August 26, 2019

Mr. David Bean
Director of Research and Technical Activities
Project No. 38
Governmental Accounting Standards Board
PO Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

The State and Local Government Finance Division (SLGFD), as staff to the Local Government Commission (LGC), has oversight over local governments in North Carolina. One important way we exercise oversight for most local governments is through review of the annual audited financial statements. The statements are audited by independent CPAs, submitted to the SLGFD, and reviewed by our staff for GAAP presentation and signs of financial weakness. Almost all our entities have a June 30 fiscal year end and because they issue GAAP statements, we are able to compare statements and study trend data utilizing a number of variables including size or type of government.

We appreciate the opportunity to comment on the Exposure Draft: Subscription-Based Information Technology Arrangements (SBITAs). We believe the issues being discussed in this document are important in the GASB’s efforts to provide better and more complete information to financial statement users. After careful consideration of the material, we offer the following comments.

Since many local North Carolina governments currently utilize SBITAs, we encourage the Board to provide substantive detail on how to apply the standard to agreements that exist at the time of adoption. Specific detail on how to measure the subscription asset and liability as of the date the standard is implemented will help ensure more consistent financial reporting. In addition, for Contract Modifications and Terminations (referenced in Paragraphs 50, 53, and 54), full or partial contract termination for existing SBITA’s may prove difficult in trying to assign a value to individual facets of the agreement that were not identified in the original contract. Providing options of methodologies to use in determine a value in such cases would be helpful and ensure consistent valuation across governmental units.

Impairment indicators, referenced in paragraph 39 of the Exposure Draft, that explicitly relate to this type of asset should be provided to assist the user in identification of an impairment. Details on how to measure impairment and the parameters to use in such measurement also should be provided. One example of a transaction that would relate specifically to SBITAs is when a provider of a SBITA discontinues support of or significantly upgrades the service and/or product that a governmental unit has contracted to use such that the governmental unit is essentially using a different product than what is currently being supported or offered by the provider. In such case, the government unit would have to find a different provider, which would trigger
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recognition of either a contract termination or impairment. By providing specific detail on how to account for such isolated transactions involving SBITAs, the Board can reduce inconsistency in governmental financial reporting.

Thank you again for the opportunity to comment on this proposed statement.

Sincerely,

[Signature]

Sharon G. Edmundson, MPA, CPA  
Director, Fiscal Management Section