SBITA

COMPLETE CHANGES

APPROVE CHANGES



9

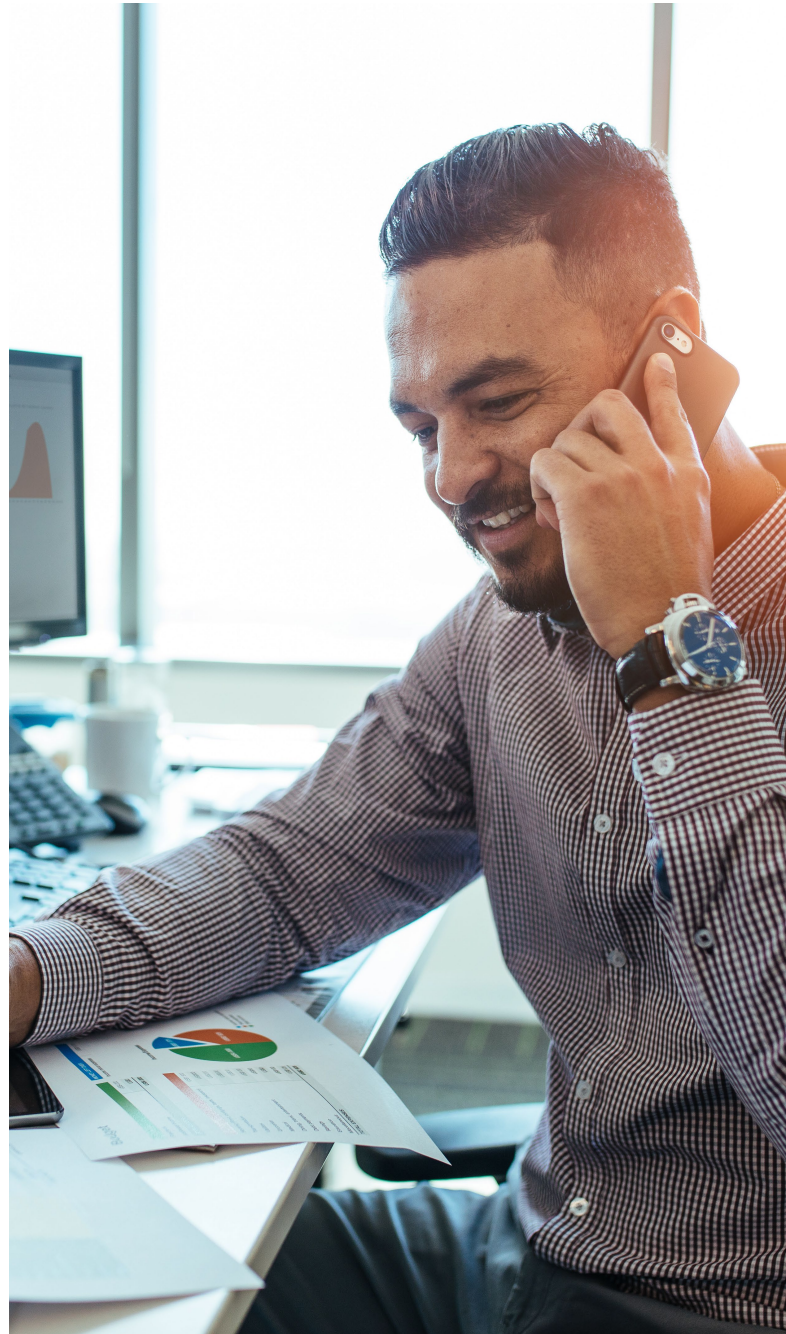
Compare consolidated software expense to SBITA listing.

With the SBITA listing gathered in the above steps, extrapolate your expected annual software expense using the payment terms for each contract.

Compare your estimated annual software expense to the total software expense obtained in Step 10 from the general ledger. Reconcile these two separate software expense totals. Where or how many different accounts your organization records software expense will determine how complex the reconciliation is. However, understanding any significant variances will help you determine if your SBITA listing is correct.

If your extrapolated annual software expense from this step is significantly less than your actual annual software expense from Step 8, your SBITA inventory listing is incomplete (or you may have excluded a large amount of low dollar value items from your SBITA listing).

If the actual annual software expense from Step 8 is significantly less than this extrapolated annual software expense, there may be other general ledger accounts where software expense is recorded.



10

Prepare the entries necessary to record your SBITAs.



Once you've completed these steps, your entity will have a complete listing of its subscription-based IT agreements.

Putting your complete subscription agreement portfolio into a SBITA accounting software will significantly ease the burden of adoption later. Your system should calculate the journal entries easily to allow a seamless adoption.

If you've followed each step outlined in this guide, you should feel confident in your ability to comply with the new software accounting standard. Your organization can now begin the process of calculating the entry to adopt GASB 96.

The time you've invested in compiling a complete SBITA listing will pay off in efficiencies in your day-to-day workload. Accounting will spend less time preparing journal entries and creating reports with the assistance of a SBITA accounting software.

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