UNIVERSITY OF GEORGIA

GASB Statement No. 96 – Subscription-Based Information Technology Arrangements (SBITA)

What is GASB?

GASB is the acronym for Governmental Accounting Standards Board. This organization is an independent, private-sector organization that establishes authoritative accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles (GAAP).

Why is the reporting for Subscription-based Information Technology Arrangements (SBITA) Contracts changing?

There is limited guidance currently available for Subscription-Based Information Technology Arrangements, which has led to various ways of recording the related costs (such as expensing or capitalizing).

It has become common for government agencies to enter into subscription-based contracts to use vendor provided information technology (IT). In many cases, these subscription-based contracts extended beyond 1-year and create a financial liability for the government agency. GASB's concern is that the current financial statement presentation does not reflect outstanding obligations on SBITAs which could result in incorrect assumptions being made by users of the financial statements related to cash solvency of the governmental entity.

GASB Statement No. 96 establishes a definition for SBITAs and provides uniform guidance for accounting and financial reporting. This new standard will improve the comparability, relevance, and reliability of financial statements.

All Software Contracts meeting GASB 96 criteria must report a liability and an intangible right to use asset. Additionally, essential information about the arrangement must be disclosed on the financial statements.

Implementing GASB 96 – How does this affect me?

UGA is in the identification and discovery stage of this process, which requires that all contracts related to vendor-provided software (defined below), be identified in order to determine if GASB 96 requirements apply to said contracts.

GASB 96 - will affect the UGA Campus in the following ways:

- Requires "retroactive restatement" which means that all current outstanding software contracts have to be reviewed and identified for applicability under the new guidance.

UNIVERSITY OF GEORGIA

GASB Statement No. 96 – Subscription-Based Information Technology Arrangements (SBITA)

USG has asked all Institutions to begin identification of these contracts by February 2023.

- All current active software contracts need to be reviewed in order to determine if they meet GASB 96 standards.
- Be aware of this new guidance as future software contracts are entered into. Train employees to identify these types of transactions in order to appropriately identify activity on PO's.

Accounting, Procurement, and Asset Management have performed a search for subscription-based IT arrangements. This search included a review of all transactions charged to expense account codes 733XXX.

The process for initiating a purchase requisition for software contracts has not changed. Similar to GASB 87 - Leases, departments will be required to complete a questionnaire that will provide the necessary information to assist in determining whether or not the contract for IT Software/capital assets meets the criteria of GASB 96 - SBITAs. This documentation will be used as support in determining how the contract will be recorded on the financial statements and serve as audit documentation.

What is the definition of a Subscription-Based Information Technology Arrangement?

GASB 96 states, *"A SBITA is defined as a contract that conveys **control of the right to use** another party'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**."*

Terminology in **bold** is broken down as follows:

"Control of the right to use" – requires both a right to obtain present service capacity from the use of the underlying IT assets and the right to determine the nature and manner of use of the underlying IT assets.

"IT software" – subscription-based information technology arrangements (SBITA) commonly include provisions such as remote access to software applications or cloud data storage and allows for temporary use that ends when the subscription expires.

"Period of time" – the subscription term is the period of time that the government has a noncancellable right to use the underlying IT assets plus any periods that the government or vendor have the option to extend the contract and it is reasonably certain that the

UNIVERSITY OF GEORGIA

GASB Statement No. 96 – Subscription-Based Information Technology Arrangements (SBITA)

option will be exercised. UGA generally enters into subscription-based contracts for multiple year terms, with an initial year and additional renewal options of 1-5 years.

Subscription Term includes:

- Noncancelable period during which UGA has a right to use the underlying asset
- Any periods in which either the UGA or the Vendor have the option to extend the contract, if reasonably certain the option will be exercised by that party.
- Any periods in which either the UGA or the Vendor have the option to terminate the contract, if reasonably certain the option will not be exercised by that party.

The assessment of whether an option to extend or terminate the contract will be exercised should occur at the commencement of the contract.

Subscription Term excludes:

- Cancelable periods: Periods for which either UGA or the Vendor have an option to terminate the contract **without permission** from the other party OR if **both parties have to agree to extend.**

"Exchange or exchange-like transaction" – both parties to the contract receive or give up essentially equal value or not quite equal value.

A common example of a SBITA is a cloud software contract. Cloud software such as Zoom Video Conferencing is typically sold to government agencies under a subscription or license based financial transaction. The government pays a monthly fee in exchange to use the Zoom Video Conference system. The vendor allows the government to access the IT service for a fee. The subscription in many cases extends behind 1-year therefore creating a liability.

One important question to ask yourself when determining if a SBITA exists: *Will this software work/will we be able to log in once the contract term ends?*

If your answer is "no", it is likely that a SBITA exists. We will go through the exact criteria for determining if a SBITA exists below.

UNIVERSITY OF GEORGIA

GASB Statement No. 96 – Subscription-Based Information Technology Arrangements (SBITA)

GASB 96 Exclusions - What types of SBITA items are not included?

- Standalone IT **Support/ Maintenance service contracts** that do not include the right to use an underlying IT asset (¶8).
- Contracts that convey control of right to use IT software and tangible assets that meet the definition of a **lease** in GASB Statement 87, where the software component is insignificant 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) (¶24a).
- Contracts that meet the definition of a **public-private and public-public partnership and availability payment arrangements** in GASB Statement 94 (¶24c).
- Licensing arrangements that provide a **perpetual license** to governments to use a vendor's computer software, which are subject to GASB Statement 51. A perpetual agreement gives the buyer the right to use the software for an indefinite amount of time (in perpetuity). (¶24d).
- **Short-term** SBITA contracts, under 12 months including exercised renewal periods (¶13).
- **Governments** that **provide the right to use their IT software** and associated tangible capital assets **to other entities** through SBITAs (¶24b).

What should be considered when determining if a SBITA meets GASB 96 criteria.

NOTE: This section walks you through the GASB 96 Questionnaire considerations, the Questionnaire is REQUIRED to be submitted with Purchase Requests for Software Contracts.

Consideration #1 - Determine if the software contract is excluded or not. See "GASB 96 Exclusions" section above. If the contract is excluded, the questionnaire should not be completed. Document the exclusion on the purchase requisitions required questions.

Consideration #2 - Determine the contract length. While the initial purchase request may only extend for 1 year, you will also need to know the period of time during which UGA has a ***noncancelable*** right to use the underlying asset. Per GASB 96, the following periods should be included in this time period:

- Periods covered by UGA's option to extend the contract if it is reasonably certain, based on all relevant factors, that UGA will exercise that option.

UNIVERSITY OF GEORGIA

GASB Statement No. 96 – Subscription-Based Information Technology Arrangements (SBITA)

- Periods covered by UGA's option to terminate the contract if it is reasonably certain, based on all relevant factors, that the UGA will not exercise that option. (Not exercising an option to terminate just means that the contract will keep going)
- Periods covered by a Vendor's option to extend the contract if it is reasonably certain, based on all relevant factors, that the Vendor will exercise that option.
- Periods covered by a Vendor's option to terminate the contract if it is reasonably certain, based on all relevant factors, that the Vendor will not exercise that option. (Not exercising an option to terminate means that the Vendor will keep the contract active indefinitely.)

Exclude any cancelable periods

- Periods for which UGA and the Vendor both have the option to extend or terminate (such as rolling month-to-month contracts)

Per UGA's policy, it is reasonably certain that renewal options will be exercised for all renewal periods allowed in the contract.

What is the difference between "cancelable" and "noncancelable" rights?

Cancelable right - Periods in a contract where both UGA and the Vendor have an option to terminate the contract without permission from the other party (or if both parties have to agree to extend). Cancelable periods are excluded from GASB 96 in calculating contract terms.

Generally state-wide contracts are not written with cancelable rights. Once signed the contract term is set and UGA/Vendor cannot terminate the contract at any time. Both parties would have to wait until the next renewal option to terminate or notify of intent to terminate.

An example of a cancelable right would be an extension, during a holdover period until a new contract is signed, that allows for the contract to continue from month to month. The contract's "extension" months would not be included in the contract period calculation.

Noncancelable right - the contract term over which UGA will be legally obliged to make payments, taking into account options to extend or terminate that are reasonably certain to be exercised.

UNIVERSITY OF GEORGIA

GASB Statement No. 96 – Subscription-Based Information Technology Arrangements (SBITA)

If the contract will not extend beyond 12 months (including any exercised renewal periods), no further information is needed. If it will extend beyond 12 months continue to Consideration #3.

Consideration #3 - Materiality test to determine if the software contract is significant and should be accounted for under GASB 96 criteria.

The **subscription liability** should be initially measured at the present value of subscription payments expected to be made during the subscription term.

The **subscription asset** should be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the vendor at the commencement of the subscription term, and (3) capitalizable implementation costs, less any incentives received from the vendor at or before the commencement of the subscription term. Separately identifiable costs for maintenance and service contracts are not included.

UGA will use the subscription asset as the basis for determining if the contract exceeds the materiality threshold.

Activities associated with a SBITA, other than subscription payments, should be grouped into the following three stages, and their costs should be accounted for accordingly:

UNIVERSITY OF GEORGIA

GASB Statement No. 96 – Subscription-Based Information Technology Arrangements (SBITA)

STAGE	ACTIVITY	ACCOUNTING
Preliminary Project Stage	Activities in this stage include the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of vendors.	Outlays in this stage should be **expensed** as incurred.
This stage is complete when the above expenses are complete, and/or management implicitly or explicitly authorizes and commits the funding to the contract.		
Initial Implementation Stage	Activities in this stage include ancillary charges related to designing the chosen path, such as configuration, coding, testing, and installation associated with the government's access to the underlying IT assets. Data conversion if the asset cannot be used without data conversion, and other ancillary charges necessary to place the subscription asset into service should also be included in this stage.	Outlays in this stage generally should be **capitalized** as an addition to the subscription asset.
This stage is complete when the asset is placed into service.		
Operation and Additional Implementation Stage	Activities in this stage include maintenance, troubleshooting, additional implementation activities (such as adding on modules), data conversion (not necessary to place the asset into service) and other activities associated with the government's ongoing access to the underlying IT asset.	Outlays in this stage should be **expensed** as incurred unless they meet specific capitalization criteria. Examples that would be **capitalized**, under this stage, include modifications that result in either: increased functionality of the asset that provide the ability to perform additional tasks, or increased efficiency of the asset or level of service provided by the asset.

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.**

The State Accounting Office (SAO) has indicated that SBITA assets which are clearly immaterial to the financial statements will not be included for GASB 96 reporting purposes. This "cost vs. benefit" analysis requires a comparison to a standard measurement. The Board of Regents has indicated that all colleges/universities will use a threshold of $100,000 to determine if an asset will be identified for GASB 96.

UNIVERSITY OF GEORGIA

GASB Statement No. 96 – Subscription-Based Information Technology Arrangements (SBITA)

How to determine the Present Value of Future Minimum Payments

The Present Value of Future Minimum Subscription Payments is an economic and financial term to identify what a set of payments in the future would equal today.

The easiest way to explain this is to think about purchasing a car. When you purchase a car, you will either pay cash or get approved for credit (loan). When you get approved to buy the car on credit that payment amount is calculated based on the cash price + interest. You have to pay interest because of inflation and the concept of the time value of money. "A dollar today is worth more than a dollar tomorrow".

Generally, the car dealer wants to receive the cash price of the car at the date of the sale. In order to ensure that this occurs, the amounts of the car loan's future payments will have interest applied, which increases the future funds that you pay to equal the cash price that you would have paid on the date you drove off of the car dealership with your new car!

Example of a simple car loan:

Auto Price: $30,000
Term: 60 months
Interest Rate: 4.5%
The Amortization Schedule, by year, would look like this:

Annual Amortization Schedule				
	Beginning Balance	Interest	Principal	Ending Balance
1	$ 30,000.00	$ 1,238.01	$ 5,473.47	$ 24,526.53
2	$ 24,526.53	$ 986.57	$ 5,724.91	$ 18,801.62
3	$ 18,801.62	$ 723.56	$ 5,987.92	$ 12,813.70
4	$ 12,813.70	$ 448.48	$ 6,263.00	$ 6,550.70
5	$ 6,550.70	$ 160.78	$ 6,550.70	$ -
		$ 3,557.40	$ 30,000.00	

Cash Price = Principal	$30,000.00
Interest	$3,557.40
Future Lease Payments	$33,557.40

So, it will take $33,557.40 in future payments to equal $30,000 at the time of purchase.

UNIVERSITY OF GEORGIA

GASB Statement No. 96 – Subscription-Based Information Technology Arrangements (SBITA)

The calculation to determine the Present Value of Future Minimum Payments in this example would be:

Present Value	Excel Formula
$29,999.97	=PV(0.045/12,60,-559.29,0,0)

Whereas the excel formula is broken down as follows:

Present Value Formula =PV(rate,nper,pmt,[fv],[type])

RATE (interest rate per period)	4.50%
NPER (number of payment periods)	60
PMT (amount paid for each period)	-559.29
[FV] (Future value of the investment. If omitted, it's assumed to be 0 and PMT must be included.)	0
[TYPE] (When payments are made. It will be 0 for the end of the period, or 1 for the beginning of the period).	0

In looking at the above calculation, it is easy to see that the present value of the car loan payments $29,999.97 equals the cash price $30,0000.00 that would have been paid at the date of the sale.

As you are looking at the contract when completing the purchase request, the vendors generally won't tell you that they are charging interest at a certain percentage rate.

The easiest way to complete the GASB 96 Questionnaire will be to see what the "CASH" price of the item is before you initiate the purchase request for the SBITA. This amount should include costs that fall under the initial implementation stage and any capitalizable costs under the operation/ additional implementation stage. Maintenance and service costs are not included.

Consideration #4 - Determine if UGA will own the asset at the end of the contract term. If title will transfer to UGA, then this is a financed purchase not a SBITA under GASB 96. Financed purchases will be accounted for separately from SBITAs and require a separately identifiable expense account code. See the Chart of Accounts and the GASB 96 Questionnaire for more guidance.

UNIVERSITY OF GEORGIA

GASB Statement No. 96 – Subscription-Based Information Technology Arrangements (SBITA)

Note that certain contracts allow for an option to purchase at the end of the contract. A determination will need to be made at the beginning of the contract whether or not it is probable that this option to buy will be exercised. If it will, the contract should be considered a "financed purchase". If not, the contract should be considered as falling under GASB 96 considerations.

Consideration #5 - Determine if UGA will have the right to control the asset.

The "right to control" requires ***both*** of the following:

- The right to obtain the present service capacity from use of the underlying asset (the best way to describe this is to ask, "Do you currently have access to use the item?", if the answer is "YES", then you are presently using/benefiting from the item's service capacity.)
- The right to determine the nature and manner of use of the underlying asset (Do you have the right to control how the asset is used? Does the vendor place limitations on what you can do with the asset while in your use?) If the answer is "NO", then you have the right to determine the nature and manner of use.