

# **GASB 96 – Subscription-Based Information Technology Arrangements**

## **State of California**

### **Statewide Implementation and Business Solutions**

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## **I. STATEWIDE GASB 96 ACCOUNTING AND REPORTING**

[GASB 96](#) is effective for the fiscal year beginning July 1, 2022.

GASB 96 establishes uniform accounting and financial reporting requirements for Subscription-Based Information Technology Arrangements (SBITAs). Implementation of GASB 96 will require performance of the following general steps:

- 1) Measurement of the total SBITA liability by fund.
- 2) Determination of current fiscal year-end liabilities per existing SBITA contracts.
- 3) Measurement of the right-to-use SBITA asset.
- 4) Determination of the stages of implementation and associated costs for each SBITA.
- 5) Determination of beginning balance adjustments required.
  - GASB 96 will likely result in a beginning balance adjustment for the impact on net position to the government-wide financial statements and proprietary funds after all liabilities and assets are recognized in the accounting system.
- 6) Calculation of amortization tables for each SBITA.
  - Each SBITA will require an amortization table to split the subscription payments between liability and interest expense over the life of the SBITA.
- 7) Calculation of necessary journal entries.
  - Journal entries will differ depending on their fund type and whether that fund requires modified accrual accounting entries.
- 8) Submission of SBITA disclosures, Schedule of Changes in SBITA Liabilities, and GAAP adjusting journal entries by fund for all SBITAs in effect on July 1, 2022.
- 9) Annual submission of financial reports, schedules, disclosures, and GAAP adjusting journal entries to the SCO.

### **BUSINESS SOLUTIONS AND PROCESSES**

To carry out these general steps, departments are responsible to:

- 1) Review and gain an understanding of the requirements and provisions under GASB 96. Refer to [GASB 96 SBITA Implementation – PART I GASB 96 Overview](#) document.
- 2) Review and gain an understanding of the business solutions and processes discussed in the documents that were adopted by the State in implementing the requirements and provisions of GASB 96.
- 3) Review information technology (IT) software contracts/arrangements to determine whether they meet the definition of SBITA and, therefore, meet the reporting requirements under GASB 96.
- 4) Use the [GASB 96 SBITA Accounting Decision Tree](#) document to determine the correct treatment for a SBITA contract.

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- 5) Exclude combination contracts of IT software and tangible capital assets that meet the definition of a lease in [GASB Statement No. 87, Leases](#). The software component should be insignificant when compared to the cost of the tangible capital asset. *For example, a computer with operating software or a smart copier that is connected to an IT system.*
- 6) Exclude governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs. *For example, the agreements between the Department of Technology (CDT) and other departments of the state would be internal transactions. In this case, SBITA accounting may not apply and should be recorded as follows:*
  - CDT will report a SBITA asset and liability arising from the contract, if any, and transfer from other departments. If the counterparty department is not separately audited, it will report a transfer to CDT for payments made.
  - If the counterparty department from CDT is separately audited, the counterparty will have to use the facts and circumstances to determine any related liability and asset. Otherwise, it is a transfer.
- 7) Exclude contracts that meet the definition of Public-Private and Public-Public Partnerships in [GASB Statement No. 94, Public-Private and Public-Public Partnerships and Available Payment Arrangements](#).
- 8) Exclude licensing arrangements that provide a perpetual license, which are subject to [GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets](#).
- 9) Review each contract to determine the correct category: **short-term SBITAs or SBITAs other than short-term SBITAs/Right-to-Use (RTU) SBITA.**
  - In making this determination, departments should consider July 1, 2022 as the commencement of the subscription term if the actual subscription started before that date. If the remaining maximum possible term for a subscription is 12 months or less from July 1, 2022, the subscription should be reported as a short-term SBITA.
- 10) Recognize and measure existing SBITAs using the **facts and circumstances that existed on July 1, 2022** (the beginning of the period of implementation) or the beginning of the SBITA contract if it is on or after July 1, 2022. *For example, a department entered a three-year contract (July 1, 2021 - July 30, 2024) with a SBITA vendor to use the IT software for a total cost of \$150,000, with no options to extend or terminate and no other costs incurred. The department made an upfront payment of \$150,000 on July 1, 2021, before the GASB 96 adoption date (July 1, 2022). As a result, there is no liability as of July 1, 2022, but the non-amortized amount related to the subscription asset of \$100,000 (\$150,000 x 24/36 months) from July 1, 2022, to June 30, 2024, needs to be reclassified to subscription asset/right-to-use SBITA – Amortizable.*
- 11) Review each contract to determine the **noncancelable period** of the subscription term.
  - The subscription term starts at the date of implementation July 1, 2022 (for existing SBITAs) or the date the department gets control of the subscription asset (e.g., able to access the software application).

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- If there is an option to terminate the SBITA sooner than the contract end date, the subscription term ends when the contract becomes cancelable, if it is reasonably certain (more than probable) that it will be canceled.
  - Review the options and determine if it is reasonably certain that the SBITA will be renewed (or terminated) under department's policies, procedures, and history with similar SBITAs.
  - Finalize the noncancelable subscription term as of the date of implementation.
  - To determine the subscription term, refer to "[GASB 96 Subscription Term Calculation](#)" published on the SCO website.
- 12) Assess whether SBITA contracts meet the **SBITA capitalization threshold**.
- A subscription asset and subscription liability should be calculated for contracts with \$50,000 or more in total upfront or future subscription payments from July 1, 2022 (or the date the subscription begins if after July 1, 2022) to the end of the subscription term.
  - If upfront payments were made prior to the implementation date of July 1, 2022, calculate the unrecognized portion (non-amortized) of the upfront payment (allocated/prorated to future years) from July 1, 2022, to the end of the subscription term. *For example, an upfront payment of \$150,000 is paid on July 1, 2021, for a three-year contract (July 1, 2021 - June 30, 2024). The non-amortized amount is \$100,000 (\$150,000 x 2/3 years) from July 1, 2022 to June 30, 2024, which is over the capitalization threshold amount for SBITA. As a result, recognize a \$100,000 subscription asset with no liability.*
- 13) Review SBITA contracts that contain **multiple components** and exclude payments for **nonsubscription** components from RTU SBITA asset/liability.
- Subscription components with different terms should be accounted for as separate contracts.
  - **Nonsubscription components** (e.g., separate perpetual licensing arrangement and IT maintenance services) should be expensed during the period incurred and not included in the subscription payments used to calculate the RTU SBITA asset and liability.
  - If it is not practicable to separate and estimate the cost for subscription and nonsubscription components in the contract, account for those components as a single SBITA unit.
- 14) **Consolidate same SBITA contracts**
- Same SBITA contracts should be consolidated into one SBITA, but only when they are subscribed to at/near the same time with an identical vendor. *For example, a department entered into multiple three-year SBITA contracts on the same date with the same vendor, which resulted in a total of three right-to-use SBITA with total lifetime payments of \$20,000 per software. The department's accounting staff should record one RTU SBITA asset and one SBITA liability for all three software together their total payments add up to \$60,000. The fact that each software had total lifetime payments below \$50,000 does not disqualify the SBITA from being reported as subscription assets and liabilities because in the aggregate they exceed the \$50,000 threshold.*

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- 15) Determine the **fixed and fixed in-substance payment** amounts to be used in calculating the subscription asset/liability.
- These consist of all the payments expected to be made during the subscription term, including future increases that can be calculated and measured on July 1, 2022 (or the start of the subscription term if after July 1, 2022).
  - Departments should include future fixed and fixed in-substance payments made in the measurement of the subscription asset and liability, as defined in the [GASB 96 SBITA Accounting Decision Tree](#).
  - Fixed and fixed in-substance payments do not include variable payments based on future performance of a government, usage of the underlying IT assets, or number of user seats. Variable payments under these parameters should be expensed as incurred, and not included in the measurement of the subscription liability.
- 16) Address **escalation rates and Consumer Price Index (CPI)** increases in SBITA contracts.
- If the SBITA contract requires periodic increases based on escalation rates or CPI rate, departments should apply the rate in effect on July 1, 2022 or the inception of the contract if entered after July 1, 2022.
- 17) Determine the **incremental borrowing rate** specific to each SBITA contract.
- If the implicit interest rate on the SBITA is unknown (not provided by the SBITA vendor or not explicitly stated in the SBITA contract), use the [“GASB 96 Incremental Borrowing Rate”](#) for the applicable subscription term.
  - The incremental borrow rate should NOT be updated annually unless a qualifying remeasurement occurs.
- 18) Determine the **cost allocation and fund determination** specific to each SBITA contract.
- Departments should determine the fund(s) where the subscription asset and subscription liability reside. Generally, the fund(s) that make the periodic subscription payments record the subscription asset and subscription liability.
  - If a department uses a clearing fund to initially pay for the subscription payments that is then reimbursed by ultimate funds, departments should apply the same cost allocation percentages used to allocate subscription payments/costs from the paying/clearing fund to the ultimate funds in allocating the subscription assets and liabilities to the ultimate funds.
  - **Departments Using FI\$Cal**
    - i. Follow the FI\$Cal job aid for entering a SBITA, linked at step 21 below. Input the appropriate cost allocation percentage per fund in the Asset Cost Distribution page.
  - **Departments Not Using FI\$Cal**
    - i. The journal entries generated in the Contract Output tab of the [“GASB 96 SBITA Template”](#) described and linked at step 21 below are for one corresponding SBITA contract. If the SBITA contract is paid by multiple funds, departments will need to allocate the journal entry amounts manually by fund according to each fund's percent share of the subscription payments.

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19) **Effective date and transition** of GASB 96.

- Departments will only input information for SBITA payments as of July 1, 2022 and later.
  - i. For example, a department has a SBITA contract that began January 1, 2018. Every calendar year the SBITA payments increase. While completing the SBITA reporting worksheet, the department must only input the SBITA payment schedules effective as of July 1, 2022 and later. The department does this by inputting 2022 SBITA payments as beginning on July 1, 2022 and ending on December 31, 2022. The department then inputs 2023 SBITA payments as beginning on January 1, 2023 and ending December 31, 2023. The SCO does not need the SBITA payment schedules for any dates before July 1, 2022. Inclusion of earlier dates will require resubmission of a corrected worksheet by the department.

20) For **short-term SBITAs or SBITAs below the \$50,000 capitalization threshold**, departments will recognize expenditure/expense on subscription payments made.

21) SBITA Accounting

- Departments should recognize a subscription liability and/or a subscription asset at the commencement of the subscription term unless the SBITA is a short-term SBITA. The subscription liability should be measured at the present value of payments expected to be made during the subscription term (less any SBITA vendor incentives). To determine the subscription liability, refer to "[GASB 96 SBITA Liability Calculation](#)." The subscription asset should be measured at the amount of the initial measurement of the subscription liability, plus payments made at or before the commencement of the subscription and certain capitalizable implementation costs, minus any SBITA vendor incentives paid prior to subscription.
- Departments should consider capitalizable costs arising from implementing a new subscription software. These costs are classified into the appropriate stage for activities associated with a SBITA (other than subscription payments) and should be accounted for accordingly:
  - i. Preliminary Project Stage, including activities such as conceptual formulation, evaluation alternatives, determining needed technology, and final selection. Costs in this stage should be expensed as incurred.
  - ii. Initial Implementation Stage, including all necessary changes to place the subscription asset into service, including design, configuration, coding testing, and installation. Costs in this stage generally should be capitalized as an addition to the subscription asset.
  - iii. Operation and Additional Implementation Stage, including maintenance, troubleshooting, and other activities for ongoing operations. Costs in this stage should be expensed as incurred unless they meet specific capitalization criteria ([refer to SAM section 8635](#)) for modification of software.
- Departments should recognize expenditure/expense on training costs, regardless of which stage above they are in.

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- Departments should reduce the subscription liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. Departments should amortize the subscription asset in a systematic and rational manner over the shorter of the subscription term or the useful life of the underlying IT asset.
- The notes to financial statements should include a description of the SBITAs, the amount of SBITAs recognized, a schedule of future subscription payments to be made, the variable payments not included in the SBITA liability, commitments under SBITAs before commencement, and components of SBITA impairment losses.
- **Departments Using FI\$Cal**
  - i. Departments must utilize the Lease Administration module in FI\$Cal for all qualifying RTU SBITAs.
  - ii. Upon entering all required information, the module will calculate the subscription assets and related amortization, subscription liability, and discount amortization by SBITA, fund, and BU, and generate all required journal entries.
  - iii. Refer to FI\$Cal job aids, instructions, and resources at <https://fiscal.ca.gov/user-support/fiscal-learning-center/> and [https://sco.ca.gov/sard\\_gasb\\_96\\_reporting\\_instructions.html](https://sco.ca.gov/sard_gasb_96_reporting_instructions.html).
- **Departments Not Using FI\$Cal**
  - i. Departments not using FI\$Cal (deferred and exempt) that did not procure third-party software for GASB 96 accounting, may use the “[GASB 96 SBITA Template](#)” Excel Workbook at the SCO website.
  - ii. Departments will complete templates for SBITA contracts that are \$50,000 or more in total upfront or future payments at July 1, 2022 (or contract inception, if after July 1, 2022)
  - iii. See “[Instructions for Completing the GASB 96 SBITA Template](#)” for instructions on how to complete the “GASB 96 SBITA Template.”

22) Complete **annual reporting to the SCO** for SBITA contracts.

- The SCO will provide training and instructions for all departments to submit their GAAP adjustments for GASB 96.
- The training and instructions will be provided on the SCO websites: [https://sco.ca.gov/sard\\_gasb\\_96\\_reporting\\_instructions.html](https://sco.ca.gov/sard_gasb_96_reporting_instructions.html)
- **All Departments**
  - i. Use the “GASB 96 – SBITA Departmental Training” (coming soon).
  - ii. This training will provide education and step-by-step instructions on preparing and submitting GAAP adjustments for SBITA contracts qualifying for GASB 96 reporting.