



FMC Presentation - SBITA

Thursday, May 25, 2023

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GASB 96 – Subscription Based Information Technology Arrangements (SBITA)

GASB 96 – Subscription Based IT s

- Right to use a vendor’s software and underlying asset
- Commonly includes provisions such as remote access to software applications and/or cloud data storage
- Use ends when the subscription expires

GASB 96 - SBITAs

Background

- What is GASB 96?
 - The purpose of GASB 96 is to provide guidance on the accounting and financial reporting for **subscription-based information technology arrangements (SBITAs)** for governments.
- This statement:
 - (1) defines a SBITA;
 - (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability;
 - (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and
 - (4) requires note disclosure of essential information regarding a SBITA.
- GASB 96 is very similar to GASB 87 for leases:
 - determination of the length of the contract
 - the initial and subsequent recording of an intangible asset and liability
 - multiple components

Definition

- **Subscription Based Information Technology Agreement:**
 - 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.
 - Ownership of the subscription asset is never expected to transfer at end of agreement, but the Government (Subscriber) **CONTROLS** the subscription asset (some form of IT software, etc.) for the specific period of the contract.
- Information Technology (IT) software can be actual software programs, IT software applications, and software platforms, etc.
- The arrangement commonly includes provisions such as remote access to software applications or cloud data storage

Definition

- SBITAs include contracts that, although not explicitly identified as a SBITA, meet the definition of a SBITA provided above. **That definition excludes contracts that solely provide IT support services but includes contracts that contain both a right-to-use IT asset component and an IT support services component.**
- Note - Interagency software should be reported by agency with contract with vendor (i.e. agencies would not report use of Workday as that will be a SAO contract)

Definition

This Statement does not apply to:

- a) 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)
- b) Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs
- c) 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
- d) 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

Possible SBITAs

- **Possible SBITAs include these types of arrangements:**
 - **Cloud based video conferencing**
 - **SaaS – Software as a Service**
 - **IaaS – Infrastructure as a Service**
 - **PaaS – Platform as a Service**
 - **Cloud Storage**
- Cloud-based storage makes it possible to save files to a remote database and retrieve them on demand.
- Companies that provide cloud services enable users to store files and applications on remote servers and then access data remotely.
- Types of Cloud Services
 - Email
 - Storage, backup, and data retrieval
 - Creating and testing apps
 - Analyzing data
 - Audio and video streaming
 - Delivering software on demand
- Examples: ERP System, Office 365 (excel, word, etc.), Google docs, and cloud services (Outlook email, Google drive, Apple [iCloud],).

Subscription Term:

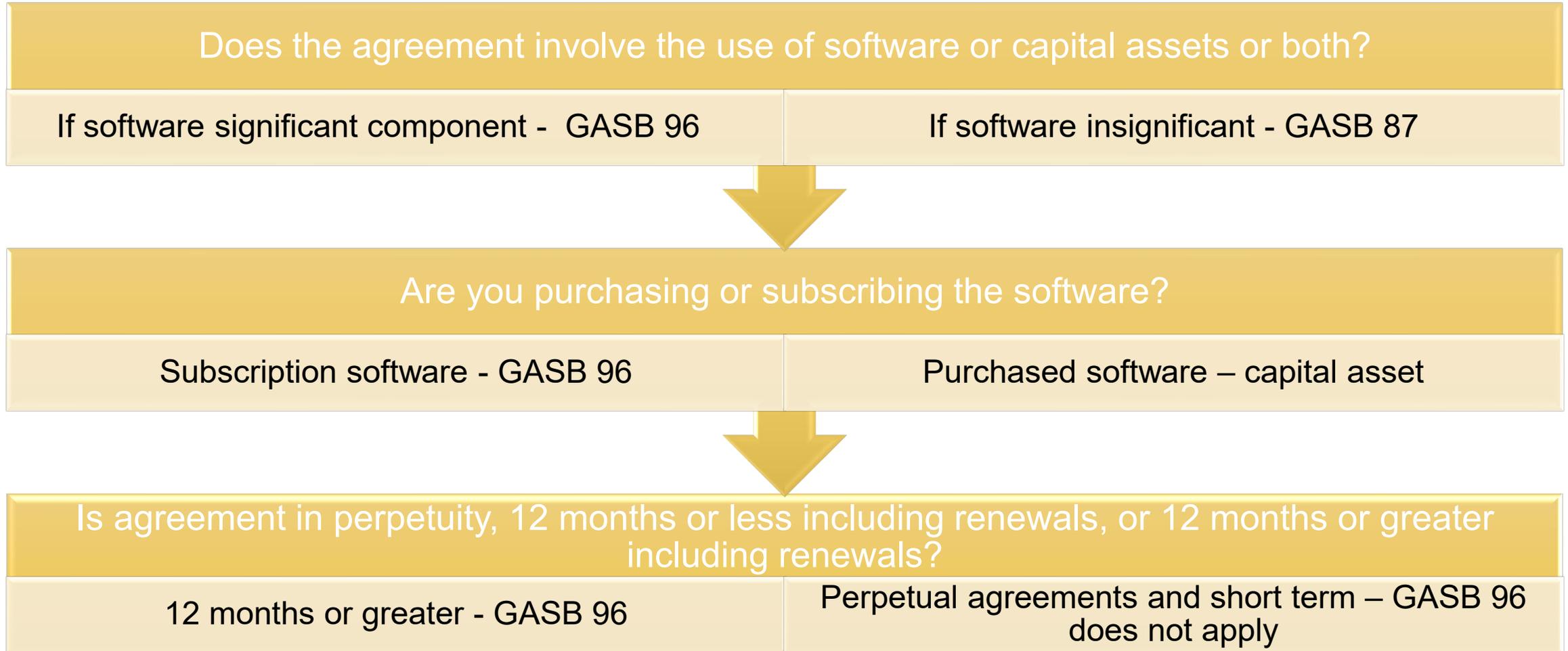
- Like GASB 87, agreements that are 12 months or less (**including options to renew**) are considered short-term agreements. Short-term agreements do not meet the definition of a SBITA and therefore should not be included.
- Periods for which **both** the government and the SBITA vendor have an option 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
- For example, a rolling month-to-month SBITA, or a SBITA that continues into a holdover period until a new SBITA contract is entered into, would not be enforceable if both the government and the SBITA vendor have an option to terminate and, therefore, either could cancel the SBITA at any time.
- INCLUDE - Agreements with terms greater than 12 months (including renewal terms). This includes any agreements that have options to extend beyond 12 months, but in which the agreement also contains a fiscal funding clause.
- EXCLUDE - Agreements with a term of 12 months or less (including options to renew).

Subscription Term

- Fiscal funding/cancellation clauses ignored unless reasonably certain of being exercised.
 - A fiscal funding or cancellation clause in a SBITA should affect the subscription term only if it is reasonably certain that the clause will be exercised (i.e.-severe state cutbacks). If it is reasonably certain that the contract will NOT be cancelled due to funding, SBITA should be reported.

Perpetual License	Subscription Based
One time fee	Yearly or monthly fee
Can use the software after expiration date, but <ul style="list-style-type: none">• No maintenance• No security patches or updates	<ul style="list-style-type: none">• Right to use expires after a certain amount of time• After expiration software cannot be used until it is renewed
Example – People Soft	Example - Workday

Decision Matrix



Stages of Implementation

	Activities Include:	Accounting for outlays:
Preliminary	<ul style="list-style-type: none"> the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the SBITA 	<ul style="list-style-type: none"> Expense as incurred
Initial Implementation	<ul style="list-style-type: none"> ancillary charges related to designing the chosen path, such as configuration, coding, testing, and installation Other ancillary charges necessary to place the subscription asset into service also should be included in this stage Data conversion - only to the extent that it is determined to be necessary to place the subscription asset into service. Otherwise, it should be considered an activity of the operation and additional implementation stage. 	<ul style="list-style-type: none"> capitalized as part of the subscription asset The initial implementation stage for the SBITA is completed when the subscription asset is placed into service Data conversion - Activities can be capitalized if deemed necessary to place the asset into service.

Reminder: If working on Next Gen Project and your agency is not utilizing Combination Codes, you will need to complete timesheet provided and submit to SAO

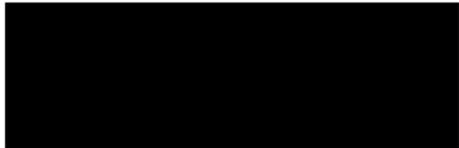
Stages of Implementation

	Activities Include:	Accounting for outlays:
Operation & Additional Implementation	<ul style="list-style-type: none">• maintenance, troubleshooting, and other activities associated with the government's ongoing access to the underlying IT assets.• Activities in this stage also may include additional implementation activities that occur after the subscription asset is placed into service	<ul style="list-style-type: none">• Activities can be expensed or capitalized depending on the impact to the SBITA (see next slide for further explanation)

Stages of Implementation

	Expense as incurred	Capitalize
Operation & Additional Implementation	Outlays in this stage that are associated with operational activities should be expensed as incurred	An increase in the functionality of the subscription asset; that is, the subscription asset allows the government to perform tasks that it could not previously perform with the subscription asset
	<ul style="list-style-type: none">• Training is always expensed (regardless of stage)	An increase in the efficiency of the subscription asset; that is, an increase in the level of service provided by the subscription asset without the ability to perform additional tasks.

GASB 96-Contract Review #1



PROFORMA INVOICE

Proforma Invoice Date: June 1, 2022
 Proforma Invoice Number: 22070018
 Payment terms: 30 Days
 Account #: 106426

Georgia Government (Accounting Office)

Accounts Payable:

Georgia Government (Accounting Office)
 [Redacted]
 200 Piedmont Avenue, Suite 1604, West Tower
 Atlanta, GA 30334-8400
 United States

Headquarters:

Georgia Government (Accounting Office)
 [Redacted]
 200 Piedmont Avenue, Suite 1604, West Tower
 Atlanta, GA 30334-8400
 United States

Ship To:

Georgia Government (Accounting Office)
 [Redacted]
 200 Piedmont Avenue, Suite 1604, West Tower
 Atlanta, GA 30334-8400
 United States

Renewal Type	Model	Description	License Period	QTY	Unit Price	Total Fees (USD)
Subscription Renewal	[Redacted]	Business Secure File Sharing Hosted Users with 1 TB of storage and 350 GB of bandwidth-KW-US-East	Aug 01, 2022 to Jul 31, 2023	35	180.00	6,300.00

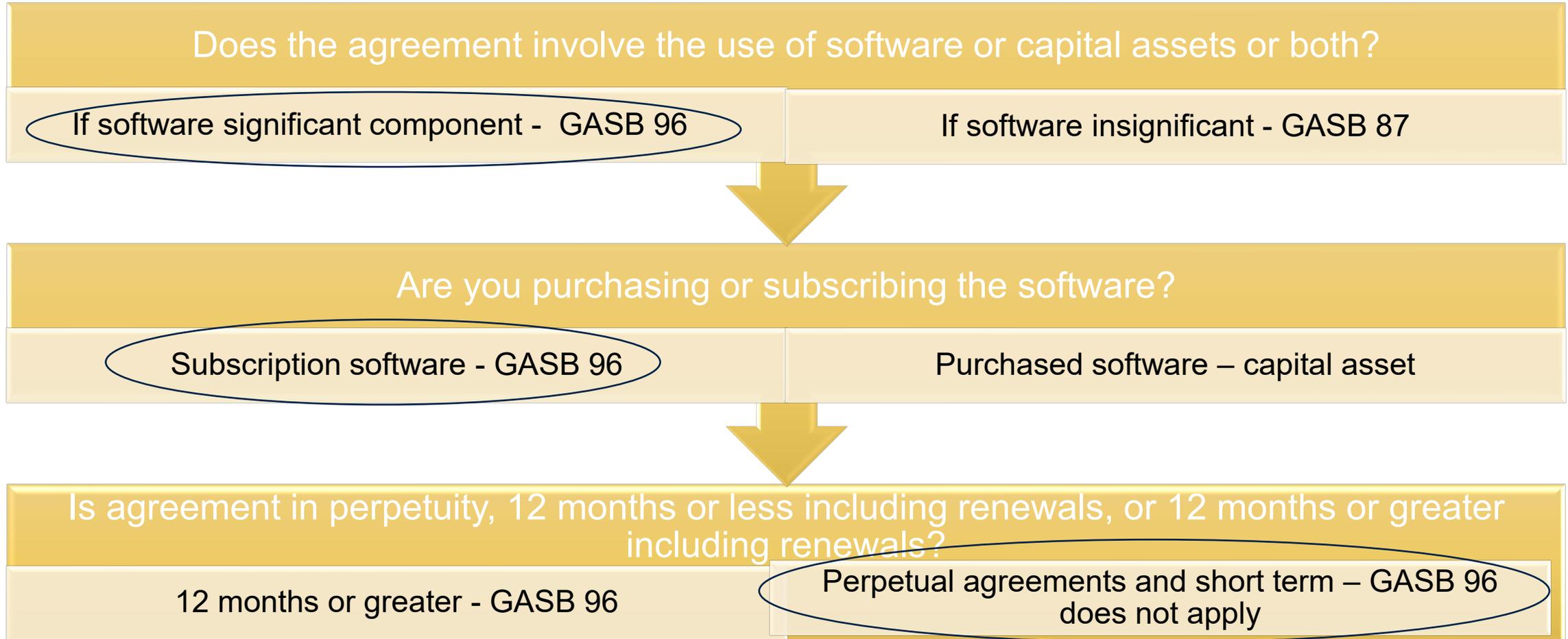
Excess hosted storage charged at \$0.25 per GB per month and excess hosted bandwidth charged at \$0.25 per GB transfer per month.

Deployment Charges 6,300.00
 Shipping 0.00

Subtotal 6,300.00
 Sales Tax/VAT* 0.00
Total Due USD 6,300.00

Deployment ID: 10139

Decision Matrix



GASB 96-Contract Review #1 con't

- Since there are no renewal periods it is a short-term subscription agreement and is exempted from GASB 96

	License Period
e	Aug 01, 2022 to
GB	Jul 31, 2023

- This agreement also mentions a variable payment

Excess hosted storage charged at \$0.25 per GB per month and excess hosted bandwidth charged at \$0.25 per GB transfer per month.

- If this agreement met the definition of a SBITA, then the variable payment would need to be submitted on the SAO SBITA form (e.g., the amount of storage and GB transfers excess paid for the fiscal year would need to be reported to SAO).

GASB 96-Contract Review #2



Dell Customer Confidential

Quotation



Customer: GA State Accounting Office
 Contact: Myra Guy
 Customer # : 530002341576
 Enrollment # : 5223606
 Email: myra.guy@sao.ga.gov
 Date of Issue: 9/29/2022

Software Account Manager



Quote Number: Proj BH09.26.2022 v1
 Quote Expires: 9/30/2022

PLEASE SEE IMPORTANT TERMS AND CONDITIONS AT THE BOTTOM OF THIS QUOTATION

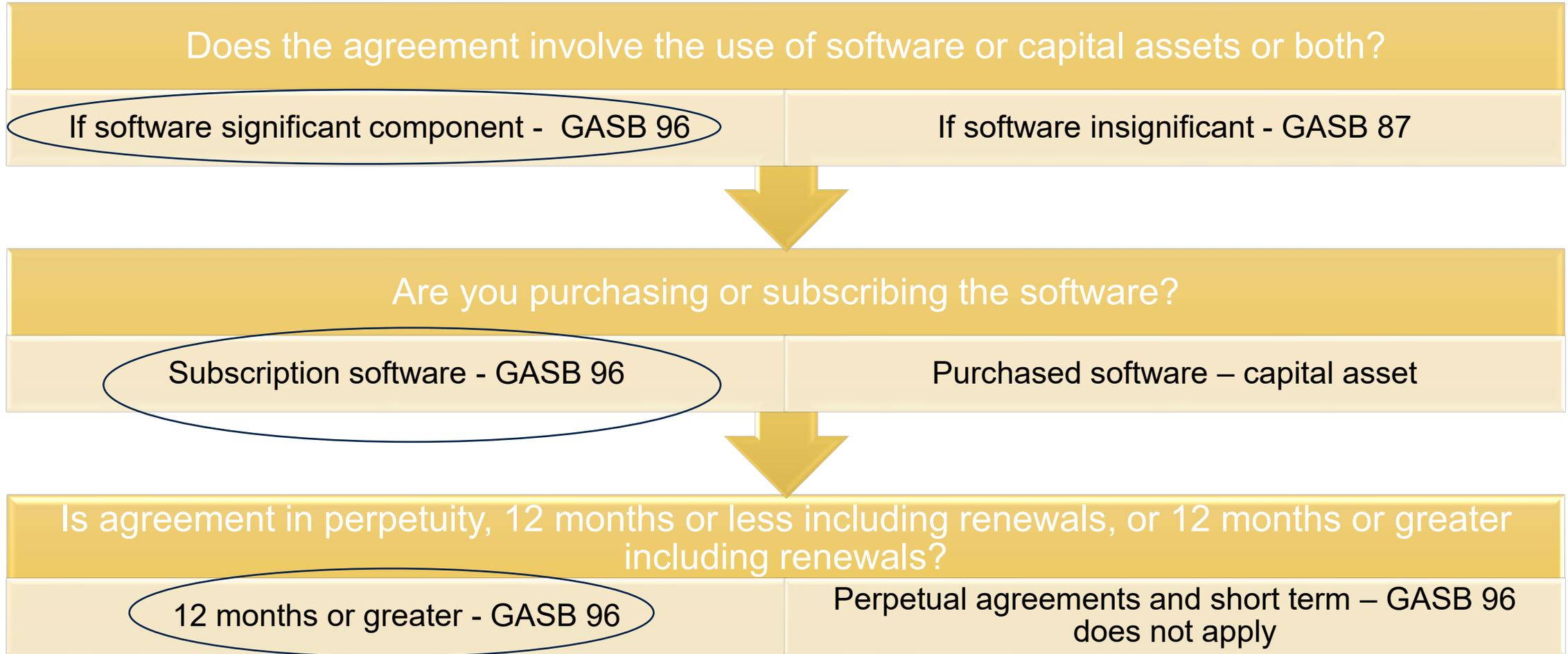
State of GA Software Contract 99999-SPD-SPD0000060-0006

Mfg#	Product Description	Price/U/mo	Mos. Remaining	Qty	Unit Price	Ext. Price
PF1-00002	Project P1 GCC Sub Per User	\$7.48	8	360	\$59.84	\$ 21,542.40
7MS-00001	Project P3 GCC Sub Per User	\$22.44	8	22	\$179.52	\$ 3,949.44
7VX-00001	Project P5 GCC Sub Per User	\$41.14	8	15	\$279.12	\$ 4,186.80
Total Amount Due:					Year 1 Payment	\$ 30,428.64
					Year 2 Payment	\$ 45,642.96
					Year 3 Payment	\$ 45,642.96

Quote prepared by:

- Customer's purchase is subject to the terms and conditions of the above referenced contract.
- Sale/use tax is based on the "ship to" address on your invoice. Please indicate your taxability status on your purchase order. If exempt, Customer must have an Exemption Certificate on file, including non-federal government customers. If you have a questions re: your tax status, please contact your inside sales representative listed above.
- Shipments to California: for certain products, a State Environmental Fee of up to \$10 per item may be applied to your invoice. Prices do not reflect this fee unless noted. For more information, refer to www.dell.com/environmentalfee. This applies unless this provision is specifically excluded in the above referenced contract.
- All product descriptions and prices are based on latest information available and are subject to change within the terms of the above referenced contract.
- Unless specified otherwise in the above referenced contract, all prices are based on Net 30 terms. If not shown, shipping, handling, taxes and other fees will be added at the time of the order where applicable.
- Customer understands and acknowledges that all warranties, representations and returns are subject to the manufacturer, publisher or distributor guidelines.

Decision Matrix



GASB 96-Contract Review #2 con't

- The contract has a begin date and end date
- The contract has options to extend, and is therefore not exempt as a short-term SBITA:

Year 1 Payment	\$	30,428.64
Year 2 Payment	\$	45,642.96
Year 3 Payment	\$	45,642.96

- Next – evaluate to determine if both parties can cancel or extend. If only one side can cancel or extend (as discussed on the next slide), then it is not excluded from being a SBITA (refer to Slide 7).

GASB 96-Contract Review #2 con't

- Contract review (SPD-SP026StateEntityContractforSoftware):



- 2. Contract Renewal.** The State Entity shall have the option, in its sole discretion, to renew the Contract for additional terms on a year-to-year basis by giving the Contractor written notice of the renewal decision at least sixty (60) days prior to the expiration of the initial term or renewal term. Renewal will depend upon the best interests of the State, funding, and Contractor's performance. Renewal will be accomplished through the issuance of a Notice of Award Amendment. Upon the State Entity's election, in its sole discretion, to renew any part of this Contract, Contractor shall remain obligated to perform in strict accordance with this Contract unless otherwise agreed by the State Entity and the Contractor.
- 4. Termination Upon Notice.** Following thirty (30) days' written notice, the State Entity may terminate the Contract in whole or in part without the payment of any penalty or incurring any further obligation to the Contractor. Following termination upon notice, the Contractor shall be entitled to compensation, upon submission of invoices and proper proof of claim, for Software, Licenses and Services provided under the Contract to the State Entity up to and including the date of termination.

GASB 96-Subscription Liability

Liability equals the present value of the future payments to be made over the life of the SBITA and include the following:

- Fixed payments
- Variable payments based on an index or rate, measured at the rate as of the beginning of the subscription term
- Variable payments that are fixed in substance (Ex: payment includes a minimum of 200 users)
- Termination penalties, if subscription term anticipates that termination clauses will be exercised.
- Subscription contract incentives
- Any other reasonably certain payments

Calculation of present value:

Period	Annual Payments	Present Value	=PV(Rate, Number of Periods, Payment, [fv],[type])	Interest Rate	1.7420%	Notes:
0	30,428.64	\$30,428.64	=PV(1.742,0,0,-30428.64,0)			Start with period 0 if pmts are in advance
1	45,642.96	\$44,861.47	=PV(1.742,0,1,-45642.96,0)			Start with period 1 if pmts are in arrears
2	45,642.96	\$44,093.37	=PV(1.742,0,2,-45642.96,0)	MLP:	121,714.56	Period = 12 months
		\$119,383.48		PVLP:	\$119,383.48	

Includes discount rate

GASB 96-Subscription Asset

- Asset includes the sum of the following:
- The amount of the measurement of the subscription liability
- Payments associated with the SBITA contract made to the SBITA vendor at the commencement of the subscription term
- **Capitalize initial implementation cost, as discussed previously (example, time spent on implementation activities of Next Gen ERP project)**
- Note – Do not record intangible right-to-use asset until software is placed into service. These costs are recorded as a prepaid item until that time.

GASB 96-Process of Implementation

- SBITA
 - Two surveys have been sent to nonaudited agencies
 - June 2022
 - March 2023
 - SAO held a training in April 2023
 - Recording and Q&A available on SAO's website: <https://sao.georgia.gov/policies-and-procedures/gasb-implementations>
 - SAO is working on a potential materiality proposal for SBITAs.
 - Internal Controls team will be spot checking recent SBITA survey responses
 - SAO will collect data for FY23 on year-end SBITA form
- SAO created a GASB 87/94/96 flowchart
 - Available on SAO's website: <https://sao.georgia.gov/policies-and-procedures/gasb-implementations-0/sbitas>

