



GASB 96 Subscription-Based IT Arrangements

December 2023 Government Seminar

First...How Do You Feel About Leases?



I loved GASB 87 –
bring on GASB 96!



I'm feeling good –
just need to refresh
my memory.



I don't know how to
feel.



OMG! Is it really
time for more
leases! HELP!!!!

Why GASB96?

- ❑ Increase in government agencies entering into subscription-based contracts for the right to use another's information technology
- ❑ Want these contracts to be reflected clearly within the financial statements



Effective Date

- ❑ For fiscal years beginning after June 15, 2022
 - Fiscal Year Ends June 30, 2023
 - Calendar Year ends December 31, 2023





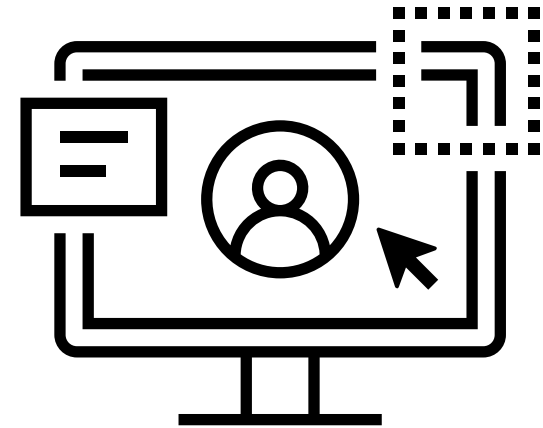
WHAT IS A SUBSCRIPTION-BASED IT
ARRANGEMENT?

What is a Subscription-Based IT Arrangement?

- ❑ “SBITA”
- ❑ Defined as:
 - A contract that **conveys control** of the right to use another party’s information technology (IT) software, **alone or in combination with tangible capital assets**, as specified in the contract for a **period of time** in an exchange or exchange-like transaction
- ❑ Think of it as a lease of IT software

Definition of Software

- ❑ GASB96 Statement does not define “software”
- ❑ Left up to professional judgement of each government
- ❑ Recommend to the client to define in a policy and apply consistently

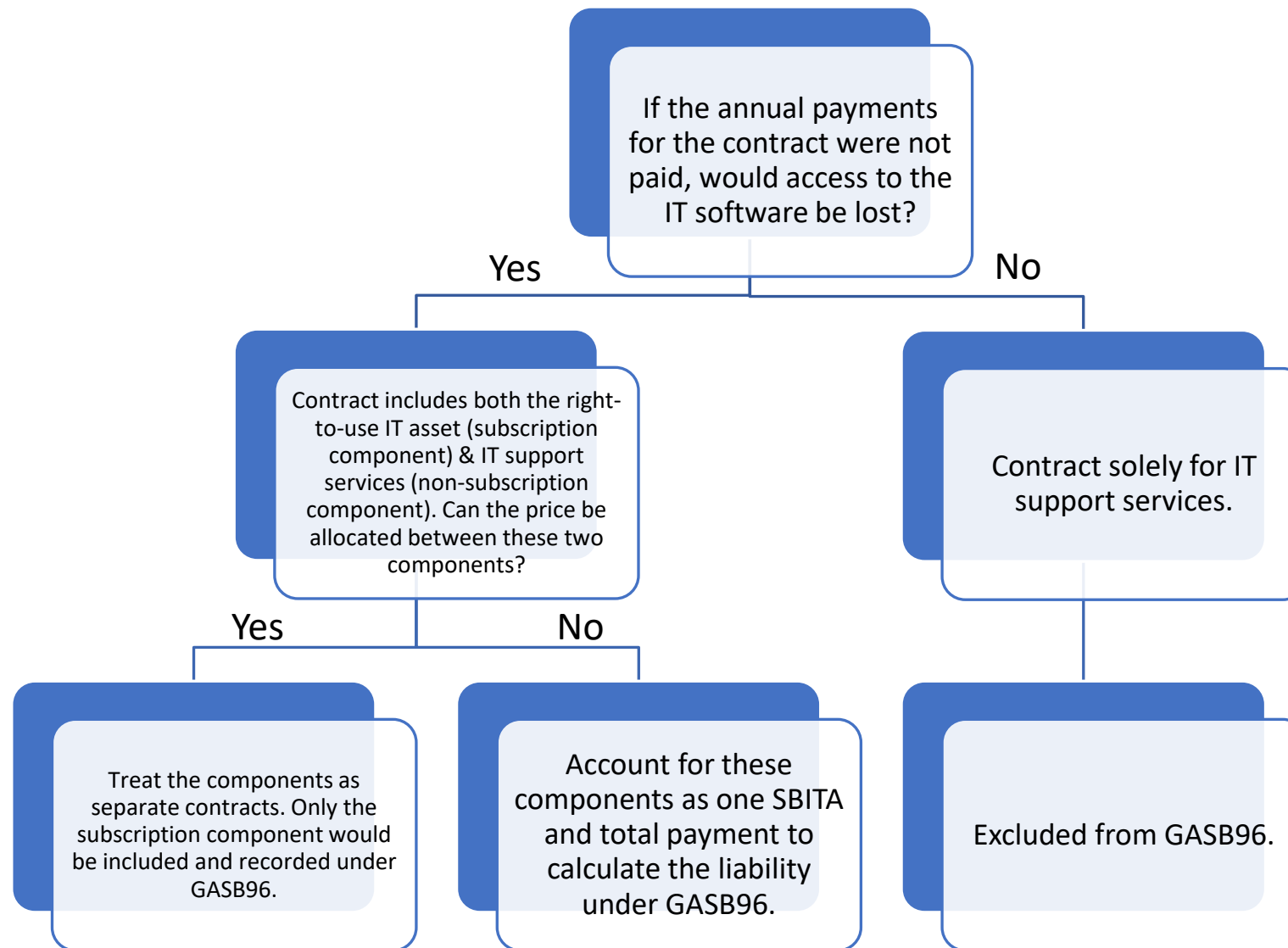


Conveys Control

- ❑ The government has the right to obtain the **present service capacity** from use of the underlying asset
- ❑ The government has the right to determine the **manner and use** of the underlying asset
- ❑ If a contract is **solely** in place to provide IT support services, it is excluded

IT Support Services

- ❑ Cannot fully rely on the name of the agreement/contract or the name of the annual payment (i.e., “Service Agreement”)
- ❑ Annual payment for “Maintenance & Support” could be included or excluded based on what the payment includes
- ❑ Questions to ask:
 - Client: “If the annual payments for maintenance & support were not paid, would access to the IT software be lost?”
 - Client: “What is the IT software being provided in this contract?”
 - Yourself: “Could the client obtain these services from another organization?”

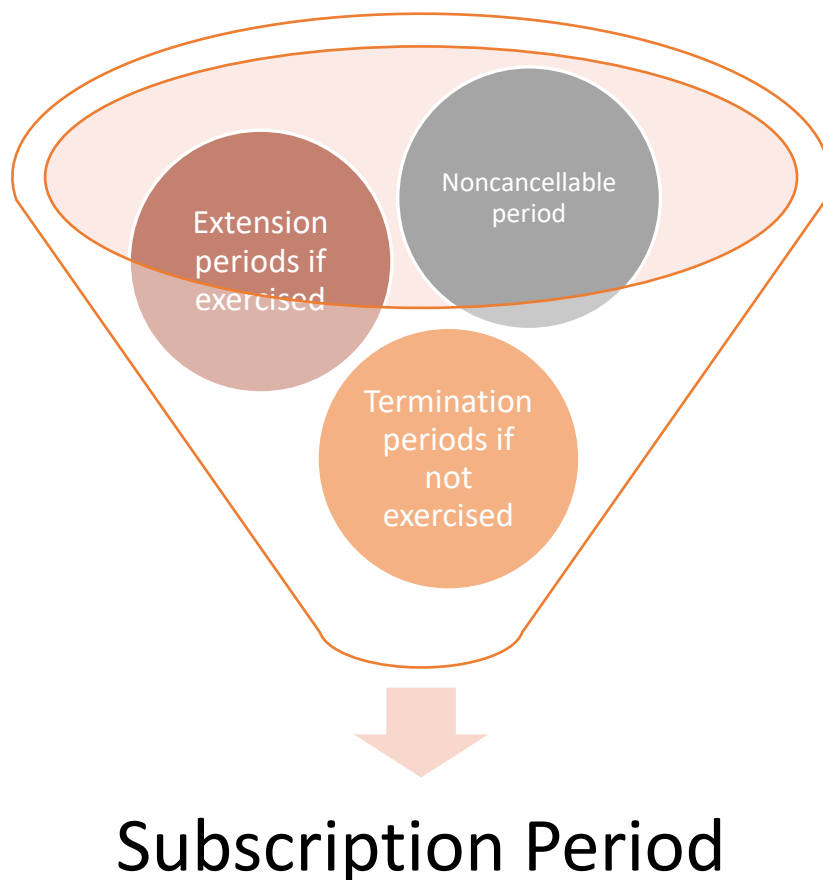


Alone or in Combination

- ❑ When a contract is for a combination of IT software and tangible capital assets:
 - If software is insignificant compared to the cost of the underlying asset, follow GASB 87
 - Otherwise, follow GASB 96



Period of Time



Periods for which **both** the government and the vendor have an option to terminate without permission or **both** have to agree to renew.



Extension periods **not** reasonably expected to be exercised



Termination periods reasonably expected **to be** exercised



Automatic renewals are considered to be termination periods and should be assessed accordingly



Subscription Term

- ❑ Starts when subscription asset is placed into service and continues for all noncancelable periods along with any options to extend with reasonable certainty
- ❑ Exclude: Cancelable periods where both parties have the option to terminate or both parties must mutually agree to extend
- ❑ Automatic Renewals
 - Clear future payment terms vs. unclear future payment terms

Common Examples

☐ Cloud-based accounting, workflow, document management, and ERP systems

- QuickBooks
- DocuSign
- Bill.com
- Outlook
- Dropbox
- Oracle
- Budgeting
- Mapping
- HR management

Just because you have one of these, doesn't automatically mean they become SBITAs on your financial statements.



Cloud Computing Arrangements

- ❑ Software as a Service (SaaS)
 - Ability to use vendor's software application and cloud infrastructure (network, servers, operating system, **storage**, and other tools)
- ❑ Platform as a Service (PaaS)
 - Ability to use vendor's tools or coding language to create applications that run on the SBITA vendor's cloud infrastructure
- ❑ Infrastructure as a Service (IaaS)
 - Allows the customer to remotely access the SBITA vendor's network or server to process, store, and operate the customer's data
 - Includes **hosting services**



WHAT COSTS QUALIFY FOR A SBITA?

How are Variable Payments Treated?

- ❑ If they depend on an index – **include index or rate as of commencement**
- ❑ If they are fixed in substance – **include**
- ❑ If they are based on consumption, future performance of a government, or number of user seats(licenses) – **do not include**
 - Example: Subscription contract for 4 licenses

What Discount Rate is Used?

Interest rate
charged by SBITA
vendor

OR

Government's
estimated
incremental
borrowing rate*

* Subject to significant management judgement

Are Implementation Costs Included?

- Evaluating alternatives, determining needed technology, selecting a vendor
- Expensed as incurred

PRELIMINARY PROJECT STAGE



- All ancillary charges necessary to place the subscription asset into service
- *Maybe data conversion*
- Generally, capitalized

INITIAL IMPLEMENTATION STAGE



- Subsequent implementation activities, maintenance, and other activities
- *Maybe data conversion*
- Generally expensed unless they meet specific capitalization criteria

OPERATION AND ADDITIONAL IMPLEMENTATION STAGE



Training costs are always expensed

GASB Exposure Draft

4.8. Q—A government enters into a six-year subscription-based information technology arrangement (SBITA) contract with no options to extend or terminate the contract and begins making semiannual subscription payments to the SBITA vendor immediately after the contract takes effect. The initial implementation stage is not completed until the end of the second year after the contract takes effect. What is the subscription term?

A—The subscription term is four years. The initial implementation stage is completed at the end of the second year of the contract. Therefore, in accordance with paragraphs 9 and 15 of Statement 96, the subscription term commences at the beginning of the third year and ends at the conclusion of the sixth year when the SBITA contract ends.

SBITA with Multiple Modules

- ❑ Subscription asset is placed into service when initial implementation is completed for the first independently functioning module or first set of modules
- ❑ Additional modules completed after the asset is placed into service is considered a subsequent implementation outlay
- ❑ Additional outlay will be capitalized to the current subscription asset if either of the following result (otherwise expense):
 - Increase in the functionality of the asset
 - Increase in efficiency

Perpetual and Short-Term Arrangements

- ❑ **Perpetual** Licensing Arrangements – Not included under GASB 96
 - SBITA is intended to recognize those arrangements that grant a right to use an asset for a limited time
 - These arrangements may be subject to GASB No. 51, *Accounting and Financial Reporting for Intangible Assets*
- ❑ **Short-Term** – To qualify as short-term, must have a maximum possible term of 12 months or less
 - Include all options to extend, regardless of their probability of being exercised

GASB Exposure Draft

Statement No. 96, Subscription-Based Information Technology Arrangements

4.7. Q—Is a licensing agreement for a vendor’s computer software that automatically renews until cancelled a licensing agreement that provides a perpetual license?

A—No. A provision under which a licensing agreement automatically renews until cancelled is an option to terminate the agreement at each renewal date. An agreement that includes an option to terminate is not a purchase, whereas a perpetual license is a purchase in which a government is granted a permanent right to use the vendor’s computer software. Therefore, a licensing agreement for a vendor’s computer software that automatically renews until cancelled does not provide a perpetual license.



HOW IS A SBITA REPORTED?

What Does GASB 96 Require?

- ❑ For qualifying arrangements:
 - Right-to-use subscription asset
 - Subscription liability
- ❑ The accounting for SBITAs is based on the accounting for leases under GASB 87

Future Payments Included in the Measurement of the Lease Liability

- ☐ Fixed Payments
- ☐ Variable payments that depend on an index or rate
- ☐ Variable payments fixed in substance
- ☐ Payments for penalties for terminating the lease
- ☐ Lease incentives receivable from the SBITA vendor
- ☐ Any other payments to the vendor associated with the SBITA contract that are reasonably certain of being required

Right-of-use Subscription Asset

- ❑ Initial measurement of the subscription liability
- ❑ Payments associated with the SBITA contract made to the SBITA vendor at the commencement of the term, if applicable
- ❑ Capitalizable initial implementation costs

Modification to Lease Liability

- ❑ Examples:
 - Change in contract price
 - Lengthening or shortening of the subscription term
 - Adding or removing underlying IT assets
 - Changing the index or rate upon which variable payments depend
- ❑ Results in remeasurement of the subscription liability. Adjust the subscription asset by the difference between the remeasured liability and the liability immediately before the modification.
- ❑ Treat as separate SBITA if **both** of the following are true:
 - It gives an additional subscription asset by adding more access to the underlying IT asset not included in the original contract.
 - The increase in subscription payment for the additional asset does not appear unreasonable

At Transition of GASB 96

- ❑ Use facts and circumstances that existed at the beginning of the earliest period restated, NOT the commencement date of the SBITA
- ❑ Report as a restatement of all periods presented
 - If not practicable, the cumulative effect should be reported as a restatement of beginning net position for the earliest fiscal year restated
- ❑ MD&A and RSI do not have to be restated for prior periods



What is the Subsequent Accounting?

- ❑ Subscription Asset
 - The subscription asset should be amortized in a systematic and rational manner over the **shorter of** the subscription term or the useful life of the underlying IT assets
 - Amortization expense may be combined with depreciation expense



What is the Subsequent Accounting? (cont.)

- ❑ Subscription Liability
 - Reduce liability by principal portion of payments
 - The discount on the subscription liability should be amortized and reported as interest expense
 - Consider if accrued interest is required to be reported

For Governmental Funds

Other Financing Source
to record new
subscription with an
offsetting expense in the
appropriate function

Debt service expense to
record payments on
subscription

For Government Wide

Subscription Lease Asset:
Recognize and amortize
over life of lease/asset

Subscription Lease
Liability: Amortize over life
of the lease



An Example

	General Fund	-
Revenues:		
Local sources	\$ 28,486,023	
State sources	30,722,463	
Federal sources	65,432,440	-
Total revenues	124,640,926	-
Expenditures:		
Instruction	48,524,825	
Support services	66,831,319	
Operation of noninstructional services	6,493,385	
Facilities acquisition, construction and improvement services	268,554	
Debt service:		
Principal and interest	2,175,020	-
Total expenditures	124,293,103	-
Other Financing Sources (Uses):		
Proceeds from extended term financing	1,279,083	
Fund transfers	2,813,329	
Special item	-	-
Total other financing sources (uses)	4,092,412	-
Net Change in Fund Balance	4,440,235	

<u>Assets</u>	<u>Governmental Activities</u>	<u>-</u>
Cash and cash equivalents	\$ 72,673,046	
Internal balances	9,653	
Due from other governments	29,229,002	
Other current assets	64,182	
Inventory	577,475	
Net OPEB asset	2,190,557	
Capital assets	29,151,712	
Right-to-use asset - office space	6,077,591	
Right-to-use asset - subscription	826,697	
Less: accumulated depreciation	(19,502,750)	
Capital assets, net	16,553,250	
Total assets	121,297,165	

	Beginning Balance at July 1, 2022	Increases	Decreases	Ending Balance at June 30, 2023
Governmental Activities:				
Capital assets, being depreciated:				
Buildings	\$ 9,684,524	\$ 20,453	\$ -	\$ 9,704,977
Right-to-use asset - property	4,798,508	1,279,083	-	6,077,591
Right-to-use asset - subscription	826,697	-	-	826,697
Machinery, equipment, and furniture	<u>15,757,238</u>	<u>3,970,657</u>	<u>(281,160)</u>	<u>19,446,735</u>
Total capital assets, being depreciated	31,066,967	5,270,193	(281,160)	36,056,000
Less: accumulated depreciation/amortization	<u>(16,023,129)</u>	<u>(3,760,781)</u>	<u>281,160</u>	<u>(19,502,750)</u>
Governmental activities capital assets, net	<u><u>\$ 15,043,838</u></u>	<u><u>\$ 1,509,412</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 16,553,250</u></u>

	Balance at June 30, 2022	Change in Liability	Principal Payments	Balance at June 30, 2023	Due Within One Year
Compensated absences	\$ 4,320,828	\$ 401,399	\$ -	\$ 4,722,227	\$ 731,834
Subscription liability	-	908,979	(260,236)	648,743	301,364
Lease liability	3,245,710	1,279,083	(1,660,845)	2,863,948	1,591,327
Total non-current liabilities	<u>\$ 7,566,538</u>	<u>\$ 2,589,461</u>	<u>\$ (1,921,081)</u>	8,234,918	<u>\$ 2,624,525</u>

Footnote Changes

Discuss restatement, if any

Discuss capitalization policy for SBITA

Discuss SBITA accounting policies

Add right-to-use assets to capital asset schedule

Add subscription liabilities to long-term debt schedule

New subscription footnote

Disclosures

- ❑ Same as GASB87 except do not have to disclose major classes of subscription assets

Subscription Based Information Technology Agreement (SBITA) (FOOTNOTE)

During the year ended June 30, 2021, KCDC entered into an agreement with a vendor to allow KCDC to use their cloud-based accounting, compliance, and agency management technology solution. This agreement qualifies as a SBITA under GASB 96, which was adopted in the current period as described earlier in Note XX and required a restatement of beginning balances. The agreement is for a term of 5 years beginning March 2021, with payments made on a yearly basis after implementation. The agreement has an assumed interest rate of 3.0%. As of June 30, 2022, the value of the subscription asset was \$1,511,484 and had accumulated amortization of \$403,063.

The future principal and interest payments required under the SBITA are as follows:

Create CHART from Excel Workbook – 5 years



ADDITIONAL CONSIDERATIONS

Differences between Subscriptions and Leases

There is no recording for SBITAs provided by a government to other entities

There is no provision for residual value guarantees or purchase options

There is no guidance on subleases, sale-leaseback transactions, lease-leaseback transactions, and related-party contracts

Disclosure of major classes of subscription assets is not required

Policies & Procedures

- ❑ Useful lives
- ❑ Policy for handling automatic extensions
- ❑ Procedures for updating and capturing new arrangements
- ❑ Procedures for monitoring and evaluating modifications in subsequent years

Overall Process

- ❑ Does the client have a complete list of all possible IT contracts? What can they do to ensure it is complete?
 - Review GL for recurring expenses that might indicate subscriptions
 - Ask employees to provide logos of common applications they use
- ❑ Does the contract meet the definition of a SBITA?
 - Keep good record of considerations made
 - Expect to ask follow up questions to determine this
- ❑ Is the SBITA material to the financials?



Questions?

NIKKI L. WALTON, CPA – SENIOR MANAGER

NWALTON@MD-CPAS.COM

412-535-5513

SOURCES:

GOVERNMENTAL ACCOUNTING STANDARDS
BOARD STATEMENT NO. 96, "*SUBSCRIPTION-
BASED INFORMATION TECHNOLOGY
ARRANGEMENTS*"