

Upcoming Changes in School District Accounting

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Subscription-Based Information Technology Arrangements

Statement No. 96

MAY 2020

**Governmental
Accounting Standards Series**

Statement No. 96 of the
Governmental Accounting
Standards Board

Subscription-Based Information Technology
Arrangements

GASB

Definition

What is a SBITA?

- A SBITA is a contract that conveys control of the right to use another party's IT software, alone or in combination with tangible capital assets (underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction

Examples:

- Microsoft 365
- ERP software
- Cloud computing arrangements
- DocuSign
- Adobe



Exemptions

- Contracts that solely provide IT support services
- 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
- Contracts that meet the definition of a P3 in GASB 94
- Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software (apply GASB 51)

Accounting under the current financial resources measurement focus

At commencement of subscription term:

- Recognize an expenditure and other financing use

Subsequent years:

- Recognize principal and interest payments

Accounting under the economic financial resources measurement focus

At commencement of subscription term:

- Recognize a subscription liability and corresponding intangible right-to-use asset

Subsequent years:

- Subscription asset is amortized over the shorter of the useful life of the IT asset or the SBITA term
- Subscription liability is reduced by principal portion of SBITA payments

Exception:

- SBITAs with noncancelable terms of 12 months or less

Measurement

Subscription liability

- Present value of expected SBITA payments over SBITA term
 - Fixed payments
 - Variable payments based on an index or rate
 - Variable payments that are fixed in substance

Subscription asset

- Subscription liability plus:
 - Prepayments
 - Capitalizable initial implementation costs

SBITA Term

Noncancelable
period



Optional renewal
periods if
reasonably certain
to exercise



Periods after an
optional
termination if
government is
reasonably certain
to not exercise



Optional periods
to extend if SBITA
vendor is
reasonably certain
to exercise



Periods after an
optional
termination date if
SBITA vendor is
reasonably certain
to not exercise

Accounting for implementation costs

Preliminary project phase:

- Expense as incurred

Initial implementation stage and additional implementation activities:

- Capitalize as part of the subscription asset

Operational costs (training, maintenance, etc.):

- Expense as incurred



Discount rate

- Rate explicit in SBITA contract (if available)
- Incremental borrowing rate
 - May need to use different rates for different subscriptions

Note Disclosures and Effective Date

- Note disclosures
 - General description of the SBITAs
 - Total amount of subscription assets, related accumulated amortization and amortization expense
 - Amount of variable or other payments not previously included in the liability
 - Principal and interest requirements to maturity
 - Commitments under SBITAs before commencement date
 - Modification to capital asset useful lives and thresholds
- Effective date
 - Fiscal years beginning after June 15, 2022 (FY2023)

New Capital Asset Reporting Guidance

Q – Should a government’s capitalization policy be applied only to individual assets, or can it be applied to groups of assets acquired together? Consider a government that has established a capitalization threshold of \$5,000 for equipment. If the government purchases 100 computers costing \$1,500 each, should the computers be capitalized?

THOUGHTS?

MAY 2021

Governmental Accounting Standards Series

Implementation Guide No. 2021-1,
Implementation Guidance Update—2021

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Asset Examples

Computers

iPads

Bulk Technology Purchases

Classroom Furniture

Library Books

Kitchen Equipment



Original vs. Amended Guidance

Original Implementation Guidance (2015-01):

It **MAY BE APPROPRIATE** for a government to establish a capitalization policy that would require capitalization of certain types of assets whose individual acquisition costs are less than the threshold for an individual asset

Amended Implementation Guidance (2021-01):

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

GASB's position is that \$150,000 in computers, purchased at once, should be capitalized if the total purchase is "significant" to the District, even if the assets are below the threshold individually.

GASB's Explanation

- The original answer to the question of capitalization of individual items below a government's threshold has not been interpreted by many governments as requiring those items to be capitalized, even if significant when aggregated. Under the amended answer, GAAP now clarifies that governments are **required (should)** to assess similar acquisitions of similar assets that on an individual basis are below the government's capitalization threshold, and that, when significant in total, governments are **required** to capitalize them.
- This clarification will increase the burden on governments that previously had deemed acquisitions of all items below their individual-item-capitalization threshold to be period expenditures or expenses, as they will now need to track a large number of individual items with small dollar values.
- Applicable to transactions at or near the same time and with the same objective.

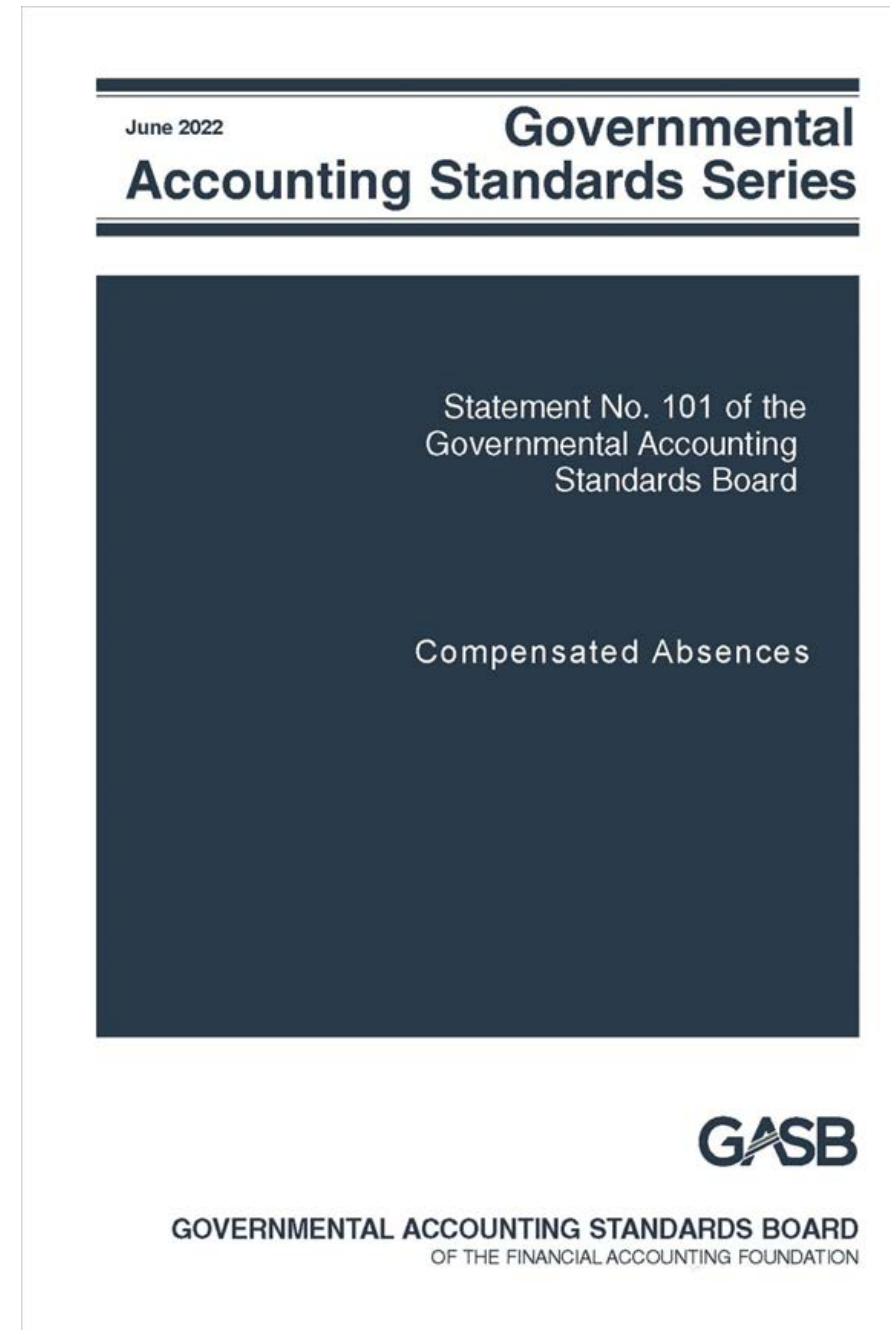


Implementation

- Effective date
 - Fiscal years beginning after June 15, 2023 (FY2024)
- Retroactive application with restatement
- Audit Considerations

Compensated Absences

Statement No. 101



Compensated Absences

What?

The Board has amended existing guidance for compensated absences

Why?

A review of Statement 16 indicated opportunities for improvement and additional guidance for certain types of leave

When?

Effective for fiscal years beginning after December 15, 2023.

Earlier application is encouraged



Scope and Applicability

A compensated absence is

- Leave for which employees may receive one or more:
- Cash payments when the leave is used for time off
- Other cash payments, such as payment for unused leave upon termination of employment
- Noncash settlement, such as conversion to postemployment benefits

Examples:

- Vacation and sick leave
- Paid time off (PTO)
- Holidays
- Parental leave
- Certain types of sabbatical leave

Recognition Criteria – Leave that has not been used

Leave is attributable to services already rendered

- Employee has performed the services required to earn the leave

Leave accumulates

- Can be carried forward from reporting period when earned to a future reporting period when it will be used or otherwise paid or settled

Leave is more likely than not to be used for time off or otherwise paid or settled

- Likelihood of more than 50 percent

Exceptions to the General Recognition Approach

Leave more likely than not to be settled through conversion to defined benefit postemployment benefits

- Excluded from liability

Leave that is dependent upon the occurrence of a sporadic event that affects a relatively small proportion of employees in any particular reporting period

- Recognize liability when leave commences
- Parental leave, military leave, jury duty recognized when commences
- Not sick leave or sabbatical leave

Unlimited leave and holiday leave taken on specific date

- Recognize liability when used

Measurement

Pay rate

- Generally the employee's pay rate at financial reporting date
- Exception: more likely than not to be paid at a different rate

Salary-related payments

- Directly and incrementally related
- DC pension or OPEB recognized as related leave is earned – not pension or OPEB liability
- DB pension or OPEB excluded

Leave Used But Not Paid



Liability for amount
of cash payment or
noncash settlement

Include applicable
salary-related
payments





Note Disclosures and Effective Date

- Note disclosures
 - No new note disclosures
 - Exceptions to existing long-term liability disclosures for compensated absences:
 - Option to present net increase or decrease with indication that it is a net amount
 - Not required to disclose governmental fund used to liquidate
- Effective date
 - Fiscal years beginning after December 15, 2023 (FY2025)