

# GASB 87 and GASB 96: *Tips for Implementation*

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# Index

**Part 1:** GASB 87: Leases

**Part 2:** GASB 96: Subscription-Based  
Information Technology Arrangements  
(SBITAs)

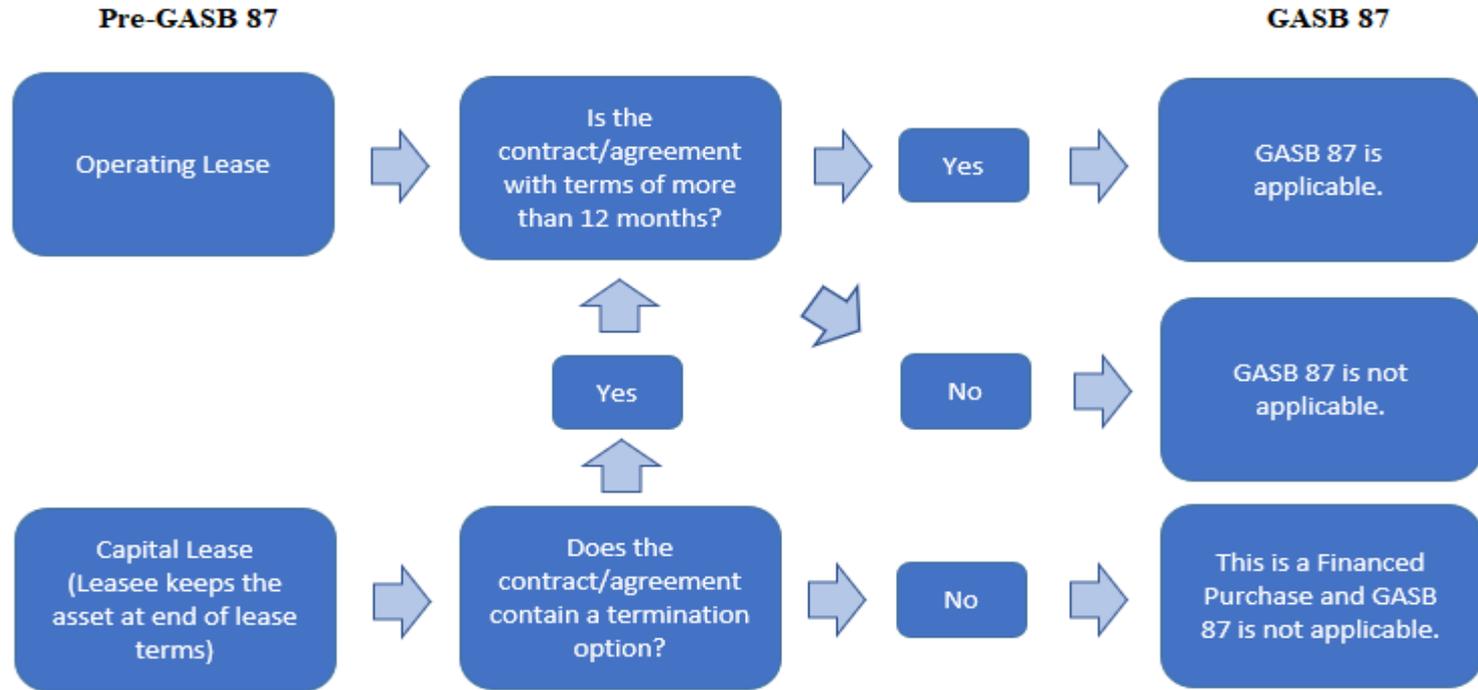


## GASB 87: Definition

- A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (e.g. buildings, land, vehicles and equipment) in an exchange or exchange-like transaction.
- Effective for June 30, 2022 year-ends
- Examples – leases for:
  - Copiers
  - Chromebooks or technology equipment
  - Field or facility rental (if there's a formal contract longer than 12 months)
    - e.g. if you rent out part of a school building to run an academy
- Important that the District prepares an inventory of all their leases/contracts and provides an amortization schedule of principal and interest and related interest rate.



# GASB 87: Decision Tree



## GASB 87: Termination Option

- Provisions that allow for termination of a lease due to the following are not considered termination options:
  - Purchase of the underlying assets
  - Payment of all sums due
  - Default on payments



## GASB 87: Exclusion (from GASB 87)

- Contracts with terms of 12 months or less
- Contracts that transfer ownership of the underlying asset **and** do not contain termination options (these are considered financed purchases)
- Intangible assets such as copyrights
- Biological assets, including timber, living plants and animals
- Inventory
- Supply contracts such as power purchase agreements
- Subscription-based information technology arrangements
- Leases where the underlying assets are financed with outstanding conduit debt

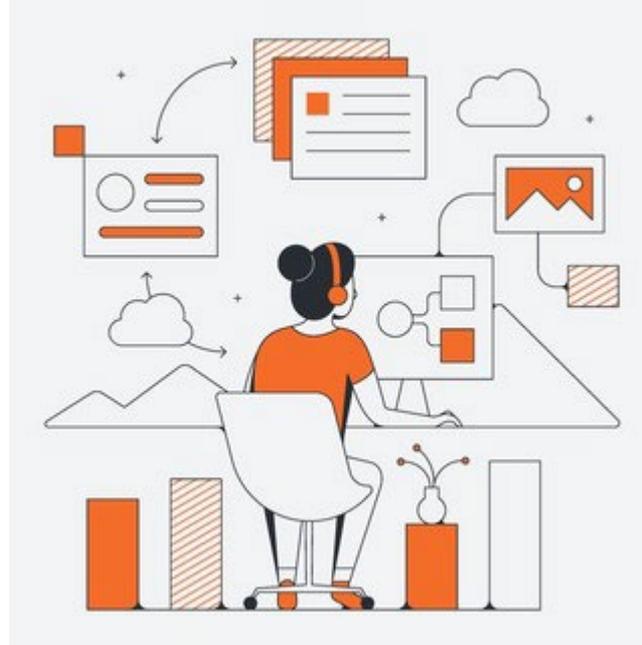


## **GASB 87: Required Disclosures**

- General description of leasing arrangements
- Total amount of lease assets and related accumulated amortization (separately from other capital assets)
- Amount of lease assets by major classes of underlying assets (separately from other capital assets)
- Amount of variable and other payments not previously included in liability
- Principal and interest requirements to maturity
- Commitments under leases before commencement date
- Impairment loss and any related change in lease liability



## Part 2 – GASB 96



## GASB 96: Definition

- Effective for the fiscal year ending June 30, 2023.
- A SBITA is a contract that conveys control of the right to use another party's (a SBITA vendor's) 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.
- A SBITA allows temporary use of a SBITA vendor's software that ends when the subscription expires.
- Includes contracts that contain both a right-to-use IT asset component and an IT support services component.
- But exclude contracts that solely provide IT support service.



## GASB 96: Subscription Term

- The subscription term is the period during which the government has a noncancellable right to use the SBITA vendor's IT software, including:
  - Periods covered by an option to extend if it is reasonably certain that the government or vendor will exercise that option.
  - Periods covered by an option to terminate if it is reasonably certain that either party will not exercise that option.
- Periods for which both the government and the SBITA vendor have an option to terminate the SBITA without permission from the other party (or if both parties have to agree to extend) are cancellable periods and should be excluded from the subscription term.



## GASB 96: Short-Term SBITAs

- Similar to GASB 87, GASB 96 provides an exception for short-term SBITAs.
- A short-term SBITA has a maximum possible term of 12 months or less, including any options to extend, regardless of their probability of being exercised.
- Periods for which both the government and the SBITA vendor have an option to terminate the SBITA without permission from the other party (or if both parties have to agree to extend) are cancellable periods and should be excluded from the subscription term.
  - For example, certain software subscription, such as QB online, that might not have formal contracts and is a rolling year-to-year subscription can generally be cancelled at will by a party and would be considered short-term.



## GASB 96: 3 Types of SBITAs

- SaaS (Software as a Service): Software license that allows user to access an application over the internet instead of downloading software or maintaining hardware to run the application.
  - Examples: DocuSign, Google Workspace, Microsoft Office 365, Google Docs and Quickbooks Online
- PaaS (Platform as a Service): Customer uses a SBITA vendor's software to create applications that will run on the SBITA vendor's cloud infrastructure.
  - Example: Google App
- IaaS (Infrastructure as a Service): Allows user to remotely access the SBITA vendor's network, server or other tools to process, store and operate your data.
  - Examples: Microsoft Azure, CISCO Meta Cloud and Rackspace



## GASB 96: Types of SBITAs that may apply to School Districts

- Remote learning platforms
- Student information systems
- Library management systems
- Teacher evaluation systems
- Career planning sites
- Emergency notification systems
- Server hosting services
- Accounting software
- Data backup
- Cloud storage



## **GASB 96: Examples of SBITAs that may apply to School Districts:**

- Canvas
- Genesis
- Adobe
- Splashtop Remote
- Absence Management
- Family ID
- Hudl
- Microsoft Office
- HIBster
- Zoom
- iBoss
- VMWare Licenses
- Respondus
- Intrado SafeMail Filtering
- Frontline (Absence Management, Recruit and Hire, IEP Direct, and RTI Direct)
- Brain Pop
- DILL Language Lab Software
- EdPuzzle
- Monsido



# GASB 96: Relationship between Leases and SBITAs

- All SBITAs meet the definition of a lease

If ....	Applicable Standard
Tangible capital asset alone	GASB 87
IT software alone	GASB 96
IT software in combination with tangible capital assets:	
1.) Software component is insignificant compared to cost of capital asset	GASB 87
2.) Otherwise	GASB 96



## GASB 96: Recognition and Measurement

- The District will record both a *subscription asset* (intangible right-to-use) and a *subscription liability*.
- Assets and liabilities should be recognized and measured using facts and circumstances that existed at the beginning of the fiscal year of implementation.
- Apply retroactively (restatement if practicable)
- The District's IT personnel should be involved in completing the SBITAs inventory.



## GASB 96: Recognition and Measurement

- The subscription liability will be measured at the present value of subscription payments expected to be made during the subscription term, including:
  - Fixed payments
  - Variable payments (fixed in substance)
  - Variable payments based on an index or rate (ex. Consumer Price Index)
  - Termination penalties if included in contract
  - Exclude: Variable payments based on performance, usage or user seats
- Future subscription payments should be discounted using the interest rate charged by the SBITA vendor or the government's incremental borrowing rate.



# GASB 96: Recognition and Measurement

- Subscription asset will include:
  - + Subscription liability (as detailed on previous slide)
  - + Payments made to vendor before commencement of the subscription term.
  - + Implementation costs that can be capitalized (see next slide)
  - Incentives received from vendor at or before commencement of subscription term.
- Support or training costs should not be included.
- The subscription asset will be amortized over the shorter of the subscription term or the useful life of the underlying IT asset. This will be recorded as an amortization expense.



## GASB 96: Implementation costs

Stage	Activities	Accounting
Preliminary Project Stage	Conceptual formulation, evaluating alternatives, determining needed technology, and final selection	Expense as incurred
Initial Implementation Stage	All necessary charges to place asset into service, including design, configuration, coding, testing and installation	Capitalized, except for short-term SBITAs
Operations and Additional Implementation Stage	Subsequent implementation activities such as maintenance, troubleshooting, and ongoing operations	Generally expense as incurred unless activity increases the efficiency or adds to the functionality of the asset (then capitalized)
All Stages	Training	Expense as incurred



## **GASB 96: Disclosure Requirements (para. 60)**

- General description of SBITAs, including terms and conditions
- Total amount of subscription assets and related accumulated amortization, disclose separately from other capital assets.
- Principal and interest requirements to maturity
- Commitments under SBITAs before the commencement of the subscription term



## GASB 96: Caution

- Prepays – you might end up with a prepaid expense instead of a subscription liability if the District has a multi-year SBITA and paid the entire amount in a lump sum at the beginning of the subscription term.





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