

## MEMORANDUM

To: Finance Officers of Municipal Accounting System (MAS) Towns, Catch-Up Bookkeepers and Town Auditors

From: NCLM Accounting Assistance Staff

Date: August 1, 2023

Subject: MAS Towns' Accounting and Reporting for Black Mountain Software Related Transactions

### **Financial Accounting:**

The NC League of Municipalities (League) reached out to the Local Government Commission (LGC) concerning GASB Statement No. 96, Subscription-Based Information Technology Arrangements (SBITA). According to the LGC's [Memo No. 2023-09](#), a SBITA arrangement is a subscription-based transaction. Since the League is purchasing a license to the Black Mountain Software (BMS) on behalf of the Municipal Accounting System (MAS) Towns, the transaction meets one of the exceptions noted in GASB 96. Licensing agreements that provide a perpetual license to governments are exempted from GASB Statement 96 and covered instead by provisions of GASB Statement 51, Accounting and Financial Reporting for Intangible Assets.

Therefore, the GASB 96 SBITA accounting and reporting requirements do not apply to the BMS contracts.

However, there are accounting requirements associated with the BMS financial systems that will apply to the MAS Towns. After the MAS Town and the League have executed the legal documents required for the MAS process, one of the next steps is to begin converting the Town's data to the Uniform Chart of Accounts (COA). At this point in the process, the League disburses the first of two payments to BMS for License Purchase Fees, the Annual Service Fees for Year 1, and the Conversion Fees to Black Mountain Software (BMS), based on the package that the Town has selected.

In the fiscal year that the MAS Town converts and implements the MAS Program and the League makes that first payment on the Town's behalf, there are several full-accrual journal entries that the Town or their bookkeeper will need to post in the Town's financial system and statements. The dollar amount of the entries the Town will need to post are available in the Town's Service Fee Schedule with the League. A sample Service Fee Schedule and related journal entries are included in Exhibit A of this memo. The MAS Town will need to record the software license purchase fees as a donated capital asset and the annual service and conversion fees paid by the League on their behalf as

operating costs in the full-accrual statements only. **These entries only need to be posted in the government-wide statements and the proprietary statements, not the modified accrual statements or in the budgeted statements.** [Note: The revenue is posted as Donated Revenue, not ARP Revenue, because it is not subject to grant reporting by the MAS Town per the Compliance Reporting discussion below.] The modified accrual statements do not report assets and the Donated Revenue does not meet the definition of modified accrual revenue because it is never “available” to the town but paid directly to the BMS service provider. As a result, neither the governmental funds nor the budget-to-actual statements are required to report these Year 1 transactions. If there are bank fees or similar charges associated with the costs of using BMS, the MAS Town will need to budget and pay for those costs as they would any routine operating costs when the BMS system is implemented.

At the time of the system implementation, other miscellaneous items, such as cash drawers or receipt printers may be purchased by the League for the Town’s use with BMS. Depending on the cost of those items and the Town’s capitalization threshold, those items will need to be reported as either donated assets or expenses within the government-wide and proprietary statements only.

After the conversion and implementation of the Town to BMS are completed and the Town is utilizing BMS, the League will then prepay the Annual Service Fees for Year 2 and Year 3.

Those Year 2 and 3 prepayments will need to be recognized as expenses in the MAS Town’s government-wide statements during the fiscal year to which they apply with the dollar amounts of the entries based on the Town’s Service Fee Schedule with the League. Like the prior year entries, these are also posted only in the government-wide statements and the proprietary statements, and not the modified accrual statements or in the budgeted statements. Beginning in Year 4, the MAS Town will assume responsibility by budgeting and paying for the annual service costs of the BMS system within the appropriate fund(s). If updates to the existing program occur, the League will communicate those to the MAS Towns.

Finally, per Section 14 of the License Agreement that will be executed between BMS and each MAS Town, either party, BMS or the MAS Town, can terminate the license agreement sixty days prior to the Annual Service Date fee date. As a result, MAS Towns also do not have to note disclose the required disclosures for long-term commitments or contracts since these are, by definition, short-term contracts.

To review a sample Initial Service Fee Schedule and the related journal entries, refer to Exhibit A on page 4 of this memorandum.

### **Compliance Reporting:**

Under Office of Management and Budget (OMB) Uniform Guidance, “beneficiaries” are typically defined as individuals that receive federal assistance through programs such as the federal food stamps or SNAPs Program. However, under the ARP/CSLFRF program, the US Department of

Treasury revised the definition of a “beneficiary” such that the provider can determine whether a recipient is a subrecipient or a beneficiary. In their role as provider, the League is treating the

MAS Towns as beneficiaries. This League decision is critical because beneficiary payments are not subject to the Federal or State Single Audit Act or the Yellow Book as a result. **None of the payments the League makes to BMS for software licenses and related services and fees on behalf of MAS Towns will be included on the towns’ Schedules of Expenditures of Federal and State Awards (SEFA).** In fact, NCLM local governments receiving OSBM-65 and OSBM-66 grant benefits all have the status of beneficiaries, this status is not limited to MAS towns. None of these benefits will need to be reported on the MAS Towns’ SEFA.

After your review of this memorandum, please let us know if you have any questions. You may wish to contact your Town’s Accounting Specialist for more information.

CC: Local Government Commission