

GASB 96 - Subscription Based IT Arrangements

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GASB 96

- Referred to as “SBITAs”
- GASB 87 equivalent, but for subscription-based software. Software is scoped out of GASB 87.
 - Exception – “Lessor” considerations are not applicable to GASB 96
- **Effective Date:** Required adoption for June 30, 2023 year ends

The
Time
Is
Now



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What is a SBITA?

- Contract that conveys control of the right to use another party's IT software alone or in combination with tangible assets (IT hardware)
 - Control =
 - Right to obtain the present service capacity from use of the underlying asset AND
 - Right to determine the nature and manner of the underlying asset
- Examples:
 - Cloud based accounting system subscription (through an ISD or a vendor)
 - Transportation related subscription-based software
 - Instructional related subscription-based software
- What if the agreement is for software and hardware?
- Accounting is similar to GASB 87, if the term exceeds 12 months
- **EXCLUDES** – Contracts are service agreements.

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Contracts that at commencement, has a maximum possible term under the contract of 12 months (or less), including options to extend

- Options to extend must be considered regardless of probability of being exercised
- Reasonably certain does not apply here
- Options to extend can be EXCLUDED only if exercising the option requires the approval of the vendor prior to renewing. Only options that give the district the noncancelable right to renew are included in the maximum possible term.

Accounting treatment for short term contracts:

- No balance sheet or full accrual impact
- Statement of revenue & expenses is based on payment provisions in contract

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“Term” -

Period during which a government has a noncancelable right to use the subscription plus the following periods (as applicable):

- a) Government’s option to extend the contract if reasonably certain that the government will exercise option
- b) Government’s option to terminate the contract if reasonably certain that Government will NOT exercise option
- c) Vendor’s option to extend the contract if reasonably certain that Vendor will exercise option
- d) Vendor’s option to terminate the contract if reasonably certain that Vendor will NOT exercise option

If both Government and vendor have option to terminate agreement without permission from other party, it is not considered part of the term.

There is a lot of judgement involved here – what is reasonably certain?

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“Term” – Scenario 1 – Auto renewal with no vendor right to deny

Fact Pattern: Initial term of 12 months. Auto renews annually unless district gives notice 30 days before the start of the next term that it wishes to cancel. Terms are silent as to whether the vendor has the right or not to cancel the agreement after the initial term (contracts terms on next slide)

Conclusion – Baring any other information available to the district, as the legal terms do not state that the vendor can deny the district the right to extend, this is a one-sided “right to terminate” in favor of the district and **therefore the district should estimate how long it would renew this agreement for when reaching the conclusion as to what the term would be** (analogous to Q4.19 of the 2019-3 IG for GASB 87),

The short-term exception would not apply, even if district estimates that it will not renew

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“Term” – Scenario 1 – Example Contract Terms

13. **RENEWAL.** After the initial term or any extension there to, this Agreement shall automatically renew on a year-to-year basis , unless the Customer notifies Vendor in writing by Certified Mail, UPS or Express Delivery directly to Vendor. Customer must send notices to: Synovia Solutions/CalAmp, Attn: Customer Success, 8888 Keystone Crossing, Suite 1300, Indianapolis, IN 46240, at least thirty (30) days prior to the expiration of the initial term or extension that the Customer does not choose to renew. No other manner of communication is acceptable. Upon the expiration date of this Agreement, Customer shall return the Equipment, at its expense, to Vendor together with all accessories, free from damage and in the same condition and appearance as when received by Customer, allowing for ordinary wear and tear. The Customer agrees to pay removal charges. If Customer fails or refuses to relinquish the Equipment to Vendor, Vendor shall have the right to take possession of the Equipment and for that purpose to enter any premises where the Equipment is located without being liable in any suit, action, defense or other proceeding to Customer. The Customer must pay additional rental payments due until Vendor or its agents receive the Equipment.

14. **CONFIDENTIALITY**

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“Term” – Scenario 2 – Auto renewal with vendor right to deny

Fact Pattern: Initial term of 12 months. Auto renews annually. Based on these Terms of the agreement both parties have the option to deny the renewal ability.

Conclusion – The term is only 12 months as either party can deny the ability to renew, this would be a short term SBITA.

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“Term” – Scenario 2 – Example Contract (Zoom)

14. TERM; TERMINATION AND SUSPENSION

14.1 Term; Automatic Renewal. Each Order Form will specify your Initial Subscription Term and any applicable Renewal Term for the Services. Unless your Order Form expressly states otherwise or applicable Law prohibits automatic renewal, each Renewal Term for the Services will begin automatically at the end of the then-current Initial Subscription Term or Renewal Term, as the case may be, unless either party provides written notice of termination or modification of the Services provided under such Order Form (i) at least thirty (30) calendar days prior to the commencement of the next Renewal Term, or (ii) within the notice period required by applicable Law (collectively, (i) and (ii), the “Renewal Notice Period”). In order to terminate or modify the affected Services, you must provide notice to Zoom, via the billing portal (if available for your account) or in an email to renewals@zoom.us, in accordance with the Renewal Notice Period. Any statutory rights you may have under the applicable Laws to terminate your Services at an earlier time during the Initial Subscription Term or any given Renewal Term remains unaffected by this clause, and, if required by applicable Law, we will send you a reminder notice prior to the commencement date of the Renewal Term (and in accordance with the notice periods specified in this Agreement or other such deadline set by applicable Law that may apply to you) reminding you of your right to terminate the affected Services and how to do so.

- 12-month term, both parties must approve renewal
- Website: <https://explore.zoom.us/en/terms/>
- Short-term exception applies

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“Term” – Scenario 2 – Example Contract (Microsoft Teams)

- Section 2d – 12-month term, both parties must approve renewal
- Website: <https://support.microsoft.com/en-us/office/microsoft-teams-free-online-subscription-agreement-b1da79c4-4c9e-458d-b0ec-74a0a33b7ccd>
- Short-term exception applies

d. **Renewal.**

(i) Upon renewal of your Subscription, this agreement will terminate, and your Subscription will thereafter be governed, by the terms and conditions set forth in the Portal on the date on which your Subscription is renewed (the “Renewal Terms”). If you do not agree to any Renewal Terms, you may decline to renew your Subscription.

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“Term” – Scenario 2 – Example Contract (Meal Magic)

- Section 6.1 – 12-month term, both parties must approve renewal
- Website: <https://midland.mealmagic.cloud/classroom/terms.html>
- Short-term exception applies

6. Term and Termination.

6.1. Term. Unless otherwise provided in an Order Form, this Agreement commences on the Effective Date and continues for a period of one (1) year thereafter (the "Initial Term"). Upon expiration of the Initial Term, and unless one party has provided the other party with written notice of non-renewal a minimum of sixty (60) calendar days prior to the expiration of the then-current term, then SUBSCRIBER may renew this Agreement for additional one (1) year periods (each a "Renewal Term") by paying the Renewal Quote in full prior to the start of the Renewal Term. The Initial Term, together with each Renewal Term, is referred to as the "Term" for purposes of this Agreement.

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“Term”

Key takeaway – MUST look to the provisions of the agreement

- Invoice alone will generally not suffice
- Terms and conditions for most commonly used subscriptions can generally be found online, which is where we found the terms and conditions for all Scenario 2 examples.

Things to Consider – Online Curriculum

“Does the contract convey control of the right to use another entity's information technology (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?”

What about online curriculum subscriptions?

Things to Consider – Prepaid SBITAS

Prepaid on the balance sheet at 7/1/22 (adoption date) - 2023 JE considerations

A - Fund Level Adoption Entry – Assuming school has access to the software before 7/1/22

- Dr. Fund Balance (restatement)
- Cr. Prepaid

B - Fund Level Adoption Entry – Assuming school didn't have access until 7/1/22 or after

- Dr. Capital Outlay Expenditure
- Cr. Prepaid

Government-Wide Level Adoption Entry – Scenario A

- Dr. ROU Asset
- Cr. Prepaid Asset

Government-Wide Level Adoption Entry – Scenario B

- Dr. ROU Asset
- Cr. Capital Outlay Expenditure

Things to Consider – Prepaid SBITAS

- Prepaid agreements after initial adoption of GASB 96
 - Fund Level -
 - (Assuming access to software starts on date of prepayment)
 - Dr. Capital Outlay Expenditure
 - Cr. Cash
 - (Assuming prepayment happens BEFORE access to software commences)
 - Dr. Prepaid
 - Cr. Cash
 - Once Commencement of term starts
 - Dr. Capital Outlay
 - Cr. Prepaid
 - Government-Wide Level -
 - Convert the capital outlay expenditure to ROU Asset
 - No SBITA liability, since agreement was paid in full.

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Step 1

- Start with listing out all the subscriptions you have, no matter the initial term conclusion.
 - Auditor may have tool or provide you with guidelines in what to summarize for each agreement
 - Include all agreements in this step, regardless of materiality
- Key items to document in your list:
 - Commencement date
 - Term, excluding renewals
 - Payment terms and amounts
 - Renewal options? If so, must vendor approve the renewal
 - If vendor doesn't have to approve – district's estimate of how long it would renew for
 - Interest rate included in the agreement (unlikely to be listed)
 - Is the contract for both hardware and software? (additional considerations will apply here)
 - Maintenance and support included? If yes, separate price provided for it? If yes, document it.

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Step 2

- Share list with your auditor and setup a meeting to discuss
- Separate or filter Step 1 list by:
 1. Agreements for which short term exception applies
 - **STOP** - GASB 96 does not apply
 2. Agreements with a term that exceeds 12 months - GASB 96 applies - **GO**
 - Is the sum of the extended payments over the term (for all agreements in aggregate) material?
 - **NO** - **STOP** - District to conclude on if they want to follow GASB 96 or SKIP
 - **YES** - **GO** - Move on to Step 3

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Step 3

1. **Measure the Liability** – use Net Present Value Calculator
 - a. Key input = Discount rate

2. **Measure the Asset** – Generally equal to the liability, with some exceptions to consider

Step 4 – Record the Journal entries

(See appendix section for additional details regarding these steps)

GASB 96 Disclosures– SBITAs

- A Government should disclose the following in regards to SBITAs (can be grouped together):
- General description of SBITA contracts including terms & conditions
- Total amount of SBITA assets and accumulated amortization (separate from capital assets)
- Amount of outflows related to:
 - Variable payments
 - Termination penalties
- Principal and interest requirements to maturity for each of the next 5 years and then in 5-year increments (in aggregate)
- Commitments under SBITAs before commencement of term
- Any impairment losses recorded

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Lessons learned from GASB 87

- Do NOT wait until the audit to get into this – GASB 96 contracts likely to be more pervasive than GASB 87 leases
 - HINT – Did you enter into new subscriptions this year? If so, you may have an unfavorable budget variance if you wait until after June 30 to assess this
- Start to accumulate contracts NOW – likely need to involve IT/other departments.
- Make sure you have a copy of all the executed contracts and applicable amendments. Remember, **most of the terms and conditions can easily be found on the vendor's website.**
- Term – this is NOT always straightforward!
 - Same definitions as GASB 87
 - Need to consider renewal options

GASB 96 – New Account Codes

Balance Sheet Major Class Codes

- Right to Use Asset – SBITA
- Accumulated Amortization – SBITA
- SBITA Obligation Liability – Current Portion
- SBITA Obligation Liability – Long-Term Portion

Revenue Major Class Codes

- Other Financing Source – SBITA

Expenditure Object Codes

- SBITA Capital Outlay (for use at inception of agreement only)
- SBITA Payment
- SBITA Interest
- SBITA Amortization Expense (Government-wide Funds only)

Thank you!

Appendix

GASB 96 Initial Measurement– Liability

- Present value of payments expected to be made over the contract term should include the following (as applicable):
 - Fixed payments
 - Variable payments dependent on an index or rate
 - Measured using rate or index in effect at contract commencement
 - Variable payments fixed in substance
 - Should NOT include payments based on future performance of the government or usage of the underlying asset (outflows of resources as they occur)
 - Certain penalties for terminating the contract
 - Subscription contract incentives receivable from the 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 96 Initial Liability Measurement- Discount Rate

- To calculate the net present value of expected SBITA payments, must utilize a discount rate.
- Implicit rate in the contract
- Incremental borrowing rate
 - Estimated interest rate that would be charged to borrow funds to make the payments
 - Does the District have a line of credit?
 - Does the District have borrowings from the State?
 - Bond rate can not be used – not a similar type of borrowing!
- Source for determining discount rate: - <https://indices.theice.com>

GASB 96 Initial Measurement – SBITA Asset

- Right to use asset is recorded as the sum of the following:
 - + Initial measurement of SBITA liability
 - + SBITA payments made to vendor at or before the commencement of contract term
 - - Any vendor incentives received at commencement of the term
 - + Capitalizable initial implementation costs

GASB 96 Initial Asset Measurement – Other Outlays

- Preliminary Project Stage – Evaluating alternatives, determining technology needs, selecting a vendor
 - Expense as incurred
- Initial Implementation Stage – Costs necessary to place the SBITA into service.
 - Capitalize as an addition to the asset
 - Exception – For contracts that were already in existence at 7/1/22 there is no need to look back (but you can, it's optional)
- Operation and Additional Implementation Stage – Maintenance and other activities related to the ongoing operations related to the SBITA.
 - Generally, expense as incurred

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- **JOURNAL ENTRY EXAMPLES**

- The journal entries below illustrate how a \$100,000, Elementary Instruction-related Subscription-Based Information Technology Arrangement (SBITA) may be recorded (note separate yet concurring entries at [Governmental Fund](#) and [Government-Wide](#) levels):

Governmental Fund - Initial Journal Entry – New SBITA		Debit	Credit
11-1-111-6940-xxx-0000-xxxxx-xxxx	Instruction – Capital Outlay – Subscription-Based Information Technology Arrangement (SBITA)	100,000	
11-0-597-0000-000-0000-xxxxx-xxxx	Other Financing Sources – SBITAs		100,000

To record the other financing sources and capital outlay expense associated with a new SBITA (note – this is only for SBITAs entered into after 7/1/22)

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- **JOURNAL ENTRY EXAMPLES**

- The journal entries below illustrate how a \$100,000, Elementary Instruction-related Subscription-Based Information Technology Arrangement (SBITA) may be recorded (note separate yet concurring entries at [Governmental Fund](#) and [Government-Wide](#) levels):

Government-wide - Initial Journal Entry – New SBITA		Debit	Credit
9x-2-295-xxxx-xxxx-xxxx-xxxx-xxxx	Right to Use Asset – Subscription-Based Information Technology Arrangement (SBITA)	100,000	
9x-2-597-xxxx-xxxx-xxxx-xxxx-xxxx	SBITA Obligation – Long-Term Portion		95,000
9x-2-101-xxxx-xxxx-xxxx-xxxx-xxxx	Cash (for initial implementation costs, if applicable)		5,000
<i>To record right to use SBITA asset and related liability, minus implementation costs (cash)</i>			

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Government-wide – Current vs. Noncurrent

		<u>Debit</u>	<u>Credit</u>
9x-2-597-xxxx-xxx-xxxx-xxxxx- xxxx	SBITA Obligation – Long-Term Portion	30,000	
9x-2-497-xxx-xxxx-xxxx-xxxxx- xxxx	SBITA Obligation – Current Portion		30,000

*To reclassify the current portion of the
SBITA liability at year-end*

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<u>Governmental Fund – SBITA Payment</u>		<u>Debit</u>	<u>Credit</u>
Principal - SBITA Payment	30,000		
Interest Expense – Interest on SBITA	1,000		
Cash			31,000

*To record first payment on right to use
SBITA asset*

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Government-wide - SBITA Payment and Amortization		Debit	Credit
9x-1-711-7730-xxx-0000-xxxxx-xxxx	Amortization expense - Right to use asset - SBITAs	5,000	
9x-2-296-xxxx-xxxx-xxxx-xxxx-xxxx	Accumulated amortization - Right to use asset - SBITAs		5,000
<i>To record amortization of the right to use SBITA asset</i>			
9x-2-597-xxxx-xxxx-xxxx-xxxx-xxxx	SBITA Obligation – Long-Term Portion	30,000	
9x-1-511-7270-xxx-0000-xxxxx-xxxx	Interest Expense	1,000	
9x-2-101-xxxx-xxxx-xxxx-xxxx-xxxx	Cash		31,000
<i>To record payment on right to use SBITA asset</i>			

GASB 96 – Subscription Based IT Arrangements

Contracts with Multiple Components

- Example - Multiple subscriptions in one agreement
- Does contract break out sales price for each separately?
 - Are the prices reasonable on a stand-alone basis?
- Required to account for multiple subscriptions separately, esp. if the terms are unique amongst them
- However, if information is lacking, it's ok to account for them all as one arrangement

GASB 96 – Subscription Based IT Arrangements

Resources

- [GASB Statement #96 Summary](#)
- [MDE Accounting Manual Section II](#) (New Section E.20 – GASB 96)
- [MDE Accounting Manual Appendix](#) (Chart of Accounts)
- [MDE GASB Statement #96 Account Code Changes and Additions](#)