



# How to Implement **GASB 96** & Maintain Compliance

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# Speaker

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In addition to serving public sector clients in his accounting role and holding leadership positions at Blackbaud and Porte Brown, Louis has also served as an adjunct professor of Accounting, Auditing, Finance, and Management.



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# Step 1: Creating Your Implementation Roadmap

- Identify who is responsible for each step
- Determine the timing of each step

GASB 96 IMPLEMENTATION ROADMAP (STEP 1)															
	GASB 96 Implementation Steps	Total Weeks Needed	Weeks Remaining	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	Week 11	Week 12
STEP 2	Collecting and Organizing Subscriptions <i>Responsible Parties: Mary, Accounting and Jeff, Legal</i>	2	2												
STEP 3	Extracting the Data <i>Responsible Parties: Mary, Accounting and Department Leaders</i>	2	2												
STEP 4	Crafting the Initial Schedules <i>Responsible Parties: Mary, Accounting and Michele, Accounting</i>	2	2												
STEP 5	Launching the Internal Review Process <i>Responsible Parties: Jeff, Finance and Stacy, Accounting</i>	3	3												
STEP 6	Understanding the Importance of Journal Entries <i>Responsible Parties: Mary, Accounting</i>	1	1												
STEP 7	Preparing Note Disclosures <i>Responsible Parties: Susan, Financial Reporting</i>	2	2												
STEP 8	Adhering to Ongoing Compliance <i>Responsible Parties: Mary, Accounting and Department Leaders</i>	9	9												

# Step 2: Collecting & Organizing Subscriptions

- Requirements that are **SIMILAR to Leases** under GASB 87
  - Contract must convey control of the right to use another entity's IT software
  - IT software must be controlled for a period of time in exchange/exchange-like transaction
- Requirements that are **NEW to Subscriptions** under GASB 96
  - Does the IT software contract contain a tangible capital asset?
    - Is the IT software component insignificant compared to the tangible capital asset?
  - Is the contract a perpetual licensing agreement?

## Short-Term

- Term of 12 months or less
- Including extension options
- Regardless of reasonable certainty of extending

# Collecting & Organizing Subscriptions: Project Costs

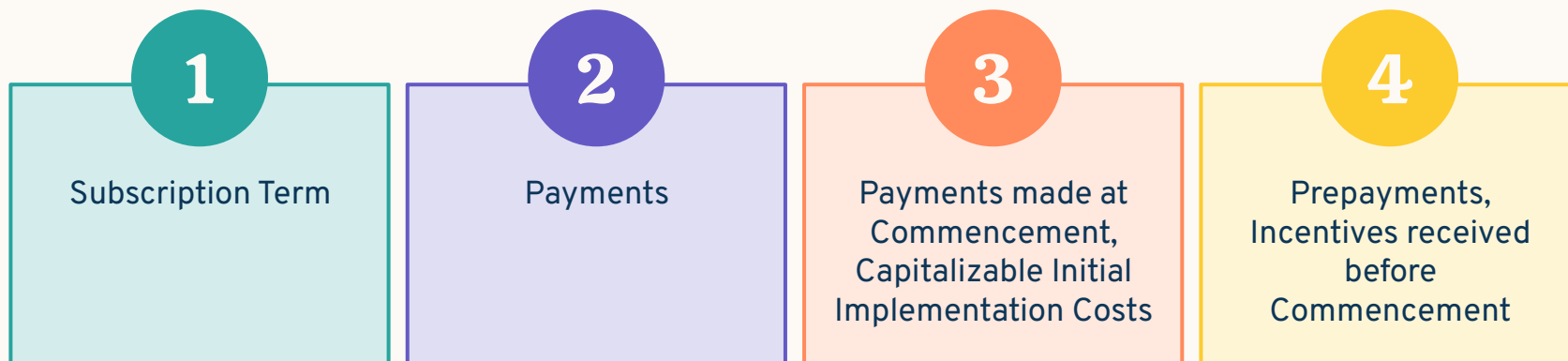
- IT Subscription Agreements may have costs that should be capitalized

STAGES OF IMPLEMENTATION	EXAMPLES
Preliminary Project Stage (Expensed as Incurred)	Determination of existence of needed technology, selection of alternatives
Initial Implementation Stage (Capitalizable)	Coding, testing, installation
Operation & Additional Implementation Stage (Expensed as Incurred)	Maintenance, troubleshooting, implementation of additional modules

- Costs incurred prior to the following should be expensed as incurred:
  - Determination of the specific objective of the project and nature of service capacity expected
  - Demonstration of technical or technological feasibility
  - Demonstration of current intention, ability and presence of effort

## Step 3: Extracting the Data

- Consider using a checklist
- Include those who are familiar with the contract details
- There are four primary categories of information:



# Extracting the Data: Subscription Term

- Extension options
- Termination options
- Fiscal funding or cancelation clauses
- Cancelable periods
  - Both government and vendor can terminate without permission from the other or both parties must agree to extend

*Ex. rolling month-to-month subscription and holdover periods*

# Extracting the Data: Payments

- Fixed payments
- Variable payments
  - Variable payments fixed in substance
  - Variable payments based on an index or rate
  - Variable payments based on future performance (exclude)
- Termination penalties, contract incentives, other payments



# Extracting the Data: Other Payments / Costs

- Payments Made at Commencement
  - Included as an increase in the Subscription Asset
- Capitalizable Initial Implementation Costs
  - Included as an increase in the Subscription Asset
- Prepayments and Incentives Received Before Commencement
  - Prepayments minus Incentives Received Before Commencement = Asset or Liability Prior to Commencement
  - Reclass as an addition (Asset) or subtraction (Liability) to Subscription Asset at commencement

# Subscription & Non-Subscription Components

- Multiple underlying IT assets
  - Different subscription terms
- Non-subscription components
  - Common examples: separate perpetual licensing agreement, maintenance services
  - Treat separately from subscription component
- Allocate contract price
  - Prices included in the contract
  - Best estimate; if not practicable, treat as one component

## Step 4: Crafting the Initial Schedules

- Discount the subscription payments using the appropriate interest rate to determine your subscription liability beginning balance
- Use payments made at commencement, capitalizable initial implementation costs, incentives, and prepayments to adjust the subscription asset
- Consider materiality

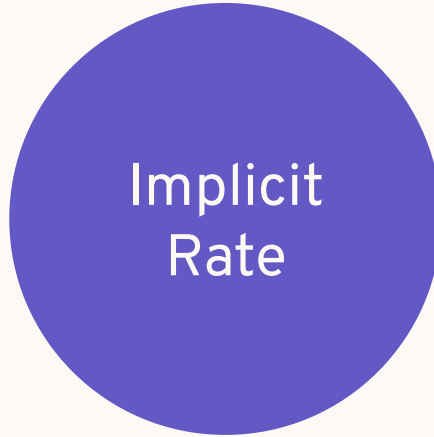
Date	SUBSCRIPTION LIABILITY				SUBSCRIPTION ASSET		
	Beginning Balance	Subscription Payment	Interest Expense	Ending Balance	Beginning Balance	Amortization Expense	Ending Balance
1/31/21	\$ 5,849.09	\$ 225.00	\$ 10.97	\$ 5,635.06	\$ 5,999.09	\$ 166.64	\$ 5,832.45
2/28/21	\$ 5,635.06	\$ 225.00	\$ 10.57	\$ 5,420.62	\$ 5,832.45	\$ 166.64	\$ 5,665.81
3/31/21	\$ 5,420.62	\$ 225.00	\$ 10.16	\$ 5,205.79	\$ 5,665.81	\$ 166.64	\$ 5,499.17
4/30/21	\$ 5,205.79	\$ 225.00	\$ 9.76	\$ 4,990.55	\$ 5,499.17	\$ 166.64	\$ 5,332.52
5/31/21	\$ 4,990.55	\$ 225.00	\$ 9.36	\$ 4,774.90	\$ 5,332.52	\$ 166.64	\$ 5,165.88
6/30/21	\$ 4,774.90	\$ 225.00	\$ 8.95	\$ 4,558.86	\$ 5,165.88	\$ 166.64	\$ 4,999.24
7/31/21	\$ 4,558.86	\$ 225.00	\$ 8.55	\$ 4,342.41	\$ 4,999.24	\$ 166.64	\$ 4,832.60
8/31/21	\$ 4,342.41	\$ 225.00	\$ 8.14	\$ 4,125.55	\$ 4,832.60	\$ 166.64	\$ 4,665.96
9/30/21	\$ 4,125.55	\$ 225.00	\$ 7.74	\$ 3,908.28	\$ 4,665.96	\$ 166.64	\$ 4,499.32

# Crafting the Initial Schedules – Example

Present value calculation inputs in Excel:

- **Rate:** 5% = Stated, Implicit or IB Rate
- **Number of Periods (nper):** 24 = calculated lease term
- **Payment (pmt):** \$5,000 = Total SBITA payment
- **Type:** 0 for payments at the end of the period or 1 for payments at the beginning of the period

# Interest Rates



## Step 5: Launching the Internal Review Process



- Identify who will be the internal reviewer(s) well in advance
- Make sure all assumptions are properly documented with support
- Consider time and personnel constraints and evaluate using an outside specialist

# Step 6: Understanding the Importance of Journal Entries

- These entries may not be as complex as you think
- All entries related to GASB 96 will be highly susceptible to auditor scrutiny
- In some cases, a restatement will be necessary

FULL ACCRUAL JOURNAL ENTRIES			
1/1/21	Right-of-Use Asset	\$ 5,999.09	
	Subscription Liability		\$ 5,849.09
	Prepayment Asset		\$ 150.00
<i>To record initial right-of-use asset and subscription liability.</i>			
1/31/21	Amortization Expense	\$ 166.64	
	Accumulated Amortization		\$ 166.64
<i>To record the first month of amortization expense of the right-of-use asset.</i>			
1/31/21	Subscription Liability	\$ 214.03	
	Interest Expense	\$ 10.97	
	Cash		\$ 225.00
<i>To record the first payment on the subscription liability.</i>			
MODIFIED ACCRUAL JOURNAL ENTRIES			
1/1/21	Expenditure: Right-of-Use Asset	\$ 5,999.09	
	Other Financing Source: Subscription		\$ 5,849.09
	Prepayment Asset		\$ 150.00
<i>To record initial right-of-use asset and subscription liability.</i>			
1/31/21	Expenditure: Subscription Principal	\$ 214.03	
	Expenditure: Subscription Interest	\$ 10.97	
	Cash		\$ 225.00
<i>To record the first payment on the subscription liability.</i>			

# Step 7: Preparing Note Disclosures

- General description
  - Include basis, terms and conditions variable payments not included in subscription liability are determined
- Be sure to list right-of-use assets separately from other capital assets
- Outflows recognized for other payments not included in subscription liability (Example: termination penalty)
- Principal & interest requirements to maturity
  - 5 subsequent fiscal years and then 5 year increments thereafter
- Commitments before commencement
- Any loss associated with impairment



## Step 8: Adhering to Ongoing Compliance

- Use a central location for all contracts
- Document the processes as you work through them in the current fiscal year
- Review processes regularly

# Next Steps

- Ready to leverage DebtBook for easy, efficient GASB 96 implementation and compliance? Email us at [partnerships@debtbook.com](mailto:partnerships@debtbook.com) to connect with one of our experts!

# Questions?

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