GASB 96

SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITA)

EFFECTIVE DATE AND TRANSITION

- Effective for reporting periods beginning after June 15, 2022 (fiscal year 2023 and calendar year 2023). Early application is encouraged
- Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented. Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

WHY GASB 96

It has become common for governments to enter into subscription-based contracts to use vendor-provided information technology (IT). Subscription- based information technology arrangements (SBITAs) provide governments with access to vendors' IT software and associated tangible capital assets for subscription payments without granting governments perpetual license or title to the IT software and associated tangible capital assets. Prior to the issuance of this Statement, there was no accounting or financial reporting guidance specifically for SBITAs.

GASB 96 EXCLUSIONS

- Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets that meets the definition of a lease in Statement No. 87, *Leases,* in which the software component is insignificant when 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)
- Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs
- Contracts that meet the definition of a public-private and public-public partnership in paragraph 5 of Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
- Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software, which are subject to Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* as amended.

DEFINITION

For purposes of applying this Statement, a 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**.

CONVEYS CONTROL?

To determine whether a contract conveys control of the right to use the underlying IT assets, a government should assess whether it has both of the following:

- The right to obtain the present service capacity from use of the underlying IT assets as specified in the contract.
- The right to determine the nature and manner of use of the underlying IT assets as specified in the contract.

SUBSCRIPTION TERM

- Period in which a government has a **noncancellable** right to use the underlying IT assets plus:
  - Government's option to extend if it is reasonably certain it will exercise
  - Government's option to terminate if it is reasonably certain it ***will not*** exercise
  - SBITA vendor's option to extend if it is reasonably certain it will exercise
  - SBITA vendor's option to terminate if it is reasonably certain it ***will not*** exercise
- Periods where the government and SBITA vendor have an option to terminate without permission from the other party are cancellable and are excluded from the term.

SHORT-TERM SBITA'S

- A short-term SBITA is a SBITA that, at the commencement of the subscription term, has a maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised.
- A government should recognize short-term subscription payments as outflows of resources (for example, expense) based on the payment provisions of the SBITA contract.

RECOGNITION AND MEASUREMENT AT COMMENCEMENT

- At the commencement of the subscription term, a government should recognize a subscription liability and an intangible right-to-use asset (a capital asset hereinafter referred to as the subscription asset).
- The commencement of the subscription term occurs when the initial implementation stage is completed, at which time the government has obtained control of the right to use the underlying IT assets, and, therefore, the subscription asset is placed into service.

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SUBSCRIPTION LIABILITY

A government initially should measure the subscription liability at the present value of subscription payments expected to be made during the subscription term, including:

- Fixed payments
- Variable payments that depend on an index or rate
- Variable payments that are fixed in substance
- Penalty payments, if applicable
- Subscription contract incentives (offset)
- Any other payments reasonably certain of being required

SUBSCRIPTION LIABILITY

- Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government. If the interest rate cannot be readily determined, the government's estimated incremental borrowing rate should be used.
- In subsequent financial reporting periods, a government should calculate the amortization of the discount on the subscription liability and report that amount as an outflow of resources (for example, interest expense) for those periods.
- Any subscription payments made should be allocated first to the accrued interest liability and then to the subscription liability.

SUBSCRIPTION LIABILITY - REMEASUREMENT

A government should remeasure the subscription liability at subsequent financial reporting dates if one or more of the following changes have occurred, if significant:

- Change in subscription term;
- Change in the estimated amounts for subscription payments;
- Change in the interest rate the SBITA vendor charges the government, if used as the initial discount rate; and
- A contingency is resolved such that certain payments now meet the criteria for inclusion.

SUBSCRIPTION ASSET

A government initially should measure the subscription asset as the sum of the following, less any SBITA vendor incentives received:

- Amount of the initial measurement of the subscription liability;
- Payments made to the SBITA vendor at commencement of the term; and
- Capitalizable initial implementation costs.

SUBSCRIPTION ASSET - AMORTIZATION

- A 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.
- The amortization of the subscription asset should be reported as an outflow of resources (for example, amortization expense), which may be combined with depreciation expense related to other capital assets for financial reporting purposes.
- Amortization should begin at the commencement of the subscription term.

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SUBSCRIPTION ASSET - REMEASUREMENT

A subscription asset generally should be adjusted by the same amount as the corresponding subscription liability when that liability is remeasured. However, if that change reduces the carrying value of the subscription asset to zero, any remaining amount should be reported in the resource flows statement (for example, a gain).

STAGES OF IMPLEMENTATION

- Preliminary Project Stage – conceptual formulation and evaluation of alternatives.
- Initial Implementation Stage – ancillary charges related to designing the chosen path, such as configuration, coding, testing, and installation. This stage is completed when the asset is placed into service.
- Operation and Additional Implementation Stage – includes maintenance, troubleshooting, and other activities associated with ongoing access. May also include additional modules.

STAGES OF IMPLEMENTATION

- Preliminary Project State – Expense as incurred.
- Initial Implementation Stage – Capitalized as part of subscription asset. If no subscription asset is recognized (for example, if the contract is a short-term SBITA), then expense as incurred.
- Operation and Additional Implementation Stage – Costs associated with operating activities should be expensed as incurred and costs that result in increased functionality or increased efficiency of the subscription asset should be capitalized.
- Training Costs – Expense as incurred, regardless of stage.

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MODIFICATIONS AND TERMINATIONS

- Amendments to SBITA contracts should be considered a modification unless the government's right to use the underlying IT assets decreases, in which case the amendment should be considered a partial or full termination.

MODIFICATIONS

A government should account for an amendment during the reporting period resulting in a modification to a SBITA contract as a separate SBITA (that is, separate from the most recent SBITA contract before the modification) if both of the following conditions are present:

- The SBITA modification gives the government an additional subscription asset by adding access to more underlying IT assets that were not included in the original SBITA contract.
- The increase in subscription payments for the additional subscription asset does not appear to be unreasonable based on (1) the terms of the amended SBITA contract and (2) professional judgment, maximizing the use of ob- servable information (for example, using readily available observable stand-alone prices).

TERMINATIONS

- A government should account for an amendment during the reporting period resulting in a decrease in the government's right to use the underlying IT assets (for example, the subscription term is shortened or the underlying IT assets are reduced) as a partial or full SBITA termination.
- A government generally should account for the partial or full SBITA termination by reducing the carrying values of the subscription asset and subscription liability and recognizing a gain or loss for the difference.

MODIFIED ACCRUAL – FUND ACCOUNTING

- If a SBITA is expected to be paid from general government resources, the SBITA should be accounted for and reported on a basis consistent with governmental fund accounting principles.
- An expenditure and other financing source should be reported in the period the subscription asset is initially recognized. Subsequent governmental fund subscription payments should be accounted for consistent with principles for debt service payments on long-term debt.

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NOTE DISCLOSURES

- A general description of its SBITAs, including the basis, terms, and conditions on which variable payments not included in the measurement of the subscription liability are determined.
- The total amount of subscription assets, and the related accumulated amortization, disclosed separately from other capital assets.
- The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the subscription liability.

NOTE DISCLOSURES

- The amount of outflows of resources recognized in the reporting period for other payments, such as termination penalties, not previously included in the measurement of the subscription liability.
- Principal and interest requirements to maturity, presented separately, for the subscription liability for each of the five subsequent fiscal years and in five-year increments thereafter.
- Commitments under SBITAs before the commencement of the subscription term.
- The components of any loss associated with an impairment (the impairment loss and any related change in the subscription liability).

EXAMPLE 1: INITIAL MEASUREMENT

Three Year Subscription

Subscription Term: 1 year terms expected to renew for a total of 3 years

9/1/22 through 8/31/25

Annual Payments: $45,000 per year paid at the beginning of each year

Discount Rate: 4%

Initial Journal Entry

Subscription Asset	$129,784.16	
Subscription Liability		$84,784.16
Cash/Capital Outlay		$45,000.00

EXAMPLE 1: SUBSEQUENT MEASUREMENT

Month 1 Entry

Amortization Expense	$3,605.12	
Accumulated Amortization		$3,605.12
Interest Expense	$282.61	
Interest Payable		$282.61
LT Subscription Liability	$41,545.76	
ST Subscription Liability		$41,545.76

EXAMPLE 1: SUBSEQUENT MEASUREMENT

Month 2 Entry

Amortization Expense	$3,605.12	
Accumulated Amortization		$3,605.12
Interest Expense	$283.56	
Interest Payable		$283.56

IMPLEMENTATION GUIDE

- Identify all potential contracts (enlist help of CTO and/or similar people to help ensure completeness)
- Evaluate each contract and extract data from applicable contracts
- Maintain documentation to support contracts deemed not applicable/not material
- Identify capitalizable implementation costs, if applicable (permitted to capitalize implementation costs of transition subscriptions, but not required to).
- Use facts and circumstances that existed at the beginning of the fiscal year

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