

GASB 96: What You Need to Know for a Successful Implementation

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GASB S-96 Subscription-Based Information Technology Arrangements

- **What:** GASB issued S-96 to provide guidance on accounting and financial reporting for subscription-based information technology arrangements (SBITAs)
- **Why:**
 - Lack of existing guidance
 - Conflict with GASB S-87 on Leases
- **When:** Effective date is periods beginning after June 15, 2022 (FYE June 30, 2023, and thereafter).

GASB S-96 Definition

- A subscription-based information technology arrangement (SBITA) is a
 - Contract that conveys control of the right to use another party's IT software
 - Alone or with tangible capital assets (e.g., hardware)
 - In an exchange or exchange-like transaction
- Right to use the underlying IT asset means the government can
 - Obtain the present service capacity from the use of the underlying IT asset
 - Determine the nature and manner of use of the underlying IT assets

GASB S-96 Definition

- SBITAs exclude contracts that solely provide IT support services
- SBITAS include contracts that contain both a right to use asset and an IT support services component

GASB S-96 Exclusions

- GASB S-96 does not apply to the following:
 - 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*,
 - Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs

GASB S-96 Exclusions

- GASB S-96 does not apply to the following:
 - 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.

GASB S-96 Subscription Term

- The subscription term is the period during which the government has a noncancelable right to use the underlying IT assets
 - An option to extend should be included if it is reasonably certain that the option will be exercised
 - Periods covered by a government's option to terminate the SBITA if it is reasonably certain, based on all relevant factors, that the government will *not* exercise that option
 - Periods covered by a SBITA vendor's option to extend the SBITA if it is reasonably certain, based on all relevant factors, that the SBITA vendor will exercise that option
 - Periods covered by a SBITA vendor's option to terminate the SBITA if it is reasonably certain, based on all relevant factors, that the SBITA vendor will *not* exercise that option

GASB S-96 Subscription Term

- For a SBITA that has cancellable periods, such as a rolling month-to-month SBITA or a year-to-year SBITA, the maximum possible term of that SBITA is the noncancelable period, including any notice period

GASB S-96 Short-Term SBITAs

- 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
- Periods for which both the government and the SBITA vendor have an option to terminate the SBITA without permission from the other party (or if both parties must agree to extend) are cancellable periods and should be excluded from the maximum possible term.

GASB S-96 Short-Term SBITAs

- Short-term SBITA recognize an outflow of resources based on the payment provision of the contract
 - No intangible asset or subscription liability are recognized

GASB S-96 Recognition and Measurement

Accrual basis/economic resources

- Recognize a subscription liability and an intangible right-to-use asset at the commencement of the subscription term
- The subscription liability should be measured at the present value of subscription payments expected to be made during the subscription term. Measurement of the subscription liability should include the following, if required by a SBITA
 - Fixed payments
 - Variable payments that depend on an index or rate
 - Variable payments that are fixed in-substance
 - Any subscription contract incentives receivable from the SBITA vendor
 - Any other payments to the SBITA vendor associated with the SBITA contract that are reasonably certain of being required based on an assessment of all relevant factors

GASB S-96 Recognition and Measurement

Accrual basis/economic resources

- The liability should be discounted using the interest rate that the vendor charges the government

GASB S-96 Recognition and Measurement

Accrual basis/economic resources

- The intangible right-to-use subscription asset should be measured at the commencement of the subscription term as the sum of:
 - The initial measurement of the subscription liability
 - Payments associated with the SBITA made to the vendor at the commencement of the subscription payments term, if any
 - Capitalizable initial implementation costs

GASB S-96 Recognition and Measurement

Accrual basis/economic resources

- 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
 - 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

CAPITALIZABLE COSTS GASB S-96

Stage	Related Activities	Capitalize?
Preliminary project stage	1. Conceptual formulation and evaluation of alternatives 2. Determination of the existence of needed technology 3. Final selection of alternatives for development	No
Application development stage	1. Design of the chosen path 2. Coding 3. Installation to hardware 4. Data conversion	Yes, but only if incurred after completion of the preliminary project stage
Operation and additional implementation	1. Application training 2. Troubleshooting 3. Data conversion beyond what is necessary to make the software operational 4. Software maintenance	No

GASB S-96 Recognition and Measurement

Modified accrual basis/current financial resources

- 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. The expenditure and other financing source should be measured as provided in slides 8-9
 - Subsequent governmental fund subscription payments should be accounted for consistent with principles for debt service payments on long-term debt (reported as principal and interest expenditure)

GASB S-96 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

GASB S-96 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

IMPLEMENTING GASB S-96

- **Example:** Enterprise Resource Planning (ERP) System/Software
 - Understanding the SBITA Terms
 - Implementation Date
 - Length of Contract
 - Renewal Options
 - One-Time Fees (Upfront costs)
 - Annual Fees
 - Incentives
 - Other Terms

IMPLEMENTING GASB S-96 (Continued)

- **Example:** Enterprise Resource Planning (ERP) System/Software

Criteria to Evaluate	Contract Terms
Implementation Date	January 1, 2021 (December 31 FYE)
Length of Contract	3 years

GASB 96, Paragraph 9:
Periods for which both the government and the SBITA vendor have an option to terminate the SBITA without permission from the other party (or if both parties have to agree to extend) are cancellable periods and are excluded from the subscription term.

IMPLEMENTING GASB S-96 (Continued)

- **Example:** Enterprise Resource Planning (ERP) System/Software

Criteria to Evaluate	Contract Terms
One-Time Fees (Upfront costs)	Project Planning Services: \$5,000 VPN Device (Hardware): \$4,000
Annual Fees	\$68,336
Incentives	Reporting Services Module License Fee of \$7,500 included* One-Time Fees (Implementation) of \$2,608

IMPLEMENTING GASB S-96 (Continued)

- Example Contract with Cost Breakdown: Part 1

SaaS				
Description	Annual Fee Net	# Years	Total SaaS Fee	Impl. Hours
Financials:				
Accounting/GL	\$13,395.00	3.0	\$40,185.00	0
Purchase Orders	\$3,515.00	3.0	\$10,545.00	0
Requisitions	\$1,981.00	3.0	\$5,943.00	0
Human Capital Management:				
HR Management	\$4,185.00	3.0	\$12,555.00	0
Payroll	\$5,864.00	3.0	\$17,592.00	0
Recruiting	\$2,209.00	3.0	\$6,627.00	0
Timekeep Interface	\$1,003.00	3.0	\$3,009.00	0
Revenue:				
Accounts Receivable	\$3,012.00	3.0	\$9,036.00	0
General Billing	\$1,519.00	3.0	\$4,557.00	0
Productivity:				
Employee Self Service	\$3,163.00	3.0	\$9,489.00	0
ERP Office	\$2,282.00	3.0	\$6,846.00	0
Content Manager SE	\$3,920.00	3.0	\$11,760.00	0
Forms Processing	\$3,719.00	3.0	\$11,157.00	0
Reporting Services	\$3,569.00	3.0	\$10,707.00	0

IMPLEMENTING GASB S-96 (Continued)

- Example Contract with Cost Breakdown (Continued)

Other Services				
Description	Quantity	Unit Price	Unit Discount	Extended Price
Project Planning Services	1	\$5,000.00	\$0.00	\$5,000.00
VPN Device	1	\$4,000.00	\$0.00	\$4,000.00
TOTAL:				\$9,000.00

Summary	One Time Fees	Recurring Fees
Total Software	\$0.00	\$0.00
Total SaaS	\$0.00	\$68,336.00
Total Services	\$9,000.00	\$0.00
Total 3rd Party Hardware, Software and Services	\$0.00	\$0.00
Summary Total	\$9,000.00	\$68,336.00
Contract Total	\$214,008.00	

IMPLEMENTING GASB S-96 (Continued)

- Example Contract with Cost Breakdown (Continued)

Software and Related Services						
Description	License	Impl. Hours	Impl. Cost	Data Conversion	Module Total	Year One Maintenance
Productivity:						
Reporting Services	\$7,500.00	16	\$2,608.00	\$0.00	\$10,108.00	\$0.00
Sub-Total:	\$7,500.00		\$2,608.00	\$0.00	\$10,108.00	\$0.00
<u>Less Discount:</u>	<u>\$7,500.00</u>		<u>\$0.00</u>	<u>\$0.00</u>	<u>\$7,500.00</u>	<u>\$0.00</u>
TOTAL:	\$0.00	16	\$2,608.00	\$0.00	\$2,608.00	\$0.00
Summary	One Time Fees		Recurring Fees			
Total Software	\$0.00		\$0.00			
Total Services	\$2,608.00		\$0.00			
Total 3rd Party Hardware, Software and Services	\$0.00		\$0.00			
Summary Total	\$2,608.00		\$0.00			
Contract Total	\$2,608.00					

IMPLEMENTING GASB S-96 (Continued)

CONTRACT SUMMARY	
Annual Subscription (3 years @ \$68,336)	205,008
Project Planning Services	5,000
VPN Device	4,000
Reporting Services Implementation Costs	2,608
TOTAL CONTRACT PAYMENTS	216,616

Note:

No present value interest to consider in Year 1 as payment takes place at the beginning of the fiscal year.

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IMPLEMENTING GASB S-96 (Continued)

- Journal Entries: Year 1

1. To Record SBITA Activity at the Fund Level (Modified Accrual Basis of Acc.)			
SBITA (Expenditure)	212,396		F
Other Financing Source		212,396	F
Prepaid Expenditure	7,738		F
SBITA Principal Expenditure	72,206		F
Cash		79,944	F

Cash Payment:

\$68,336 (annual subscription)
 \$5,000 (project planning serv.)
 \$4,000 (VPN device)
\$2,608 (Implementation costs)
\$79,944 TOTAL

	SBITA Payments	Interest on Unpaid Obligation	Principal Reduction	Reduction of Intangible Asset & SBITA Liability
Year				212,396.00
2021	72,206.00	-	72,206.00	140,190.00
2022	72,206.00	2,804.00	69,402.00	70,788.00
2023	72,204.00	1,416.00	70,788.00	-
	216,616.00	4,220.00	212,396.00	

IMPLEMENTING GASB S-96 (Continued)

- Journal Entries: Year 1 (Continued)

1. To Record SBITA Intangible Right-to-Use Asset, Liability, Year 1 Amortization and Principal Reduction			
Intangible Asset	212,396		G
Capital Purchase		212,396	G
SBITA Issuance	212,396		G
SBITA Liability		212,396	G
Amortization Expense	72,206		G
Accumulated Amortization		72,206	G
SBITA Liability	72,206		G
SBITA Principal		72,206	G

	SBITA Payments	Interest on Unpaid Obligation	Principal Reduction	Reduction of Intangible Asset & SBITA Liability
Year				212,396.00
2021	72,206.00	-	72,206.00	140,190.00
2022	72,206.00	2,804.00	69,402.00	70,788.00
2023	72,204.00	1,416.00	70,788.00	-
	216,616.00	4,220.00	212,396.00	

IMPLEMENTING GASB S-96 (Continued)

- Journal Entries: Year 2

1. To Record Year 2 Activity			
SBITA Principal Expenditure	69,402		F
SBITA Interest Expenditure	2,804		F
Prepaid Expenditure		3,870	F
Cash		68,336	F
Amortization Expense	69,402		G
Accumulated Amortization		69,402	G
SBITA Liability	69,402		G
SBITA Principal		69,402	G

	SBITA Payments	Interest on Unpaid Obligation	Principal Reduction	Reduction of Intangible Asset & SBITA Liability
Year				212,396.00
2021	72,206.00	-	72,206.00	140,190.00
2022	72,206.00	2,804.00	69,402.00	70,788.00
2023	72,204.00	1,416.00	70,788.00	-
	216,616.00	4,220.00	212,396.00	

IMPLEMENTING GASB S-96 (Continued)

Note Disclosure

As of January 1, 2021, the government entered into a subscription-based information technology arrangement with a vendor for its enterprise resource planning (ERP) system. The arrangement is for three years after which both the government and the vendor may mutually agree to extend the contract. At December 31, 2021, the government reported a corresponding SBITA asset and liability in the amount of \$140,190 (discounted using a rate of 2.00% as of January 1, 2021). Principal reduction of \$72,206 (paid at the beginning of the contract term) was reported for the year ended December 31, 2021.

IMPLEMENTING GASB S-96 (Continued)

Note Disclosure

Year	Principal	Interest
2022	\$69,402	\$2,804
2023	\$70,788	\$1,416
Total	\$140,190	\$4,220

IMPLEMENTING GASB S-96 (Continued)

- Contract Examples where S-96 does not apply
 - Agreement #1
 - The agreement is broken into 3 components: The software license , hosting of said software, and annual maintenance/support services.
 - Software is a perpetual license (specifically excluded by paragraph 4d, covered by GASB S-51)
 - The hosting component allows the government to utilize the hardware , thus falling under GASB S-87 as opposed to GASB S-96 - this lease may be terminated at any time and would require assessment as to whether this could fall under the short-term exclusion
 - Maintenance/support is specifically excluded by paragraph 8 (can be separated)

IMPLEMENTING GASB S-96 (Continued)

- Contract Examples where S-96 does not apply
 - Agreement #2
 - Outright purchase of equipment
 - Tracking/Reporting Software is month-to-month

Thank you & Questions

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