

Be the “Lead Pony” with GASB No. 96
Subscription-Based IT Arrangements

SASBO Conference
April 3, 2023
Louisville, Kentucky



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GEORGIA DEPARTMENT OF AUDITS

Established in 1923

Part of the Legislative Branch of the Government

Divisions

- Administration
- Financial Audits
- Information Technology
- Performance (Review of State Programs)
- Professional Standard and Practices
- Sales Ratio
- Technology Risk & Assurance



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AGENDA

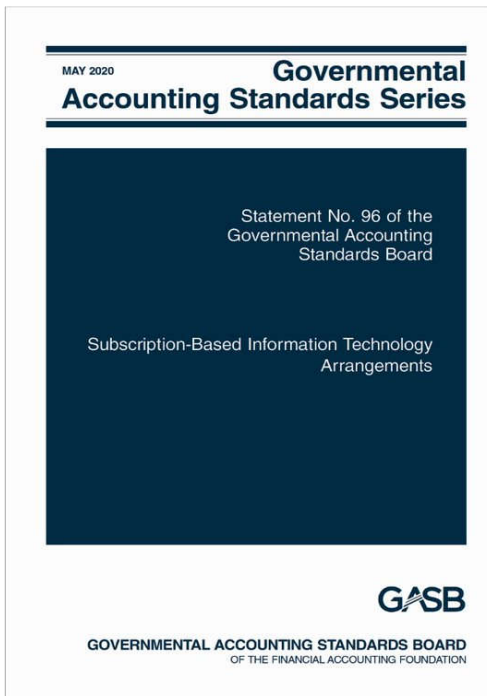
- What is a SBITA?
- GASB No. 86 vs. GASB No. 97
- Financial Reporting for SBITAs
- Case Study
- Implementation Roadmap



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GASB STATEMENT NO. 96



Subscription-Based Information Technology Arrangements (SBITAs)

- Establishes standards of accounting and financial reporting for SBITAs by a government end user.
- Effective for periods beginning after June 15, 2022. Apply retroactively for all periods presented.
- Entities that have a July-June fiscal year will implement in FY2023.



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GASB STATEMENT NO. 96, *SBITAS*

What is a SBITA?

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.



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WHY DO WE NEED GASB 96?

The landscape of how governments do business is changing.

1. The purchase of software in the cloud is becoming more popular than software that is housed on your local machine or network.
2. Cloud-computing arrangements are increasing in popularity.
3. Remote-working positions are becoming more permanent causing governments to look for cloud-based software options.
4. The previous GASB standards do not address cloud computing.



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WHAT IS CLOUD COMPUTING?

Simply put, cloud computing is the delivery of computing services—including servers, storage, databases, networking, software, analytics, and intelligence—over the Internet (“the cloud”) to offer faster innovation, flexible resources, and economies of scale.



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CLOUD COMPUTING ARRANGEMENTS

3 Common Type of Cloud Computing Arrangements:

1. Software as a service
2. Platform as a service
3. Infrastructure as a service

All three types of arrangement provide the user with the right to use the other party's IT software and tangible capital assets.

Arrangement must also convey control the right to use.



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CLOUD COMPUTING ARRANGEMENTS

3 Common Type of Cloud Computing Arrangements:

1. Software as a service
Dropbox, DocuSign
2. Platform as a service
Microsoft Azure
3. Infrastructure as a service
Google Cloud



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GASB STATEMENT NO. 96, *SBITAS*

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

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



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GASB NO. 96 VS GASB NO. 87

	GASB No. 96 SBITAs	GASB No. 87 Leases
Parties	<ul style="list-style-type: none">• Vendor• Government	<ul style="list-style-type: none">• Lessor• Lessee
Intangible Right-to-Use Asset	Subscription Asset	Lease Asset
Underlying Asset	Underlying IT Assets	Underlying Assets
Liability	Subscription Liability	Lease Liability



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WHAT IS **NOT** IN SCOPE OF GASB NO.96?

Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets – where the software component is insignificant when compared to the underlying cost of the tangible capital asset.

Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs.

Licensing arrangement that provide a perpetual license to governments to use a vendor's computer software, which are subject to GASB No. 51.

Contracts that meet the definition of a Public-Private and Public-Public Partnerships and Availability Payment Arrangements.



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GASB STATEMENT NO. 96, *SBITAS*

A PPP is public-private or public-public partnership arrangement.

Paragraph 5 of Statement 94:

“A PPP is 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.”



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Perpetual

- One time fee
- Can use software after expiration date:
 - No maintenance
 - No security patches/updates

Subscription

- Yearly or monthly fee
- Right to use for a certain amount of time
- After expiration software can't be used until renewed



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GASB STATEMENT NO. 96, *SBITAS*

What falls under
GASB No. 87
vs.
GASB No. 96?

Accounting depends on what the underlying asset is:

- Tangible capital assets alone – **GASB No. 87**
- IT software alone – **GASB No. 96**
- IT software in combination with tangible capital assets:
 - IT Software component is insignificant compared to cost of underlying tangible capital asset – **GASB No. 87**
 - Otherwise – **GASB No. 96**



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SUBSCRIPTION TERM

The subscription term is the period during which a government has a non-cancellable right to use the underlying IT assets (referred to as the non-cancellable period), plus the following periods, if applicable:

Look for the GASB 87 similarities!



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SUBSCRIPTION TERM

1. Government's right to extend if reasonably certain they will do so
2. Government's right to terminate if reasonably certain they will NOT do so
3. Vendor's right to extend if reasonably certain they will do so
4. Vendor's right to terminate if reasonably certain they will NOT do so



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CONSIDERATION OF LIKELIHOOD OF OPTION TO EXERCISE

1. Significant economic incentives and disincentives
2. Potential for changes in the technology being used
3. Potential for a significant change in the government's demand for the vendor's IT assets
4. Parties history of exercising extension and termination options



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SUBSCRIPTION TERM: SHORT-TERM

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.

Look at GASB 87 paragraph 16. It's exactly the same rule!



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GASB STATEMENT NO. 96, *SBITAS*

SBITAs should be reported under primarily the same provisions as those for a lessee under GASB No. 87 – *Leases*.

Recognize a subscription asset and a subscription liability (exception for short-term SBITAs)

3 Stages of Capitalizable Implementation Costs

1. Preliminary Project Stage
2. Initial Implementation Stage
3. Operation and Additional Implementation Stage



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Accounting for Activities Associated with a SBITA

Preliminary Project Stage

- Formulate and evaluate alternatives
- Determine existence of needed technology
- Review possible vendors.

Expensed as incurred

Initial Implementation Stage

- Design
- Configuration
- Code
- Installation and test

Capitalized as part of
subscription asset

Operation & Additional Implementation Stage

- Train Users
- Convert Data (non-operational)
- Maintain Software

Expensed as incurred unless they
meet specific capitalization
criteria



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CAPITALIZABLE IMPLEMENTATION COSTS

Stages may overlap or occur in a different order

Determination of stage is based on both the nature of the activity and the relative timing, however 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.



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MULTIPLE MODULES

If a SBITA has more than one module and they are implemented at different times – only the preliminary and implementation stages of the first module are capitalized.

Future modules might need to be expensed.



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GASB STATEMENT NO. 96, *SBITAS*

A government that incurs additional outlays related to an existing subscription but result in either of the following should be capitalized as an addition to existing asset:

An increase in the functionality of the subscription asset

-OR-

An increase in the efficiency of the subscription asset



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GASB 96 CONTRACTS WITH MULTIPLE COMPONENTS (PARAGRAPH 44)

Governments may enter into contracts that contain both a subscription component and a nonsubscription component. For example; a right to use an underlying IT asset and a maintenance services for the IT assets.

These should be accounted for as separate contracts.

To allocate the prices, use the prices in the contract so long as they are reasonable. If prices are not in the contract, use professional judgment.



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MODIFICATIONS AND TERMINATIONS

A SBITA contract may be modified while the contract is in effect:

- Changing the contract price
- Subscription term changes
- Adding or removing underlying assets
- Changing the index or rate upon which variable payments are dependent

Termination or partial termination occurs if the government's right to use the underlying asset is decreased.



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FINANCIAL REPORTING OF SBITAS

At the commencement of the subscription term, a government should recognize:

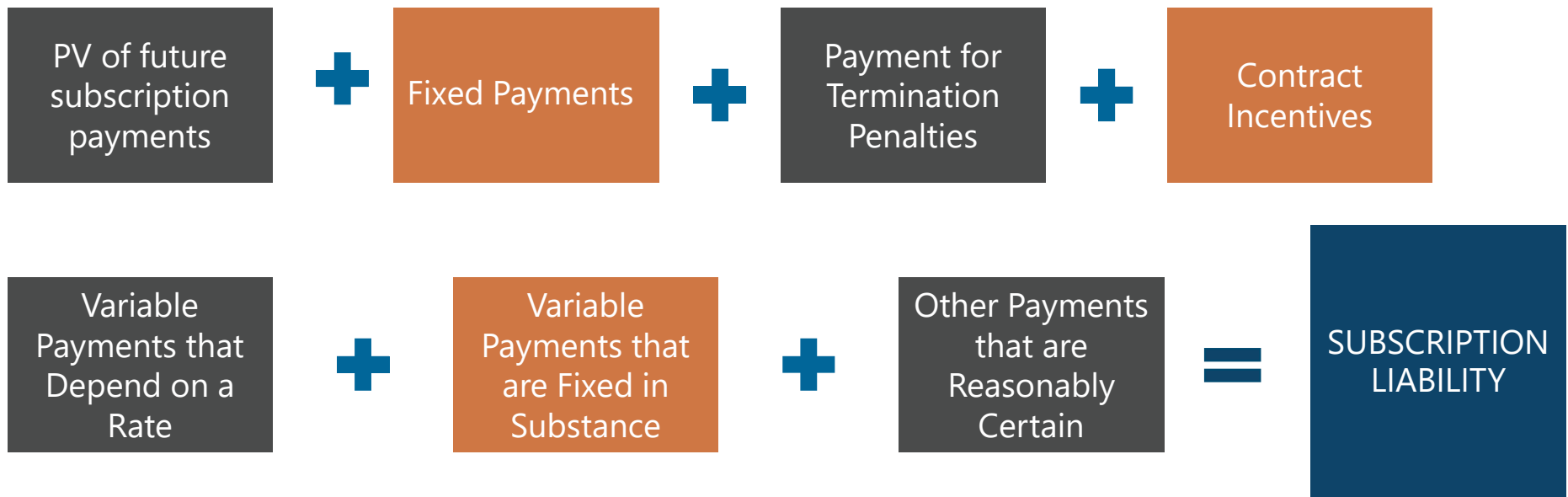
- A subscription liability; and
- An intangible right-to-use asset.



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HOW TO CALCULATE THE SUBSCRIPTION LIABILITY



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WHAT DISCOUNT RATE SHOULD I USE?

The rate that is stated in the SBITA

OR

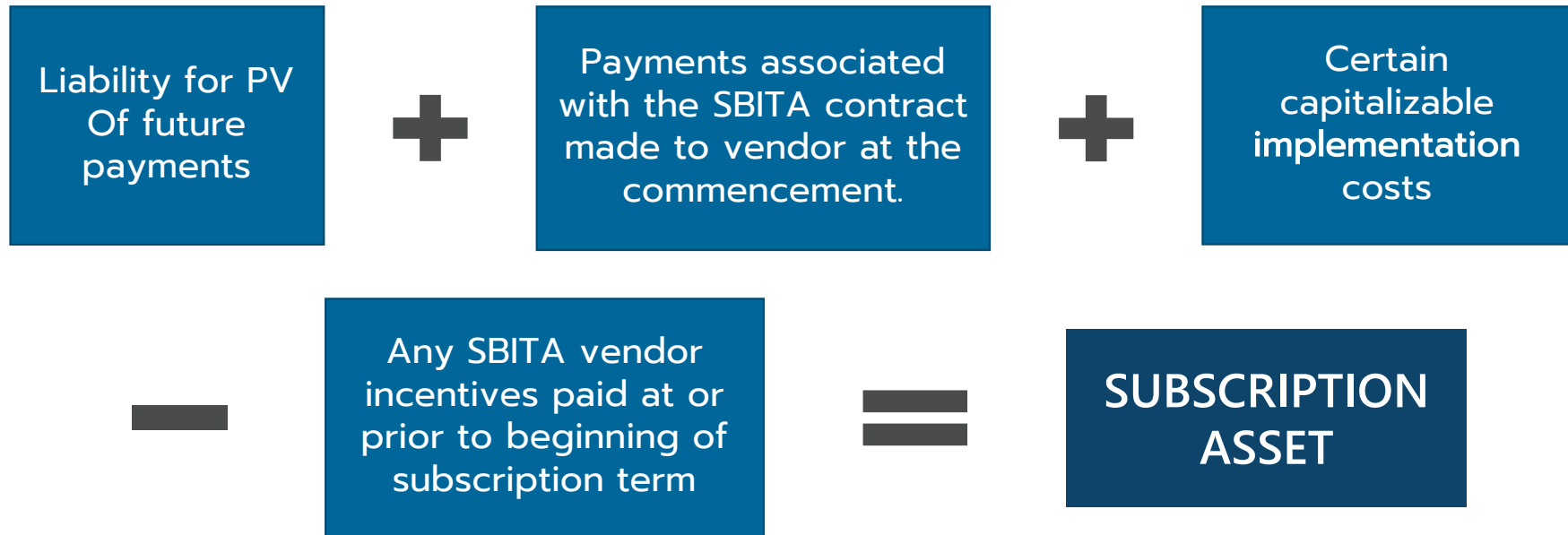
The government's estimated incremental borrowing rate should be used.



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HOW TO CALCULATE THE SUBSCRIPTION ASSET



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GASB 96 NOTES TO FINANCIAL STATEMENTS

(PARAGRAPH 60)

A government should disclose in notes to financial statements the following information about its SBITAs:

A general description including basis, terms, and conditions total amount of subscription assets and amortization, separate from other assets.

The amount of outflows of resources not previously included in the measurement of the subscription.



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GASB 96 NOTES TO FINANCIAL STATEMENTS

(PARAGRAPH 6o)

A government should disclose in notes to financial statements the following information about its SBITAs:

Principal & Interest requirements for the subscription liability for each of the five subsequent years.

Commitments before the start of the term components of any loss associated with an impairment



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CASE STUDY- CASE FACTS

Churchill Downs School District has decided to convert to a new financial reporting system.

- Subscription Start Date: July 1, 2022
- Subscription End Date: June 30, 2025
- First Payment Date: July 1, 2022
- Payments: \$15,000 annually, paid in advance (on July 1st)
- Discount Rate: 4%



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CASE STUDY – IMPLEMENTATION STAGES

In addition to the annual subscription payments of \$15,000, Churchill Downs School District incurred additional costs during the following stages:

- Preliminary project stage costs – The School District hired an outside consultant to assist with the selection and evaluation of the financial reporting software. They incurred fees of **\$5,000** paid to the consultant during the evaluation process.
- Initial implementation stage costs – During the initial implementation stage the School District needed to migrate data from their existing system into their new financial reporting system. The data migration cost the School District **\$2,000** and was paid directly to the SBITA vendor.



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CASE STUDY – IMPLEMENTATION STAGES

In addition to the annual subscription payments of \$15,000, Churchill Downs School District incurred additional costs during the following stages:

- Operation and additional stage costs – Subsequent to placing the new system in operation, the School District experienced operational challenges, which required additional support services and cost and additional **\$800**. These services did not add to the functionality of the system.



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CASE STUDY – CALCULATION OF SUBSCRIPTION LIABILITY

Present Value of Subscription Payments

- \$15,000 annual subscription payments, paid in advance
- 3 year (36 month) subscription term
- 4% borrowing rate

Periodic Payment (P)		15,000.00
Rate per Period (r)		4.000%
# of Periods (n)		3
	=	\$43,291.42



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CASE STUDY – CALCULATION OF SUBSCRIPTION ASSET

$$\begin{array}{rcl} \text{Subscription Liability} + & \text{Initial Implementation Costs} & = \text{Subscription Asset} \\ \$43,291.42 + & \$2,000 & = \$45,291.42 \end{array}$$

Preliminary project stage – \$5,000 expensed as incurred (these costs are always expensed as incurred)

Initial implementation stage – \$2,000 capitalized (these costs are typically capitalized as part of the subscription asset)

Operation and additional implementation state – \$800 expensed as incurred as it did not add value to the functionality or efficiency of the software



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CASE STUDY – AMORTIZATION CALCULATION

Period	Cash	Interest Expense	Liability Reduction	Accrued Interest	Cumulative Accrued Interest Liability	Subscription Liability	Amortization Expense	Net Subscription Asset Balance	Accumulated Amortization
Beginning Balance						\$ 43,291		\$ 45,291	
Jul-22	\$ 15,000	\$ -	\$ 15,000	\$ -	\$ -	\$ 28,291	\$ 1,258	\$ 44,033	\$ 1,258
Aug-22		94	0	94	94	28,291	1,258	42,775	2,516
Sep-22		94	0	94	189	28,291	1,258	41,517	3,774
Oct-22		94	0	94	283	28,291	1,258	40,259	5,032
Nov-22		94	0	94	377	28,291	1,258	39,001	6,290
Dec-22		94	0	94	472	28,291	1,258	37,743	7,548
Jan-23		94	0	94	566	28,291	1,258	36,484	8,807
Feb-23		94	0	94	660	28,291	1,258	35,226	10,065
Mar-23		94	0	94	754	28,291	1,258	33,968	11,323
Apr-23		94	0	94	849	28,291	1,258	32,710	12,581
May-23		94	0	94	943	28,291	1,258	31,452	13,839
Jun-23		94	0	94	1037	28,291	1,258	30,194	15,097
Jul-23	15,000	94	13,869	-1,037	0	12,738	1,258	28,936	16,355
Aug-23		42	0	42	42	12,738	1,258	27,678	17,613
Sep-23		42	0	42	84	12,738	1,258	26,420	18,871
Oct-23		42	0	42	127	12,738	1,258	25,162	20,129
Nov-23		42	0	42	169	12,738	1,258	23,904	21,387
Dec-23		42	0	42	212	12,738	1,258	22,646	22,645
Jan-24		42	0	42	254	12,738	1,258	21,387	23,904
Feb-24		42	0	42	297	12,738	1,258	20,129	25,162
Mar-24		42	0	42	339	12,738	1,258	18,871	26,420
Apr-24		42	0	42	382	12,738	1,258	17,613	27,678
May-24		42	0	42	424	12,738	1,258	16,355	28,936
Jun-24	15,000	42	14,533	-425	0	0	1,258	15,097	30,194
Jul-24	0	0	0	0	0	0	1,258	13,839	31,452



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CASE STUDY – JOURNAL ENTRIES

On July 1, 2022 an entry is made to record the subscription liability and asset:

Account	Debit	Credit
Gross Subscription Asset	\$45,291	
Subscription Liability		\$43,291
Cash (for initial implementation costs)		\$ 2,000

To record initial subscription asset and liability as well as payment of implementation costs.



CASE STUDY – JOURNAL ENTRIES

Also in July, this entry is made to recognize the activity throughout the month:

Account	Debit	Credit
Amortization Expense	\$1,258	
Subscription Liability	\$15,000	
Accumulated Amortization		\$1,258
Cash (for subscription payment)		\$15,000

To record the initial subscription payment and recognize activity for the month of July 2022.



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CASE STUDY – JOURNAL ENTRIES

In the next month, August 2022, the follow entry is recorded, even though the School District isn't making a cash payment:

Account	Debit	Credit
Amortization Expense	\$1,258	
Interest Expense	\$94	
Accumulated Interest Liability		\$94
Accumulated Amortization		\$1,258

This entry would continue to be made monthly.



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CASE STUDY – JOURNAL ENTRIES

In July 2024, the following entry is made to recognize the payment:

Account	Debit	Credit
Amortization Expense	\$1,258	
Subscription Liability (reduction)	\$14,492	
Accumulated Interest Liability	\$466	
Interest Expense	\$42	
Accumulated Amortization		\$1,258
Cash (for subscription payment)		\$15,000

To record the final subscription payment and recognize activity for the month of July 2024.



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STEPS FOR RECORDING SBITAS

1. Analyze software agreements to identify potential SBITAs.
2. Document entity's determination of SBITAs
3. Determine the length of the subscription term
4. Calculate the subscription liability
5. Calculate the subscription asset
6. Capitalization of other outlays
7. Amortization



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IMPLEMENTATION ROADMAP

Will this software no longer work/will we no longer be able to log in once the contract term ends?

If your answer is “yes, we will not be able to access the software at the end of the contract”, it is likely that a SBITA exists*

*Note-Perpetual software licenses are excluded from GASB 96 (think your Excel version 95 that has been hanging around forever)



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IMPLEMENTATION ROADMAP

Compile a listing of potential IT software – both alone or with tangible assets

- IT Department, Department Director, Curriculum and Learning Divisions, School District's contracts and board minutes, PO and general ledger

Identify key parties of the subscription agreement.

Clarify any ambiguous terms of the agreement. Consult with legal counsel, finance, departments originating the subscription agreement and vendors.

Document subscription term and key assumptions (i.e. options are reasonably certain or uncertain? Discount rate, Materiality)



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IMPLEMENTATION ROADMAP

Set a capitalization threshold for right-to-use subscription assets (SBITAs)

Auditors will be interested in verify completeness

- What analysis was performed to identify SBITA contracts?

Develop internal procedures for identifying SBITAs in the future (communication lines with all divisions, schools, etc.)

Create and implement a tracking process for SBITAs to comply with GASB 96 going forward.



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Questions?

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