Statewide Accounting Policy & Procedure

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Policy Title:	Subscription Based Information Technology Arrangements Accounting	

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Accounting Policy Summary:

A subscription-based information technology arrangement (SBITA) is defined as 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. SBITAs provide the State with access to vendors' IT software and associated tangible capital assets for subscription payments without granting the State perpetual license or title to the IT software and associated tangible capital assets. Any contract that meets this definition should be accounted for in accordance with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board's (GASB) SBITA guidance, GASB Statement 96. This policy provides capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA, accounting and reporting guidance for the State in accordance with GASB 96.

The State Accounting Office has established a capitalization threshold of $100,000 for SBITAs. Amounts are capitalized, under the full accrual basis of accounting, when the cumulative amount of payments over the term of the agreement equals or exceeds this threshold. Agencies that are required to have stand-alone financials should evaluate if these subscription assets are significant to their financials and include if applicable.

However, GASB 96 and this policy do not apply to:

- 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 subscription in Statement No. 87, Subscriptions, 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)

- State agencies 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 the State to use a vendor's computer software, which are subject to Statement No. 51, Accounting and Financial Reporting for Intangible Assets, as amended.

Accounting Policy and Requirements:
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, as described in the *Outlays Other Than Subscription Payments, including Implementation Costs* section below. At the completion of the implementation stage, the government has obtained control of the right to use the underlying IT assets, and, therefore, the subscription asset is placed into service.

SBITAs include contracts that, although not explicitly identified as a SBITA, meet the definition of a SBITA as defined 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.

Recognition and Measurement
Control of the right to use the underlying asset – In order to have control of the right to use the underlying IT asset, organizations of the State must have both of the following:

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

Determination of the Subscription Term – the subscription term is the period during which a government has a noncancelable right to use an underlying asset (referred to as the noncancelable period), plus the following periods, if applicable:

- Periods covered by a government's option to extend the SBITA if it is reasonably certain, based on all relevant factors, that the government will exercise that option.
- 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 vendor's option to extend the SBITA 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 SBITA if it is reasonably certain, based on all relevant factors, that the vendor will not exercise that option.

  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. Provisions that allow for termination of a SBITA as a result of either payment of all sums due or default on subscription payments are not considered termination options.

Fiscal Funding or Cancellation Clause – Part of determining a SBITA term requires that applicable legal restrictions be considered. Legal restrictions applicable to State organizations, which are included in the State Constitution, prohibit State organizations from entering into payables beyond the current fiscal year. In order to comply with the Constitution, agreements typically contain a fiscal funding or cancellation clause that permits a State organization to terminate an agreement on an annual basis if funds are not appropriated to make required payments.

However, a fiscal funding or cancellation clause should affect the subscription term only when it is reasonably certain that the clause will be exercised (i.e., fiscal funding clauses are to be ignored unless the State organization is reasonably certain it will be exercised).

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. For a SBITA that is cancelable by either the government or the vendor, such as a rolling month-to-month SBITA or a year-to-year SBITA, the maximum possible term is the noncancelable period, including any notice periods. **Short-term agreements do not meet the definition of a SBITA.**

Additionally, the State should reassess the subscription term only if one or more of the following occur:

- The government or SBITA vendor elects to exercise an option even though it was previously determined that it was reasonably certain that the government or SBITA vendor would not exercise that option.
- The government or SBITA vendor elects not to exercise an option even though it was previously determined that it was reasonably certain that the government or SBITA vendor would exercise that option.
- An event specified in the SBITA contract that requires an extension or termination of the SBITA takes place.

SBITA Modifications – The provisions of a SBITA contract may be amended while the contract is in effect. Amendments change the provisions of the SBITA contract. Examples of amendments to SBITA contracts include:

- changing the contract price of the arrangement
- lengthening or shortening the subscription term
- adding or removing underlying IT assets
- changing the index or rate upon which variable payments depend

    - 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.

The 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 one or 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 the terms of the amended SBITA contract and professional judgment, maximizing the use of observable information (for example, using readily available observable stand-alone prices).

Unless a modification is reported as a separate SBITA as provided in the paragraph above, an amendment to a SBITA contract should be considered a SBITA modification by remeasuring the SBITA liability. The subscription asset should be adjusted by the difference between the remeasured liability and the liability immediately before the SBITA modification. However, if the 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).

A subscription liability is not required to be remeasured, nor is the discount rate required to be reassessed, solely for a change in a government's incremental borrowing rate.

Measurement – Under GAAP accrual accounting, a government should recognize a subscription liability and a subscription asset at the commencement of the subscription term, unless the subscription is a short-term subscription. The subscription liability should be measured at the present value of payments expected to be made during the subscription term (less any subscription incentives as described below). The subscription asset should be measured at the amount of the initial measurement of the subscription liability, plus any payments made to the SBITA vendor at or before the commencement of the subscription term including implementation costs (described below) and certain direct costs. Short-term subscription payments are recorded as outflows of resources (for example, expense).

Valuation of the Subscription Liability and the Subscription Asset

Subscription Liability - A government initially should measure the subscription liability at the present value of 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 a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the subscription term
- Variable payments that are fixed in substance
- Payments for penalties for terminating the SBITA, if the subscription term reflects the government exercising (1) an option to terminate the SBITA or (2) a fiscal funding or cancellation clause.
- 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.

Subscription Asset - A government initially should measure the subscription asset as the sum of the following:

- The amount of the initial measurement of the subscription liability, as described above.
- Subscription payments made to the SBITA vendor at or before the commencement of the subscription term, less any subscription incentives from the SBITA vendor at or before the commencement of the subscription term.
- Capitalizable initial implementation costs as described below.

Variable payments – Payments other than those that depend on an index or a rate, such as variable payments based on future performance of the government or usage of the underlying IT assets, or number of user seats should not be included in the measurement of the subscription liability. Rather, those variable payments should be recognized as outflows of resources (for example, expense) in the period in which the payable for those payments is incurred. However, any component of those variable payments that is fixed in substance should be included in the measurement of the subscription liability.

Remeasurement **–** The subscription liability should be remeasured if certain changes have occurred at or before the financial reporting date and the changes are expected to significantly affect the amount of the subscription liability. See "Subscription Modifications" section above for more details.

Subscription Incentives **–** Incentives provided by a SBITA vendor are payments made to, or on behalf of, the government, for which the government has a right of offset with its obligation to the SBITA vendor, or other concessions granted to the government. A subscription incentive is equivalent to a rebate or discount and includes an agreement to pay a government's preexisting subscription obligation to a third party, other reimbursements of end user costs, free subscription periods, and reductions of interest or principal charges by the SBITA vendor.

- Subscription incentives reduce the amount that a government is required to pay for a SBITA. Subscription incentives that provide payments to, or on behalf of, a government at or before the commencement of a subscription term are included in initial measurement by directly reducing the amount of the subscription asset.
- Subscription incentive payments to be provided after the commencement of the subscription term should be accounted for by the State as reductions of subscription payments for the periods in which the incentive payments will be provided. Those payments should be measured by the State consistently with the State's subscription liability. Accordingly, subscription incentive payments to be provided after the commencement of the subscription term are included in initial measurement and any remeasurement if they are fixed or fixed in substance, whereas variable or contingent subscription incentive payments are not included in initial measurement.

Incremental Borrowing Rate – Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be the interest rate implicit in the subscription. If the interest rate cannot be readily determined by the government, the government's estimated incremental borrowing rate (an estimate of the interest rate that would be charged for borrowing the subscription payment amounts during the subscription term, which could be the State's rate) should be used.

Outlays Other Than Subscription Payments, including Implementation Costs

Activities associated with a SBITA, other than a government making subscription payments to the SBITA vendor for the right to use the underlying IT assets, should be grouped into the following stages:

- *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 alternatives for the SBITA.
  - Outlays associated with activities in the preliminary project stage should be expensed as incurred.
- *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. Other ancillary charges necessary to place the subscription asset into service also should be included in this stage. The initial implementation stage for the SBITA is completed when the subscription asset is placed into service.
  - Outlays associated with activities in the initial implementation stage generally should be capitalized as part of the subscription asset. If no subscription asset is recognized (for

  example, if the contract is a short-term SBITA), activities in the initial implementation stage should be expensed as incurred.
  - If a SBITA has more than one module and the modules are implemented at different times, the initial implementation stage for the SBITA is completed, and, therefore, the subscription asset is placed into service when initial implementation is completed for the first independently functional module or for the first set of interdependent modules, regardless of whether all remaining modules have been completely implemented. For the remaining modules of that SBITA, all additional implementation activities should be considered subsequent implementation outlays and should be accounted for based on the nature and timing of the activity.
  - Data conversion should be considered an activity of the initial implementation stage only to the extent that it is determined to be necessary to place the subscription asset into service—that is, in condition for use. Otherwise, data conversion should be considered an activity of the operation and additional implementation stage.
- *Operation and Additional Implementation Stage* - Activities in this stage include 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, such as those related to additional modules, that occur after the subscription asset is placed into service.
  - Outlays in this stage that are associated with operational activities should be expensed as incurred, except for those that meet one of following the capitalization criteria and would therefore need to be added to the subscription asset:
    - 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
    - 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.
- Payments before the commencement of the subscription term associated with the SBITA contract made to the SBITA vendor, as well as payments made for the capitalizable initial implementation costs before the commencement of the subscription term, should be reported as a prepayment (an asset).
  - A prepayment to a SBITA vendor should be reduced by any incentives received from the same SBITA vendor before the commencement of the subscription term, if a right of offset exists.
  - That prepayment should be reclassified as an addition to the initial measurement of the subscription asset at the commencement of the subscription term.
  - If the SBITA vendor incentives are greater than the SBITA vendor prepayments made to the same vendor, the difference should be reported as a liability until the commencement of the subscription term, at which time that amount should reduce the initial measurement of the subscription asset.

Training costs should be expensed as incurred, regardless of the stage in which they are incurred.

If after the subscription asset in placed into service, any outlays associated with converting its legacy data on an old server to the vendor's cloud storage outlays should be expensed as incurred.

Accounting for outlays incurred - Other than subscription payments for the right to use the underlying IT assets, outlays incurred prior to completing all of the following should be expensed as incurred:

- Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the subscription asset.

- Demonstration of the technical or technological feasibility such that the subscription asset will provide its expected service capacity.
- Demonstration of the current intention, ability, and presence of effort to enter into a SBITA contract.

The requirements above should be considered to be completed only when both of the following occur:

- The activities noted in the preliminary project stage as described above are completed.
- Management implicitly or explicitly authorizes and commits to funding the SBITA, at least for the current fiscal year in the case of a multiyear project.

Amortization and Allocation of Subscription Payables – 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 asset. 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.

Contracts with Multiple Components and Contract Combinations – A government may enter into contracts that contain multiple components, such as a contract that contains both a subscription component (that is, the right to use the underlying IT assets) and a nonsubscription component or a contract that contains multiple underlying IT asset components. Examples of nonsubscription components include a separate perpetual licensing arrangement and maintenance services for the IT assets.

- If a government enters into a contract that contains both a subscription component and a nonsubscription component, the government should account for the subscription and nonsubscription components as separate contracts unless it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a government should account for those components as a single SBITA.

    - If a subscription involves multiple underlying IT assets, and the IT asset components have different subscription terms, the government should account for each underlying IT asset as a separate subscription contract. To allocate the contract price to different components, the State should use contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable.
    - If determining a best estimate is not practicable, multiple components in a subscription contract should be accounted for as a single subscription unit. Contracts that are entered into at or near the same time with the same counterparty and that meet certain criteria should be considered part of the same subscription contract and should be evaluated in accordance with the guidance for contracts with multiple components.
    - If a contract does not include prices for individual components, or if any of those prices appear to be unreasonable, the State should use professional judgment to determine their best estimate for allocating the contract price to those components, maximizing the use of observable information. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a government should account for those components as a single subscription unit.
    - If multiple components are accounted for as a single SBITA, the accounting for that SBITA should be based on the primary subscription component within that agreement. For example, the primary subscription component's term should be used for the unit if the components have different terms.

Basis of Accounting
Organizations included in the State reporting entity are required to maintain their accounting records in a manner that provides for the preparation of both GAAP financial statements and budgetary statements. Day-to-day operations may be accounted for using a budgetary/statutory basis of accounting, which is also used for preparing the year-end BCR. The primary statements in the year-end Annual Comprehensive Financial Report (ACFR), however, are prepared using different bases of accounting, the GAAP bases: modified accrual and accrual.

Statutory Basis
Periodic payments on SBITAs are recognized as expenditures on the statutory basis of accounting. Payments should be recorded as subscription principal and interest expenditures.

GAAP Modified Accrual Basis
Governmental funds should report an expenditure and other financing source in the period the SBITA is initially recognized. These should be measured in accordance with the requirements for measuring the subscription liability (described above). In subsequent periods, payments should be accounted for as principal and interest expenditures. Amortization of interest should not be recognized in the fund level financial statements.

GAAP Accrual Basis
Proprietary funds, fiduciary funds, component units using the accrual basis, and the government-wide financial statements should report capital assets as well as long and short-term payables on the statement of net position. Therefore, for SBITAs, a subscription asset and subscription payable should be recorded at inception of the SBITA, and periodic subscription payments should be recorded as interest expense and a reduction to the subscription payable. Additionally, amortization expense related to the subscription asset should be recorded.

General Accounting Procedures:
The following procedures are used by organizations in the State of Georgia reporting entity to meet the requirements for statutory and GAAP reporting purposes.

Management at state reporting organizations must evaluate every contract or agreement to determine whether the transaction should be treated as a SBITA and provide the required information to SAO. Currently, SAO uses a SBITA accounting software to manage the SBITA reporting process for state organizations that are not subject to external CPA/DOAA audits, thereby standardizing control over SBITA accounting and financial reporting. Organizations should be able to reconcile current year information provided to SAO for SBITA payments to SBITA payments recorded in the general ledger. State organizations subject to external CPA audited organizations should ensure that controls are in place at their locations to ensure compliance with this policy. The following guidance also applies when identifying and evaluating transactions.

SBITAs within the Reporting Entity – If a state organization is part of the primary government for financial reporting purposes and enters into a subscription agreement where the SBITA vendor entity (public authority, department, agency, division, etc.) is also part of the primary government, then the agreement should not be reported as a SBITA. The payments for these agreements should be considered ordinary operating expenditures/expenses by the government organization. For example, agreements between Georgia Technology Authority and other organizations included in the State's primary government should not be reported as subscriptions in the statewide ACFR.

- If any state organization enters into a subscription agreement where the SBITA vendor is either a) a discretely presented component unit or b) a public organization that is ***not*** part of the governmental unit entity for financial reporting purposes, then the SBITA should be treated in the same manner as any other SBITA of the State
- A current list of organizations within the primary government can be found using the following link: https://sao.georgia.gov/statewide-reporting/reporting-structure-chart-accounts

Reflecting the Subscription Asset Associated with SBITAs – For State organizations that are not subject to external CPA audits, subscription IT assets are **not** required to be entered into the asset management module of the statewide financial system. The values of these assets for ACFR reporting purposes, including amortization information, are derived from information provided by reporting organizations that is input into the SBITA accounting software managed by SAO. If such an organization chooses to use the asset management module for inventory tracking purposes of subscription acquired IT assets, then the profile ID for these SBITA assets should be set to track the assets as small value assets with "zero-dollar" values. The required entries to record these assets are prepared by SAO for reporting on a statewide basis during the annual ACFR process.

For State organizations that are subject to external CPA audits, appropriate records should be maintained to ensure that applicable expenditures, other financing sources, asset values and amortization for SBITA items can be reported properly under each basis of accounting in compliance with this policy.

Reflecting the Subscription Payable Associated with SBITAs – For State organizations that are not subject to external CPA audits, the valuation of the payable at SBITA inception and the subsequent allocation of minimum subscription payments between interest expense and reduction of principal are derived from information provided by reporting organizations that is input into the SBITA accounting system managed by SAO. The required entries to record these subscription payables and related interest are prepared by SAO for reporting on a statewide basis during the annual ACFR process.

For State organizations that are subject to external CPA audits, appropriate records should be maintained to ensure that the interest, principal reduction, and long-term subscription payable for SBITAs can be reported properly under the accrual basis of accounting in compliance with this policy.

Accounting Transactions and Journal Entries

State reporting organizations using the statewide financial system are required to use the general ledger chartfields for each expenditure and payable transaction. These chartfields may be different for budgetary reporting and GAAP transactions, such that journal entries may be required to convert between the various bases of accounting required for reporting. Under GAAP, SBITAs are accounted for in a manner similar to debt transactions. Significant variance between GAAP and the State's budgetary basis of accounting are discussed below.

The journal entry examples provided in this section are based on accounts listed in the State Chart of Accounts (SCOA) which is posted on the reporting structure page of the SAO website. The link to the SCOA is sao.georgia.gov/statewide-reporting/reporting-structure-chart-accounts. As stated above, State organizations that are subject to external CPA audits are responsible for properly classifying SBITAs and for preparing all entries needed for reporting under each basis of accounting that applies to the organization (statutory, modified accrual and/or accrual). Organizations that are not subject to external CPA audits are responsible for recording SBITA payments under the statutory basis of accounting and for supplying information to SAO as described in the Year-end Accounting Procedures section below. SAO classifies the

SBITAs and prepares journal entries to report under the modified accrual and accrual bases of accounting for organizations that are not subject to external CPA audits.

SBITA Example
Assume that the software is a SBITA with a three-year subscription term and the agreement meets the criteria for treatment as a SBITA. Also, assume that the following payment and amortization schedule applies.

Amortization Schedule	Principal	2% Annual Interest*	Total Payment	Outstanding Principal Balance
SBITA Inception				$ 30,000
Year 1	$ 9,800	$ 500	$ 10,300	20,200
Year 2	10,000	300	10,300	10,200
Year 3	10,200	100	10,300	-
	$ 30,000	$ 900	$ 30,900	
Present Value of Minimum SBITA Payments at 2%			$ 30,000	

Statutory Basis Journal Entry
To record the subscription payments for the first year of the subscription term (assumes no encumbrance was recorded):

Debit		$9,800	Subscription – Principal Payments (825001)
Debit		$ 500	Subscription – Interest Payments (716xxx) *
	Credit	$10,300	Cash (10xxxx) or Accounts Payable (200xxx) as appropriate

This entry reduces fund balance. A similar entry is recorded each year of the subscription term, however, the split between principal and interest changes each year, as demonstrated in the table above.

Modified Accrual Basis Journal Entry
To record the acquisition cost of the asset/value of the SBITA in governmental funds. This entry is recorded in ***only the initial year*** of the subscription term and presents the activity as a capital outlay expenditure:

Debit		$30,000	Expenditure (applicable expenditure account)
	Credit	$30,000	Other Financing Sources – Subscriptions (476001)

This entry does not affect fund balance.

Statutory Basis Journal Entry
To record the entry in the second year of the subscription:

Debit		$10,000	Subscription – Principal Payments (825001)
Debit		$ 300	Subscription – Interest Payments (716xxx) *
	Credit	$10,300	Cash (10xxxx) or Accounts Payable (200xxx) as appropriate

*Organizations that complete the "Subscription Information Based Technology Agreement Data" form, as discussed in Year-end Accounting Procedures below, may record the entire payment as a debit to SBITA Expenditure. The calculation and recording of the interest portion of the payment is not necessary.

Accrual Basis Journal Entries
The following entries are needed to adjust modified accrual basis records to the accrual basis of accounting. Amounts reflect activity for Year 1 based on the above amortization schedule.

To record the present value of minimum SBITA payments as a subscription asset and to reflect a long-term liability for the subscription payable:

Debit	$30,000	Subscription Asset (161002)
Credit	$30,000	Subscription Payable – Noncurrent (286001)

To record amortization expense related to the subscription asset, assuming a three-year useful life with no salvage value:

Debit	$10,000	Amortization Expense (740002)
Credit	$10,000	Accumulated Amortization (162001)

To reduce subscription expense recorded under the statutory basis by the amount related to principal payments:

Debit	$9,800	Subscription Payable – Noncurrent (286001)
Credit	$9,800	Subscription – Principal Payments (825001)

To reclassify the current portion of the subscription payable from noncurrent liabilities:

Debit	$10,000	Subscription Payable – Noncurrent (286001)
Credit	$10,000	Subscription Payable – Current (257002)

To reverse the entry made under the modified accrual basis since it does not apply to the accrual basis:

Debit	$30,000	Other Financing Sources – Subscriptions (476001)
Credit	$30,000	Expenditure (Various accounts in the 72xxxx series)

This entry does not affect net position.

In subsequent years, additional entries are required to reinstate beginning balances for any SBITAs that may have existed at the end of the prior year. Beginning balances for subscription IT assets, accumulated amortization, and subscription payables are reinstated with an offset to beginning net position.

To reinstate the Year 1 ending asset balances as the beginning balances for Year 2:

Debit	$30,000	Subscription Asset (161001)
Credit	$10,000	Accumulated Amortization (162001)
Credit	$20,000	Adjustment to Net Position – July 1

To reinstate the Year 1 ending subscription payable balance as the beginning balance for Year 2 – Reflect combined current and noncurrent portions as noncurrent:

Debit	$20,200	Adjustment to Net Position – July 1
Credit	$20,200	Subscription Payable – Noncurrent (286002)

*These entries are only reported once a SBITA is placed into service. For SBITAs not in service by the end of the fiscal year, any implementation costs and/or payments to the SBITA vendor would be shown as a subscription in progress (asset) and reported on the "Year-End Questionnaire" form as described below. Once the SBITA is placed into service, the SBITA in progress becomes part of the SBITA asset and should be reported on the Subscription Based Information Technology Agreements (SBITAs)" form.

Year-end Accounting Procedures

State organizations must coordinate with the SAO statewide accounting and reporting group to confirm that the appropriate journal entries are recorded to properly report SBITAs under the modified accrual and accrual bases of accounting at year-end. All required information must be provided to SAO in accordance with the annual year-end reporting calendar. Organizations may provide their information either by completing the "Year-End Questionnaire" and/or "Subscription Based Information Technology Agreements (SBITAs)" form for year-end reporting or by providing independently audited financial statements that include required SBITA disclosures. Organizations providing independently audited financial statements should comply with this policy. The Year-End Questionnaire and SBITA year-end form, with detailed instructions, are available for download from the Year-End Reporting page of the SAO website: (Year-End Forms | State Accounting Office of Georgia).

Funds that operate on a statutory basis must convert their accounting activity to the modified accrual and/or accrual bases of accounting for the ACFR. Proprietary and fiduciary funds that do not operate on a statutory basis use the accrual basis of accounting throughout the year. If GAAP financial statements are not provided, SAO must be furnished with information to meet the necessary GAAP reporting requirements previously discussed.

Statutory Basis for Budgetary Compliance Reporting - Periodic payments on SBITAs are recognized as expenditures on the statutory basis of accounting. The expenditure is recognized at the earlier of the time the funds are encumbered (i.e., when purchase orders or other contractual payables have been executed) or the time the rights under the subscription have been received. Accruals are required at year-end for unencumbered SBITA periods that have lapsed but for which payments have not been processed through the accounts payable subsystem. A reclassification from encumbrance liability to accounts payable is required for any encumbered periods that have lapsed but for which payments have not yet been processed through the accounts payable subsystem by year-end.

Converting to GAAP Modified Accrual Basis for ACFR Reporting - Governmental funds recognize periodic payments on SBITAs as expenditures in the period incurred. Even though subscription IT assets and long-term liabilities are not reported in fund financial statements under the modified accrual basis of accounting, entrance into a SBITA payable is required to be reported as a capital outlay expenditure in governmental funds in the year of a SBITA's inception (i.e., as the acquisition of an asset). The following adjustments are required to convert from the statutory basis to the modified accrual basis of accounting:

> Any ending encumbrance liability balance related to subscriptions is eliminated and beginning fund balance is increased by the prior year encumbrance liability related to subscriptions. The offsetting changes in the encumbrance liability are recorded as expenditures to recognize the current year impact. If the net change in encumbrance liability decreased during the year, the adjustment results in an increase in expenditures, but if the net change in encumbrance liability increased from the prior year balance, the result is a decrease to expenditures.

As indicated above, although subscriptions are not reported on governmental fund financial statements as subscription assets or long-term debt, state organizations should record a transaction as though an asset were purchased outright:

- In the ***initial year*** of the subscription, the government records both an expenditure and an "other financing source" even though financial resources for the full subscription value were not actually received or disbursed. This entry has zero impact on fund balance.
- The expenditure amount initially recorded and reported is equal to the acquisition cost determined according to the Subscription Asset and the Subscription Liability section, above.

The State prepares government-wide financial statements in addition to fund financial statements. Government-wide financial statements include governmental and proprietary funds, as well as component units. Governmental fund activity must be adjusted to the accrual basis of accounting for government-wide reporting purposes. Adjustments to the accrual basis are also required for other funds that operate on a statutory basis (certain proprietary and fiduciary funds or component units).

- Subscriptions that were initiated in the reporting year and were reported as expenditures in governmental funds under the modified accrual basis of accounting must be reflected as subscription assets rather than as expenditures. Related long-term liabilities for the subscription payables that were reported as other financing sources on the fund level must also be recognized in the same amounts that were initially recognized as right to subscription assets.
- Amortization expense associated with the right to use assets is recognized.
- Payments made on subscriptions during the year are reported as reductions to subscription payables rather than as expenditures.

Accrual Basis for Funds Not Reporting on a Statutory Basis - Activity in proprietary and fiduciary funds and component units that do not operate on a statutory basis is reported throughout the year using the full accrual basis of accounting. They report assets acquired under SBITAs as subscription assets and report the related subscriptions in long-term liabilities in their fund financial statements.

- In the initial year only, the government reports the purchase of a right to use asset acquired through a SBITA as a subscription asset, offset by subscriptions payable. The amount initially recorded and reported as a right to use asset should equal the acquisition cost determined according to the Valuation of the Subscription Payable and the Subscription Asset section, above.
- Amortization expense associated with the subscription assets is recognized.
- Interest expense is recognized throughout the subscription term and principal reductions to subscription payables are recorded as payments are made.

The State has component units in governmental, proprietary, and fiduciary funds. Component unit reporting of subscriptions follows the basis of accounting appropriate for the fund type as described above.

Statement Presentation and Disclosure Requirements

The government-wide financial statements present information about the overall State. All governmental and proprietary (business-type) activities are included, but fiduciary activities are excluded. Component units in the governmental and proprietary funds are either blended in the government-wide financial statements or discretely presented. Component units in fiduciary funds are not reported in the government-wide financial statements.

GAAP requires the following disclosures for subscription payables:

- General description of its SBITAs, including the basis, terms, and conditions on which variable payments not included in the measurement of 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 (e.g., expense/expenditure) recognized in the reporting period for variable payments not previously included in the measurement of the subscription liability.
- The amount of outflows of resources (e.g., expense/expenditure) 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 subscriptions before the commencement of the subscription term.
- The components of any impairment loss associated with the underlying asset, including the amount of impairment loss and any related change in the subscription liability.

Authority:

- Official Code of Georgia Annotated (OCGA) 50-5B-3 – Duties of the state accounting officer include:
  - Prescribing state-wide accounting policies, procedures, and practices.
  - Prescribing the manner in which disbursements shall be made by state government organizations.
  - Developing processes and systems to improve accountability and enhance efficiency for disbursement of funds and management of accounts payable.
  - Determining the proper classification for accounting and reporting purposes of all assets, liabilities, revenues, expenditures, fund balances, funds, and accounts in compliance with legal requirements and generally accepted accounting principles and prescribe a uniform classification of accounts and other accounting identifiers which shall be used by all state organizations.
- O.C.G.A. 50-5B-4(b) – Duties of the state agencies with respect to SAO.
  - All organizations of state government and all officers, agents, and employees thereof shall conform to and comply with the rules, regulations, policies, procedures, and forms devised, promulgated, and installed by the state accounting officer.
- GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* (Subscriptions section, paragraphs 211–271)
- GASB Statement No. 66 – *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62* (paragraphs 24-26)
- GASB Statement No. 96 – *Subscription Based Information Technology Arrangements*
- National Council on Governmental Accounting Statement 5 – *Accounting and Financial Reporting Principles for Subscription Agreements of State and Local Governments*
- GASB Codification Section L20 – *Subscriptions*
- Georgia Constitution, Article III, Section VI, Paragraph VI – *Gratuities*
- OCGA 12-3-113 – *Duties and powers of department as to system; requirements as to title to land traversed by system* (applies to the Department of Natural Resources)
- OCGA 50-16-7 – *Improvement of real estate held by state in fee simple with reversionary interest in federal government or under long-term federal license.*
- SAO Accounting Policy Manual, Capital Assets: *Capital Assets – General*

Applicability:

This accounting policy applies to all organizations included in the State of Georgia reporting entity. The term ‘organization of state government' shall mean, without limitation, any agency, authority, department, institution, board, bureau, commission, committee, office, or instrumentality of the State of Georgia. Such term shall not include any entity of local government, including, but not limited to, a county, municipality, consolidated government, board of education, or local authority, or an instrumentality of any such entity. At these reporting organizations, all personnel with accounting and financial reporting responsibilities should be knowledgeable of this policy. Refer to the SAO Accounting Policy – *Management Responsibilities* policy for a summary of general financial reporting responsibilities.

Definitions:

Cancelable period – Periods for which a government and SBITA vendor both have an option to extend or terminate.

Contract – An agreement (written or verbal) between two or more parties that creates an enforceable right and payable**.**

Discount Rate – For the government, the discount rate for the SBITA is the rate implicit in the subscription unless that rate cannot be readily determined. In that case, the government is required to use its incremental borrowing rate.

Exchange or Exchange –Like – A transaction in which each party receives and sacrifices something of approximately equal value.

Fiscal Funding or Cancellation Clauses – A provision by which the subscription is cancelable if the legislature or other funding authority does not appropriate the funds necessary for the government unit to fulfill its payables under the subscription agreement.

Government – An entity that enters into a contract to obtain the right to use an underlying asset for a period of time in an exchange for consideration.

Implicit Rate – The rate of interest that at a given date, causes the aggregate present value of (a) the subscription payments and (b) the amount that a SBITA vendor expects to derive from the underlying asset following the end of the subscription term to equal the sum of (1) the fair value of the underlying asset and (2) any deferred initial indirect cost of the SBITA vendor. However, if the rate determined is less than zero, an implicit rate of zero should be used.

Incentive – This may be a discount or an offer to pay moving costs or make a cash payment to the government as a means to induce a government to sign a SBITA.

Inception of the SBITA – The date of the subscription agreement or commitment, if earlier. For purposes of this definition, a commitment should be in writing, signed by the parties in interest to the transaction, and should specifically set forth the principal provisions of the transaction. If any of the principal provisions are yet to be negotiated, such a preliminary agreement or commitment does not qualify for purposes of this definition.

Incremental Borrowing Rate – The rate that, at the inception of the SBITA, the government would have incurred to borrow over a similar term, the resources necessary to purchase the subscription asset.

Noncancelable Period – The period for which a subscription contract is enforceable, and the subscription is cancelable only upon the occurrence of some remote contingency.

Nonsubscription components - The State and SBITA vendors may enter into contracts that contain multiple components, such as a contract that contains both a subscription component and a nonsubscription component. Examples of nonsubscription components include a separate perpetual licensing arrangement and maintenance services for the IT assets.

Reasonably certain – Implies a higher level of certainty. It is much greater to occur that likely to occur.

Right to use – the right to obtain the present service capacity from use of the underlying asset and the right to determine the nature and manner of its use.

SBITA vendor – An entity that enters into a contract to provide the right to use an underlying IT asset for a period of time in an exchange consideration.

Short-term subscriptions – Subscriptions that, at the commencement of the SBITA, have a maximum possible term of 12 months or less, including any options to extend.

Subscription Based Information Technology Arrangement (SBITA) – 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.

Subscription Term – The period in which a government has a noncancelable right to use the underlying IT asset, plus periods covered by government or SBITA vendor's option to extend the subscription (if reasonably certain of being exercised) and periods covered by the government or SBITA vendor's option to terminate subscription (if reasonably certain of being exercised). Note that periods for which both the government and the SBITA vendor have an option to extend or terminate the subscription without permission from the other party are excluded from the subscription term.

Underlying Asset – An asset that is the subject of the subscription for which a right to use the asset has been conveyed.

Variable payments Based on Index– Payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), based on future performance of a government, usage of the underlying IT assets, or number of user seats.

Variable Payments Fixed In-Substance – Payments that are structured as variable subscription payments but are in-substance fixed. This is when there are multiple sets of payments that a government could make, but it has to make at least one of these.

Forms and Attachments:

Year-end reporting forms are provided on the SAO website at Year-End Forms | State Accounting Office of Georgia