



Federal Accounting Standards Advisory Board

July 31, 2020

Memorandum

To: Members of the Board

From: Ricky A. Perry, Jr., Senior Analyst

Through: Monica R. Valentine, Executive Director

Subject: Educational Session: GASB Statements No. 51 (Intangibles) and No. 96 (Subscription-Based Information Technology Arrangements) – **Tab A**¹

MEMBER ACTION REQUESTED:

None. Advance questions for the panelists were requested prior to the release of this memorandum.

LEARNING OBJECTIVES

1. Discuss state and local government accounting requirements for intangibles and subscription-based information technology arrangements (SBITAs) under Governmental Accounting Standards Board (GASB) standards.
2. Discuss the scope, applicability, and requirements of GASB standards on intangibles and SBITAs as it relates to technology, including internally-developed software, cloud-computing arrangements (i.e., software as a service, platform as a service, and infrastructure as a service), etc.

BRIEFING MATERIAL

You may electronically access all of the briefing material at <https://fasab.gov/board-activities/briefing-materials/>.

The briefing materials include this memorandum and the following attachments:

Attachment 1 – Presentation slides

Attachment 2 – Biographies of Ms. Deborah Beams and Ms. Jialan Su

Phase

Intangibles and SBITAs are not currently on the Board's technical agenda. Rather, these are considered potential projects.

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

Background

In light of the software licenses working group's findings and resulting staff recommendations,² at the June 2020 Board meeting, members agreed to begin the process of considering potential projects on intangibles and SBITAs.

FASAB Statements do not provide a comprehensive, modern framework for accounting for intangible assets and SBITAs. SFFAS 6, *Accounting for Property, Plant, and Equipment*; SFFAS 10, *Accounting for Internal Use Software*; and SFFAS 54, *Leases*, provide guidance on certain types of assets that are intangible in nature. While these Statements address land and water rights, internally-developed software, and right-to-use lease assets, the delineation and accounting treatment for these types of assets have led to inconsistent applications as evidenced by numerous preparer inquiries.

For example:

- SFFAS 10 classifies internal use software (IUS), as tangible property and equipment. Practitioners and other standards-setters, including GASB, have long viewed IUS as intangible. SFFAS 10 was also modeled around the historical waterfall approach for software development; however, agencies have moved towards other methods of incremental development using other approaches, such as agile development. Technical Release 16 addresses some but not all of the resulting implementation issues. Specifically, staff continues to receive questions regarding cloud-based subscription services that do not convey either a perpetual license or a title to the underlying software. In such cases, preparers are seeking clarity regarding the proper treatment of said costs and whether such costs should follow leases guidance or simply be expensed as incurred.
- SFFAS 6 includes land and water rights and rights of way under the definition of PP&E. This results in implementation challenges surrounding the nature and appropriate accounting for those types of assets under that Statement, which includes recognition and measurement criteria more suitable for tangible assets. Moreover, it is important to note that during the Land project's June 2017 deliberations, the Board agreed that because land rights are intangible assets, any open issues related to their treatment should not be addressed by SFFAS 6 and excluded from the land project's scope.³

Other types of federal intangibles that may have the essential characteristics of assets described under SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, such as certain types of licenses, patents, and trademarks, are not addressed in FASAB Statements.

Staff has historically fielded many questions and technical inquiries on accounting for intangible assets, agile software development, and SBITAs. The frequency of these inquiries has increased as agencies continue to enter into more cloud computing

²See FASAB.gov, Board meetings and briefing materials page, [June 2020 Tab C](#) briefing materials.

³See FASAB.gov, Archived meetings page, [June 2017 meeting minutes, p. 20](#).

arrangements, adopt new technologies, and consider other secondary effects of SFFAS 54, *Leases*, on implementing SFFAS 10 and Technical Release 16 when accounting for software licenses.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, was issued in June 2007 and became effective for reporting periods beginning after June 15, 2009.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, was issued in May 2020 and becomes effective for fiscal years beginning after June 15, 2022.

Next Steps

Board members are welcome to submit any follow-up questions not covered during the session to staff to research. Staff will follow up with the panelists as appropriate. Staff will return to the Board table at a future meeting with a potential project plan and obtain member feedback.

MEMBER FEEDBACK

Please provide feedback to Mr. Perry at PerryRA@fasab.gov with a cc to Ms. Valentine at ValentineM@fasab.gov, by **August 21, 2020**.

FASAB Education Session on Statements 51 and 96



An Overview of GASB Statement 51 and Statement 96

August 26, 2020

Jialan Su and Deborah Beams, GASB Supervising Project Managers

The views expressed in this presentation are those of Ms. Su and Ms. Beams.
Official positions of the GASB are reached only after extensive due process and deliberations.

Overview

Statement 51

- Definition & scope
- Classification
- Recognition
- Internally generated computer software
 - Stages of activities
 - Capitalization criteria
- Amortization issues

Statement 96

- Background
- Definition & scope
- Subscription term and short-term SBITAs
- Recognition & measurement
- Activities in implementation stages
- Other provisions

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets, as amended*

Definition and Scope

- Intangible asset is an asset that has all of the following characteristics:
 - Lack of physical substance
 - May be contained in or on an item with physical substance, for example, a compact disc containing computer software
 - Also may be closely associated with an item with a physical substance, for example, right-of-way easement associated with a piece of land
 - Nonfinancial nature
 - Not in a monetary form such as cash and investment securities
 - Initial useful life extending beyond a single reporting period

Definition and Scope (continued)

- Statement 51 applies to all intangible assets except for the following:
 - Assets that meet the definition of investments
 - Assets resulting from:
 - Lease transactions reported by lessees (Statement 87)
 - Assets of an operator resulting from P3s (Statement 94)
 - Subscription-Based Information Technology Arrangements (Statement 96)

Classification

- All intangible assets subject to Statement 51 should be classified as capital assets
 - All guidance related to capital assets should be applied to intangible assets, as applicable

Recognition

- Recognize an intangible asset *only* if it is identifiable.
- An intangible asset is considered identifiable when *either* of the following conditions is met:
 - Asset is separable
 - Capable of being separated or divided from the government, sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, asset, or liability
 - For example, trademarks, patents, computer software
 - Asset arises from contractual or other legal rights
 - Regardless of whether those rights are transferable or separable
 - For example, easements, water rights, timber rights

Computer Software

- Intangible asset, whether internally generated or not
- Computer software is considered internally generated if
 - It is developed in-house by the government's personnel or by a third-party contractor on behalf of the government, or
 - It is purchased or perpetually licensed by the government and modified using more than minimal incremental effort before being put into operation
 - For example, perpetually licensed financial accounting software that the government modifies to add special reporting capabilities

Internally Generated Computer Software

■ Three Stages of Activities:

- Preliminary Project Stage: activities such as conceptual formulation and evaluation of alternatives, determination of the existence of needed technology, and the final selection of alternatives for the development of the software
- Application Development Stage: activities such as design of the chosen path, including software configuration and software interfaces, coding, installation to hardware, and testing, including the parallel processing phase
- Post-Implementation/Operation Stage: Activities such as application training and software maintenance

Internally Generated Computer Software (continued)

Tab A - Attachment 1

■ Data Conversion

- Should be considered an activity of Application Development Stage *only* to the extent it is determined to be necessary to make the computer software operational (in condition for use)
- Otherwise, is an activity of the Post-Implementation/Operation Stage

Internally Generated Computer Software (continued)

- Accounting for the Three Stages of Activities:
 - *Preliminary Project Stage:*
 - Outlays incurred in this stage should be expensed as incurred
 - *Application Development Stage:*
 - Outlays incurred in this stage should be capitalized.
 - Capitalization should cease no later than the point at which the computer software is substantially complete and operational
 - *Post-Implementation/Operation Stage:*
 - Outlays incurred in this stage should be expensed as incurred

Internally Generated Computer Software (continued)

- Activities within the three stages may occur in a different sequence
 - Accounting for the outlays associated with the development of internally generated computer software should be based on the nature of the activity, not the timing of the occurrence
 - For example, training activities, even if incurred in Application Development Stage, should be expensed as incurred

Internally Generated Computer Software (continued)

- Capitalization criteria: capitalize outlays incurred after computer software is already in operation if the modification results in any of the following:
 - An increase in the functionality of the computer software
 - An increase in the efficiency of the computer software
 - An extension of the estimated useful life of the software

Amortization Issues

- Useful life of an intangible asset that arises from contractual or other legal rights should not exceed the contractual or legal limit
- An intangible asset has an indefinite useful life if there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset.
 - For example, a permanent right-of-way easement
 - Intangible assets with indefinite useful lives should *not* be amortized

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*

Background

- **What:** GASB Statement 96, provides guidance on accounting and financial reporting for subscription-based information technology arrangements (SBITA) for government end users.

- **When:**
 - Issued May 2020
 - Effective for fiscal years beginning after June 15, 2022
 - Earlier application is encouraged

Background (continued)

■ Why:

- Stakeholders were concerned that those transactions may not be covered by the guidance in Statements 51 or 87; diversity existed in practice

■ Relevant Guidance Considered:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*
- GASB Statement No. 87, *Leases*

Definition of a SBITA

- A contract that conveys control of the right to use another entity'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.
- This definition is very similar to that of a lease in Statement 87

Definition of a SBITA (continued)

- Control requires both of the following:
 - the right to obtain the present service capacity from use of the underlying IT assets, as specified in the contract, and
 - the right to determine the nature and manner of use of the underlying IT assets, as specified in the contract

- The definition
 - excludes contracts that solely provide IT support services, but
 - includes contracts that contain *both* a right-to-use IT asset component and an IT support services component

Statement 96 Scope Exclusions

- Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets that meet the definition of a lease in Statement 87 in which the software component is insignificant when compared to the cost of the underlying tangible capital asset (for example, a computer with operating software or a smart copier that is connected to an IT system)
- 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 a public-private and public-public partnership in paragraph 5 of Statement 94
- Licensing arrangements that provide a perpetual license to governments to use a vendor's computer, subject to Statement 51

Subscription Term

- For *financial reporting*, the subscription term is the noncancellable period, plus periods covered by a government's and SBITA vendor's options to:
 - Extend the SBITA, if the option is *reasonably certain* of being exercised
 - Terminate the SBITA, if the option is *reasonably certain* of NOT being exercised
- Excludes “cancellable” periods
 - Periods for which the government and the SBITA vendor both have the option to terminate or both parties have to agree to extend
 - For example, rolling month-to-month SBITAs
- Fiscal funding/cancellation clauses ignored unless *reasonably certain* of being exercised

Short-Term SBITA Exception

- A *short-term* SBITA is one that, at the commencement of the subscription term, has a maximum possible term under the contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised.
- No asset or liability to be recognized for a short-term SBITA
- Recognize the subscription payments as an expense
- No required note disclosures
- This exception is the same as short-term leases in Statement 87

Recognition and Measurement

- Recognize a *subscription liability* and an intangible right-to-use asset (the “*subscription asset*”), except for short-term SBITAs, at the commencement of the subscription term
- Commencement of subscription term occurs when the initial implementation stage is completed, at which time the subscription asset is placed into service

Subscription Liability

- Initial measurement of a subscription liability includes:
 - Fixed payments
 - Variable payments based on an index or rate (such as CPI), using the rate as of the commencement of the subscription term
 - Variable payments that are fixed in substance
 - Payments for termination penalties, if subscription term reflects government exercising termination options or fiscal funding/cancellation clauses
 - Contract incentives receivable from the SBITA vendor
 - Any other *reasonably certain* payments

Subscription Liability (continued)

- Subscription liability does *not* include variable payments that are dependent on future performance, usage of an underlying IT asset, or number of user seats
- Future subscription payments discounted using the interest rate the SBITA vendor charges the government (may be implicit) or, if that rate cannot be readily determined, the government's estimated incremental borrowing rate

Subscription Asset

- Initially measure subscription asset as the sum of the following, less any SBITA vendor incentives received at the commencement of the subscription term:
 - a. Initial measurement of subscription liability
 - b. Payments made to the SBITA vendor at the commencement of the subscription term
 - c. Capitalizable initial implementation costs (necessary ancillary charges to place the subscription asset into service)

Activities in Implementation Stages

- Three Stages, similar to those in Statement 51 (Slide 9)
 - Preliminary Project Stage
 - Includes activities such as evaluating alternatives and selecting a SBITA vendor
 - Initial Implementation Stage
 - Includes all ancillary charges necessary to place the subscription asset into service
 - Operation and Additional Implementation Stage
 - Includes activities such as maintenance and other activities for a government's ongoing operations related to a SBITA, and if applicable, subsequent implementation activities

Activities in Implementation Stages (continued)

- Stages of Implementation (a difference from Statement 51)
 - If a SBITA has more than one module and the modules are implemented at different times, initial implementation stage for the SBITA is completed when initial implementation is completed for the *first* independently functional module or for the *first* interdependent modules, regardless of whether all remaining modules have been completely implemented

Activities in Implementation Stages (continued)

Tab A - Attachment 1

- Accounting for stages (similar to Statement 51)
 - Preliminary Project Stage
 - Outlays should be expensed as incurred
 - Initial Implementation Stage
 - Outlays generally should be capitalized as part of the subscription asset
 - If no subscription asset is recognized (for example, for short-term SBITAs), outlays should be expensed as incurred
 - Operation and Additional Implementation Stage
 - Outlays should be expensed as incurred unless they meet specific capitalization criteria

Activities in Implementation Stages (continued)

Other similarities to Statement 51 include:

- In classifying certain outlays into the appropriate stage, the nature of the activity should be the determining factor.
- Training costs should be expensed as incurred, regardless of the stage in which they are incurred.
- Additional outlays that are not a result of SBITA modifications should be capitalized if they result in either:
 - An increase in the functionality of the subscription asset
 - An increase in the efficiency of the subscription asset

Other provisions

- SBITA vendor incentives
- Contract with multiple components
- Contract combinations
- SBITA modifications and terminations
- SBITA note disclosures

Questions?

Deborah Beams, CPA
Supervising Project Manager
Governmental Accounting Standards Board

Deborah Beams is a supervising project manager with the Governmental Accounting Standards Board (GASB) in Norwalk, Connecticut. Currently, she is working on compensated absences. Previously, she had worked on projects leading to Statements on fair value, external investment pools, conduit debt, subscription-based information technology arrangements, and leases.

Deborah joined the GASB staff in 2018 and had previously worked for the GASB as a practice fellow. She spent over 10 years in public accounting as an auditor, working primarily with government and not-for-profit clients.

Deborah received her bachelor's and master's degrees from the University of North Texas and is a certified public accountant in the state of Texas.

Jialan Su, CPA
Supervising Project Manager
Governmental Accounting Standards Board

Jialan Su is a supervising project manager with the Governmental Accounting Standards Board (GASB) in Norwalk, Connecticut. She is currently working on GASB projects related to Conduit Debt Obligations, Subscription-based IT Arrangements, and other pre-agenda research projects. Previously, she has worked on the projects leading to Statement No. 72, *Fair Value Measurement and Application*, Statement No. 79, *Certain External Investment Pools and Pool Participants*, Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 85, *Omnibus 2017*, Statement No. 87, *Leases*, Statement No. 96, *Subscription-Based Information Technology Arrangements*, and various Implementation Guide Updates.

Before joining the staff of the GASB in 2013, Jialan spent 10 years working in public accounting performing financial and compliance audits mainly of local governments and not-for-profit entities in California and later in New York City.

Jialan holds a master's degree in Economics from the California State University, East Bay. She is a member of the American Institute of Certified Public Accountants and the New York State Society of CPAs. She is a licensed CPA in the states of New York and California.