

GASB 96 – Subscription-Based Information Technology Arrangements

State of California

Statewide Implementation and Business Solutions

I. GASB 96 OVERVIEW

In May 2020, the Government Accounting Standards Board (GASB) issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. GASB Statement No. 96 (GASB 96) establishes uniform accounting and financial reporting requirements for SBITAs; improves the comparability of government's financial statements; and enhances the understandability, reliability, relevance, and consistency of information about SBITAs.

GASB 96 applies to government agencies who are currently using information technology (IT) software such as Office 365, Adobe, Zoom, and others as specified in their contracts. GASB 96 applies to all contracts meeting the definition of a SBITA, unless specifically excluded. As defined in GASB Statement No. 96, paragraph 6, 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 (with underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

GASB 96 specifically excludes the following arrangements:

- Contracts that convey control of the right to use another entity's combination of IT software and tangible capital assets that meet the definition of a lease¹ in GASB Statement No. 87 (GASB 87), in which the software component is insignificant when compared to the cost of the underlying asset.
- Governments that provide the right to use their IT software to other entities through SBITAs (as a passthrough and therefore not the end user.)
- Contracts that meet the definition of Public-Private and Public-Public Partnerships² in GASB Statement No. 94.
- Licensing arrangements that provide a perpetual license (subject to GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.)
- SBITAs also exclude contracts that only provide IT support services.

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 SBITA vendor, the maximum possible term is the amount of time either party is required to notify the other party of the cancellation (notice period). The government should recognize short-term subscription payments as outflows of resources (i.e., expenditures) based on the payment provisions of the SBITA contract.

¹ GASB 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction (e.g., a computer with operating software or a smart copier that is connected to an IT system).

² GASB No. 94 Public-Private and Public-Public Partnerships (PPP) and Availability Payment Arrangements defines an arrangement in which a government (the transferor) contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

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GASB 96 is effective for the State of California’s Annual Comprehensive Financial Report (ACFR) for the fiscal year ending June 30, 2023.

SBITA ACCOUNTING

- 1) GASB 96 requires a government to recognize a subscription liability and an intangible asset representing the government’s right to use the subscription asset at the commencement of the subscription term.
- 2) GASB 96 requires the government to measure its subscription liability as the present value³ of all payments expected to be made during the subscription term.
- 3) Variable payments based on future performance of the government, usage of the underlying IT assets, or number of user seats should be expensed as incurred, and not included in the measurement of the subscription liability.
- 4) The government will calculate the amortization of the discount on each subscription liability in subsequent financial reporting periods, and report that amount as interest expense.
- 5) The government should assess each subscription liability annually for changes to the contract price, lengthening or shortening the subscription term, change in interest rate charged by the SBITA vendor, adding or removing underlying IT assets, or other factors that may impact the expected subscription payments. Subscription amendments and other modifications could necessitate remeasuring the subscription liability. The subscription liability should not be re-assessed for solely a change in index or rate (such as annual incremental borrowing rate published by the SCO) used to determine variable payments. However, if any of the conditions listed above are present and significant, the index or rate should also be updated during the remeasurement.”
- 6) 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 and any capitalizable initial implementation costs.
- 7) Payments made before the commencement of the subscription term to the SBITA vendor, payments made during the capitalizable initial implementation stage (see stages of implementation below), and costs before the commencement of the subscription term, reduced by any incentives received, should be reported as a prepayment. The prepayment should be reclassified as an addition to the subscription asset’s initial measurement at term commencement.
- 8) The government will generally report amortization expense for the subscription asset over the shorter of the term of the subscription or the useful life of the underlying IT assets. This amortization expense may be reported with depreciation expense for capital assets.

³ Present value is the current worth of cash to be received in the future with one or more payments, which has been discounted at a market rate of interest.

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- 9) Activities associated with a SBITA, other than making subscription payments, are grouped into the following stages and their costs are accounted for accordingly:

| Stage | Activities | Accounting |
|--|---|---|
| Preliminary Project Stage | Conceptual formulation, evaluating alternatives, determining needed technology, and final selection. | Expensed as incurred |
| Initial Implementation Stage | All necessary charges to place the subscription asset into service, including design, configuration, coding, testing, and installation. | Capitalized, except for short-term SBITA |
| Operation and Additional Implementation Stage | Subsequent implementation activities: maintenance, troubleshooting, and other activities for ongoing operations. | Expensed as incurred, unless meets capitalization criteria ⁴ |
| All Stages | Training | Expensed as incurred |

- 10) The government's financial statement footnote disclosures will include the following:
- A general description of subscription-based IT arrangements.
 - The total amount of subscription assets recognized.
 - Related accumulated amortization, disclosed separately from other capital assets.
 - Principal and interest requirements, to maturity, for the subscription liability for each of the five subsequent fiscal years, and in five-year increments thereafter.
 - The amount of variable payments and other payments not included in the subscription liability, and the expense recognized in the reporting period for these payments.
 - Commitments under SBITAs before the commencement of the subscription term.
 - Impairment losses and any significant related changes in the subscription liability.

OTHER SIGNIFICANT PROVISIONS

- 1) Subscription Term - The subscription term is defined as the period during which a government has a noncancelable right to use the underlying IT assets, plus the following periods, if applicable:
- Periods covered by the government's option to extend the SBITA when reasonably certain the government will exercise this option.

⁴ If the activity is related to increasing the efficiency of or adding to the functionality of the subscription asset in a way that did not exist before, the costs are capitalized as an addition to the subscription asset.

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- Periods covered by the government's option to terminate the SBITA when reasonably certain the government will not exercise this option.
- Periods covered by the SBITA vendor's option to extend the SBITA when reasonably certain the SBITA vendor will exercise this option.
- Periods covered by the SBITA vendor's option to terminate the SBITA when reasonably certain the SBITA vendor will not exercise this option.

Periods where 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 cancelable periods and are excluded from subscription term.

Subscription term should be reassessed only if one or more of the following occur:

- Government or SBITA vendor elects to exercise an option even though previously determined that it was reasonably certain they would not exercise that option.
 - Government or SBITA vendor elects not to exercise an option even though it was previously determined that it was reasonably certain they would exercise that option.
 - Event specified in the SBITA contract that requires an extension or termination takes place.
- 2) SBITA Modifications – A SBITA amendment resulting in a modification should be accounted for as a separate SBITA if it adds one or more underlying IT assets that were not included in the original SBITA contract; and the increase in subscription payments for the additional subscription asset does not appear to be unreasonable.
- 3) SBITA Terminations – A SBITA amendment resulting in a decrease of the government's right to use the underlying IT assets is considered to be a full or partial termination.
- A government should reduce the carrying values of the subscription liability and related asset, and recognize a gain or loss for the difference.
- 4) Contracts with Multiple Components – If a SBITA contract contains multiple components, such as a subscription component (right to use the underlying IT assets) and a nonsubscription component (maintenance services for the IT assets), the government should account for the subscription and nonsubscription components as separate contracts and allocate the contract price to the different components. If it is not practicable to determine the best estimate for price allocation for some or all components in the contract, they should be accounted for as a single SBITA unit.
- 5) Contract Combinations – Contracts finalized at or near the same time with the same SBITA vendor should be considered part of the same contract if *either* of the following criteria is met:
- The contracts are negotiated as a package with a single objective.
 - The amount of consideration to be paid in one contract depends on the price or performance of the other contract.

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GASB Literature and Resources (Ctrl + Click to follow link)

- [GASB Statement No. 96, Subscription-Based Information Technology Arrangements](#)
- [GASB Statement No. 87, Leases](#)
- [GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets](#)
- [GASB Statement No. 99, Omnibus 2022](#)
- [GASB Implementation Guide No. 2019-3, Leases](#)
- [GASB Implementation Guide No. 2020-1, Implementation Guidance Update—2020](#)
- [GASB Implementation Guide No. 2021-1, Implementation Guidance Update—2021](#)
- [GASB Implementation Guide No. 2023-1, Implementation Guidance Update—2023](#)
- [SCO - GASB 96 Reporting Instructions](#)