

# GASB 96: SBITA

I know what you did last summer,  
Now What?

TEXAS CLASS PFIA SEMINAR  
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CRI PRESENTER

## Presenter



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### Professional Affiliations

- Association of International Certified Professional Accountants (AICPA)
- New Mexico Society of Certified Public Accountants (NMSCPA)
- Association of Government Accountants (AGA) – Albuquerque Chapter – Past President
- Government Financial Officers Association (GFOA's) Special Review Committee (SRC) for the Certificate of Achievement of Excellence in Financial Reporting Program
- Approved to answer questions for the AICPA's Center for Plain English in the Government Area
- AICPA PCPS Technical Issues Committee Member

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## Today's Agenda – GASB 96: SBITA

### GASB 96 and Implementation Guide

- Overview

### What We Did Last Summer?

- Phase I
- Phase II

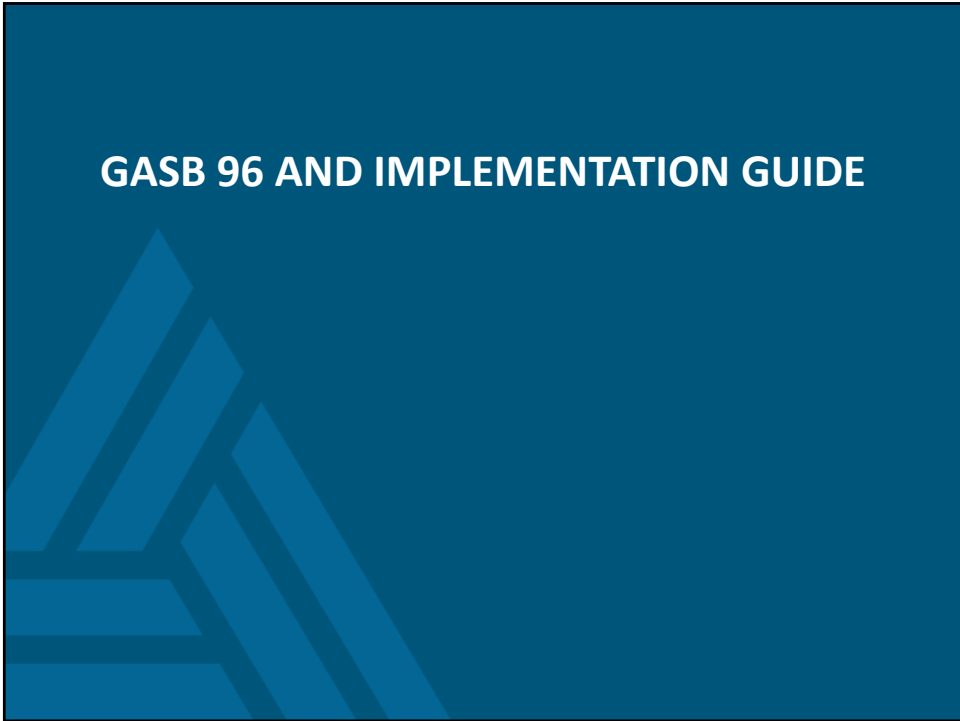
### Now What?

- Phase III
- Phase IV

### Challenges

### Questions?

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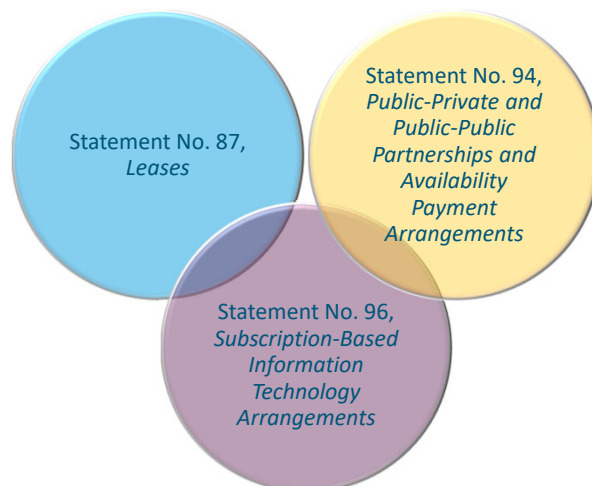
## Why did the GASB issue this Statement?

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Statement 87's lease guidance explicitly excludes leases of intangible assets from its scope, including licensing contracts for computer software

Stakeholders raised questions about how to account for and report cloud-based software contracts because the guidance in Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, did not apply well to the characteristics of cloud computing and other subscription-based software arrangements

## Three Related Pronouncements



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## Consistent Underlying Concept

	Leases	P3s	SBITAs
Short-term	Yes	No	Yes
Contracts that Transfer Ownership	Yes	No	No
Liability	Yes	Yes	Yes
Right to Use Asset	Yes	Yes	Yes
Underlying Asset	No	Yes	No
Deferred Outflows of Resources	No	Yes	No

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## Common Definition Components

### Lease:

- A **contract** that **conveys control of the right to use another entity's nonfinancial asset** (the underlying asset) as specified in the contract **for a period of time in an exchange or exchange-like transaction**

### P3:

- An arrangement in which a government (the transferor) **contracts** with an operator to provide public services by **conveying control of the right to operate or use a nonfinancial asset**, such as infrastructure or other capital asset (the underlying PPP asset), **for a period of time in an exchange or exchange-like transaction**

### SBITA:

- A **contract** that **conveys control of the right to use another party'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**

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## GASB 96 – SBITAs

- A subscription-based information technology arrangement (SBITA)
  - “is a **contract** that conveys **control of the right to use** another party'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.**”

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## SBITA - Defined

### Contract

- Legal enforceability
- Substance rather than label

### Exchange or Exchange-like

- Give equal value

### Period of Time

- Not perpetual

### Control of the Right to Use (judgement required)

- Obtain present service capacity
- Determine the nature and manner of use

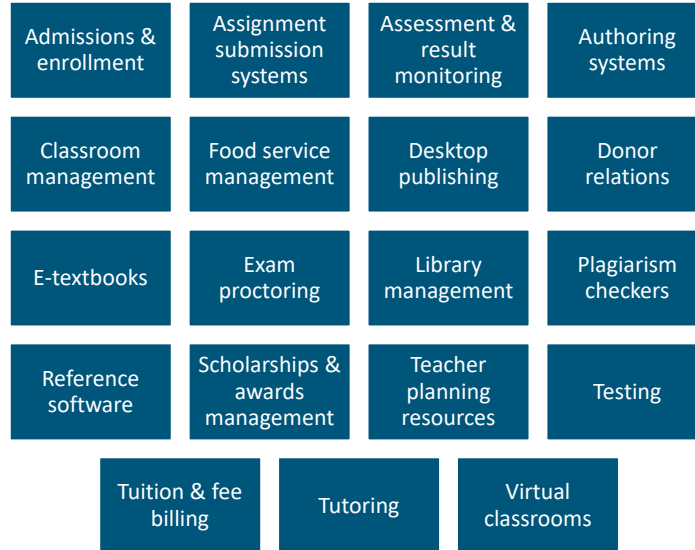
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## SBITAs May Appear throughout Government

Accounting and financial reporting	Antivirus & other utilities	Asset condition assessment	Budgeting	Capital asset management
Email	Emergency management	Employee benefits	Employee training & certification	Enterprise resource planning
Event Management	File management	GIS & mapping	Grant management	Inventory
Investment & cash management	Payroll	Permitting & licensing	Procurement management	Project management
Property tax assessment/billing	Records retention	Security systems	Spreadsheet & statistical software	Traffic monitoring
	Website development	Writing & proofreading	311	

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## SBITAs: Education



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## Arrangements Excluded from Statement 96

Combinations of IT software and hardware (1) that meet the definition of a lease in Statement 87 and (2) in which the software component is insignificant compared to the cost of the hardware

Governments acting as software vendors (Statement 96 only applies to subscribers)

Contracts that meet the definition of a P3 in Statement 94

Perpetual licenses for software (covered by Statement 51)

Arrangements that provide only IT support services

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## Arrangements with Both Software and Hardware

Statement 96 cites computers with operating systems and smart copiers connected to an IT system as examples

Professional judgment will be required to evaluate the significance of the software component in relation to the cost of the hardware

A key factor emphasized by the GASB is the requirement that a SBITA convey *control* of the right to use a vendor's IT assets – a contract may provide a subscriber with the right to *use* the assets without providing control

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## Short-Term SBITAs

As for leases under Statement 87, the basic approach of Statement 96 does not apply to short-term SBITAs

Short-term SBITAs have a maximum possible term of 12 months or less

- Includes noncancellable period and all periods covered by one-party options to extend (either the government or the vendor, but not both), *regardless of the likelihood of the option being exercised*
- Excludes all other periods

For short-term SBITAs, recognize period expense/expenditure based on the provisions of the contract

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## Subscription Term

Period	Include in Subscription Term?
Noncancellable	Yes
Covered by <i>either</i> a subscriber <i>or</i> vendor option to <b>extend</b> that is reasonably certain to be exercised	Yes
Covered by <i>either</i> a subscriber <i>or</i> vendor option to <b>extend</b> that is <i>not</i> reasonably certain to be exercised	No
Covered by <i>either</i> a subscriber <i>or</i> vendor option to <b>terminate</b> that is reasonably certain not to be exercised	Yes
Covered by <i>either</i> a subscriber <i>or</i> vendor option to <b>terminate</b> that is <i>not</i> reasonably certain not to be exercised	No
Covered by <i>both</i> subscriber <i>and</i> vendor options to <b>terminate</b> without the other party's permission	No
Covered by <i>both</i> subscriber <i>and</i> vendor options to <b>extend</b> that require both parties to agree	No

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## Subscription Term v. Maximum Possible Term



**Maximum possible term** is for the purpose of determining whether a SBITA is short term



**Subscription term** is for the purpose of measuring the subscription liability

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## Subscription Term v. Maximum Possible Term

Periods	Maximum Possible Term	Subscription Term
Noncancelable	Included	Included
Either government or vendor has option to extend	Included regardless of likelihood option will be exercised	Included if option is reasonably certain to be exercised
Either government or vendor has option to terminate	Not applicable	Included if option is reasonably certain not to be exercised
Both government and vendor have option to terminate	Excluded	Excluded
Both government and vendor must agree to extend	Excluded	Excluded

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## Automatic Renewals

For SBITAs that renew automatically, how are subscription term and maximum possible term evaluated?

Automatic renewal constitutes an option to terminate that both the government and the vendor can exercise unilaterally – therefore, any period beyond the first year is cancelable

All other factors being equal, this is a short-term SBITA

Furthermore, automatic renewals do not constitute a perpetual license, which does not require renewal

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## Statement 99 Issues

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An option to terminate is an unconditional right

- Therefore, a provision that gives a party the right to terminate only in certain circumstances or upon the occurrence of certain events, such as the action or inaction of the other party to the SBITA contract, *is not* an option to terminate the SBITA for purposes of determining the subscription term

A SBITA that previously had been determined to be short term and that has been modified to extend the initial maximum possible term should be reassessed from the inception of the SBITA, not from the date of the modification

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## Recognition

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Recognize a subscription liability for installment payments, at start of subscription term

Recognize an intangible right-to-use asset (the *subscription asset*), at start of subscription term

The subscription term starts when the *initial implementation stage* is completed (see later slides)

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## Measurement: Subscription Liability

Present value of the expected payments during the subscription term, including:

- Fixed payments
- Variable payments based on an index or rate, measured using the index or rate as of the start of the subscription term
- Variable payments that are fixed in substance
- Termination penalties if the subscription term reflects the government exercising an option to terminate or a fiscal funding or cancellation clause
- Incentives receivable from the vendor
- Any other payments to the vendor that are reasonably certain of being required

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## Discounting

Use the interest rate the SBITA vendor charges the government, which may be the interest rate implicit in the SBITA

Use the government's estimated incremental borrowing rate if the interest rate cannot be readily determined

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## Measurement: Subscription Asset

### Subscription asset = the sum of the following:

- Initial measurement of the subscription liability
- Payments made to vendor at or before start of the subscription term
- Capitalizable initial implementation costs (see later slides)

Payments made to the SBITA vendor or for capitalizable initial implementation costs before the start of the subscription term should be reported as a prepayment

- The amount of prepayments to the vendor should be reduced by incentives received from the vendor before the subscription term
- Prepayments should be reclassified as additions to the initial measurement of the subscription asset when the subscription term begins

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## Subsequent-Period Reporting

Report the amortization of the discount on the subscription liability as interest expense/expenditure

- Subscription payments should be allocated first to the accrued interest liability before the subscription liability

Amortize the subscription asset in a systematic and rational manner over the shorter of the subscription term or the useful life of the underlying IT assets

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## Implementation Stages

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SBITA-related activities other than making subscription payments should be grouped into one of three stages:

- Preliminary project stage
- Initial implementation stage
- Operation and additional implementation stage

The initial implementation stage is completed when the subscription asset is placed into service (which also is when the subscription term starts)

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## Implementation Stages (continued)

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SBITAs may have multiple modules that are implemented at different times

- If so, the initial implementation stage is completed and the subscription asset is considered placed into service when the initial implementation is finished for *(1) the first independently functional module or (2) the first set of interdependent modules*

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## Stages of SBITA Lifecycle

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### Preliminary Project Stage:

- Evaluating alternatives
- Selecting vendor

### Initial Implementation Stage:

- Time and cost to place the subscription asset into service
- Completed when asset is placed into service

### Operation and Additional Implementation Stage:

- Maintenance
- Ongoing operations related to SBITA
- Subsequent implementation activities

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## Stages of SBITA Lifecycle

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### Preliminary Project Stage:

- Outlays should be expensed as incurred

### Initial Implementation Stage:

- Outlays capitalized as part of subscription asset
- Exception: short-term subscription

### Operation and Additional Implementation Stage:

- Outlays should be expensed as incurred
- Exception: capitalize if increase the functionality or efficiency of subscription asset

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## Governmental Funds Reporting

If expected to be paid from general government resources, account for and report consistent with governmental fund accounting principles

Recognize an expenditure and other financing source in the period the subscription asset initially is recognized, measured in the same manner as the subscription liability

Subsequent subscription payments should be accounted for consistent with the principles for debt service payments

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## Disclosure

General description of SBITAs, including basis, terms, and conditions on which any variable payments not included in the measurement of the liability are determined

Total amount of subscription assets and related accumulated amortization, reported separately from other capital assets

Amount of outflows recognized during the period for variable payments and other payments (such as termination penalties) not included in the measurement of the liability

Principal and interest requirements to maturity, presented separately, for each of the next five years and in five-year increments thereafter

Commitments before the start of the subscription term

Components of any loss associated with an impairment

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## Effective Date and Transition

Effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter

Earlier application is encouraged

Should be applied retroactively by restating financial statements, if practicable, for all prior fiscal years presented

If not practicable, the cumulative effect of applying the Statement should be reported as a restatement of beginning balances, and the reason for not restating prior fiscal years disclosed

As with leases, SBITAs should be recognized and measured using the facts and circumstances as of the beginning of the year of implementation

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## WHAT WE DID LAST SUMMER?

## What We Did Last Summer?

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### Phase I – Understanding the Statement

- Training and initial discussion on GASB 96, SBITAs
- Template development for SBITA capture and communication within the organization, including all departments with the ability to enter into potential SBITA contracts

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## What We Did Last Summer?

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### Phase II – Completeness and Implementation Documentation

- Collect and extract data for identified SBITAs
- Input SBITAs into SBITA software
- Validate SBITA inputs
- Review selected contracts for presence of SBITA
- Perform SBITA population completeness procedures (recurring payment analytics/general ledger mining/purchasing questionnaire)

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# NOW WHAT?

## Now What?

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### Phase III – Policies and Procedures

- **Assess current state of processes and controls and provide recommendations for improvement**
- **Develop the government's future SBITA accounting policies and procedures and provide recommendations for improvement**
- **Determine if current leasing software or methods will work for GASB 96/SBITAs**

## Now What?

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### Phase IV – Entries, Disclosure, and Go Forward

- Review transition and first year entries, application of discount rates, and planned recurring journal entry activity
- Draft GASB 96/SBITA disclosures
- Training information technology, accounting/finance, and other departments on the process for subsequent years

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## CHALLENGES



## Challenges

### What are we looking for?

- Terminology is confusing for IT and non-IT folks as IT Software is not defined in the standard
- Types – Software as a service, platform as a service, infrastructure as a service, data warehousing as a services

### Can't find some of our agreement?

- Can't find all agreements for SBITA's/Recordkeeping is worse than leases
- Search online for master terms, reach out to software vendors, document steps taken

### Service, SBITA, or Hardware?

- Agreements are bundled
- Involve IT/Software vendor if unclear

### Small dollar amounts?

- Utilize materiality individual and aggregate (capital asset threshold/lower?)
- Full population needed to better understand. Document policy

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## Challenges

### Automatic Renewal?

- With and Without clear payment terms after 1 year
- Each renewal is a termination point/reasonably certain – subjective measurement – policy

### State Contracts/Piggybacking?

- Terms determined by state contract, local government piggybacks, no agreement with vendor
- Legally enforceable, substance > label, arrangement under state contract is acceptance of terms

### Subscription Amount Based Solely on User Licenses vs Tiered Pricing?

- Fixed or fixed in substance payment that is not dependent on future performance or usage
- GASB 96, paragraph 17 "...variable payments based on future performance of a government, usage of the underlying IT assets, or number of user seats, should not be included in the measurement of the subscription liability."
- Variable SBITAs are recognized in period incurred and still require note disclosure
- Fixed price up to number of seats regardless of active – subscription liability for number of seats purchases at beginning of period – usually there is a floor to be paid (fixed)

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**QUESTIONS?**

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