



Lauterbach & Amen, LLP

CERTIFIED PUBLIC ACCOUNTANTS

GASB Statement No. 96 Subscription Based Information Technology Agreements

Lauterbach & Amen, LLP

Actuarial

Audit

**Financial
Services**

Pension

Tax

Introductions

- Brad Porter, CPA
 - Principal
 - Lauterbach & Amen, LLP
- Jason Demerath, SFO, CSRMM
 - Director of Business Services
 - School District of Fort Atkinson
- Olivia Bernitt
 - School Finance Auditor, School Financial Services
 - Wisconsin Department of Public Instruction



Agenda

- Overview
- Goals of GASB 96
- Implementation Dates
- SBITA: Defined
- District vs. Auditor Responsibilities
- Decision Tree
- Measurement of Subscription Period

Overview

- GASB Statement No. 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users
- The statement:
 - Defines a SBITA
 - Establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability
 - Provides criteria for capitalization of outlays other than subscription payments
 - Outlines the framework for additional note disclosures in financial statement audits

Goals of GASB 96

Transparency

- Better meet the information needs of financial statement users by disclosing right-to-use assets and future SBITA liabilities

Comparability

- Improve the comparability of financial statements by establishing uniform guidance for SBITA reporting

Consistency

- Apply consistent accounting practices from its counter-part, GASB 87

Implementation Date

GASB Statement No. 96 is effective for fiscal years beginning after June 15, 2022, so District's will be required to implement for fiscal years ended ***June 30, 2023***

What is a SBITA?

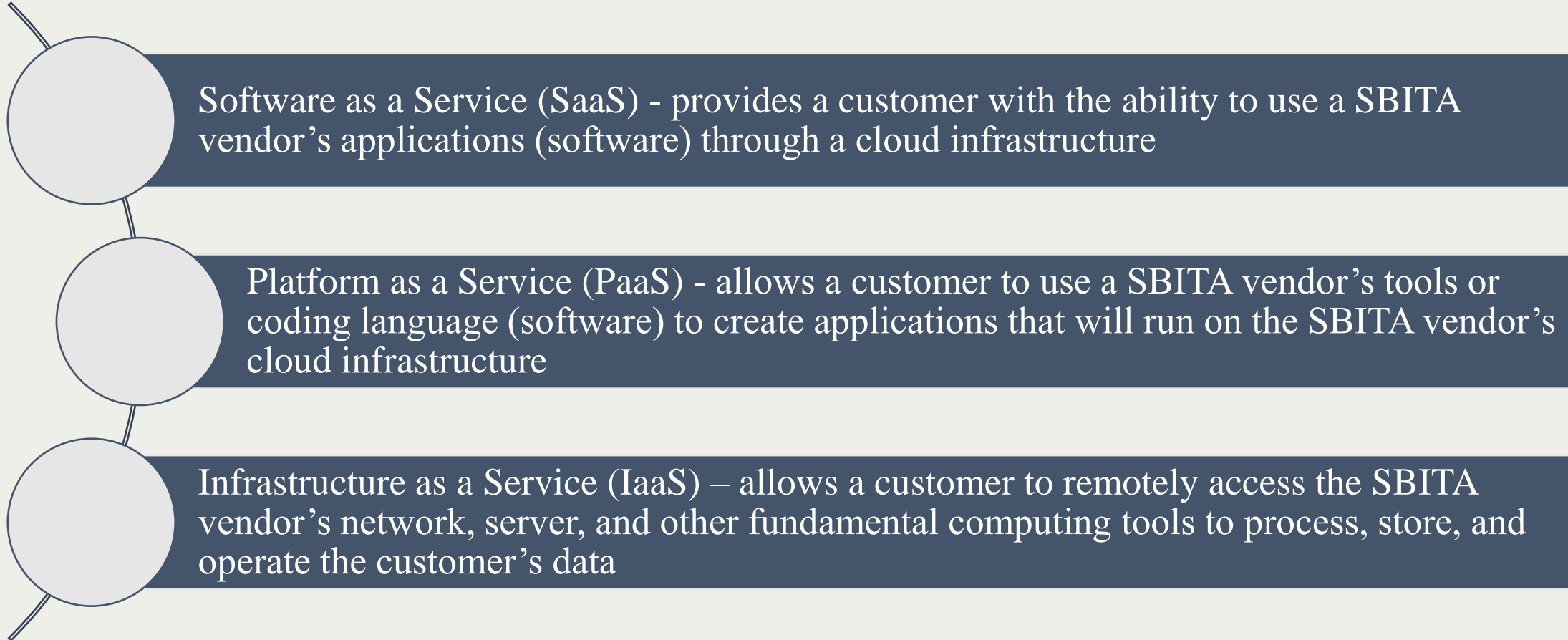
- Contract that conveys **control** of the right to use another party's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an **exchange or exchange-like transaction**
- To determine whether a contract conveys **control** of the right to use asset, assess whether it has both of the following:

The right to obtain the present service capacity (the right to the benefits generated) from use of the underlying IT asset as specified in the contract.

AND

The right to determine the nature and manner of use of the underlying IT asset as specified in the contract.

Cloud Computing Arrangements



Software as a Service (SaaS) - provides a customer with the ability to use a SBITA vendor's applications (software) through a cloud infrastructure

Platform as a Service (PaaS) - allows a customer to use a SBITA vendor's tools or coding language (software) to create applications that will run on the SBITA vendor's cloud infrastructure

Infrastructure as a Service (IaaS) – allows a customer to remotely access the SBITA vendor's network, server, and other fundamental computing tools to process, store, and operate the customer's data

What is a not a SBITA?

- **Exclusions:**

- Contracts that include a hardware component, where the software component is insignificant
- Contracts that have cancellation clauses at *any time* by both parties or contracts in which the “*non-cancellable*” period has already passed
- Contracts that solely provide IT *support* services
- Short-term SBITA’s
 - Contracts with a term of *less than 12 months* (including any options to extend, regardless of probability of renewal)
 - Payments on short-term contracts are expensed
- Perpetual Licensing Arrangements (considered a software purchase, not subscription)
- Immaterial SBITAs ~ work with your auditors

Common SBITA's to Consider for School Districts

Remote Learning Platforms

Student Information Systems

Amazon Web Services (AWS)

Records Management Systems

Library Management Systems

Teacher Evaluation Systems

Career Planning Sites

Content Management Systems

Professional Development Tracking

Emergency Notification Systems

Server Hosting Services

Cloud Storage

Email Services

Data Backup

E-books

Accounting Software

District Responsibilities

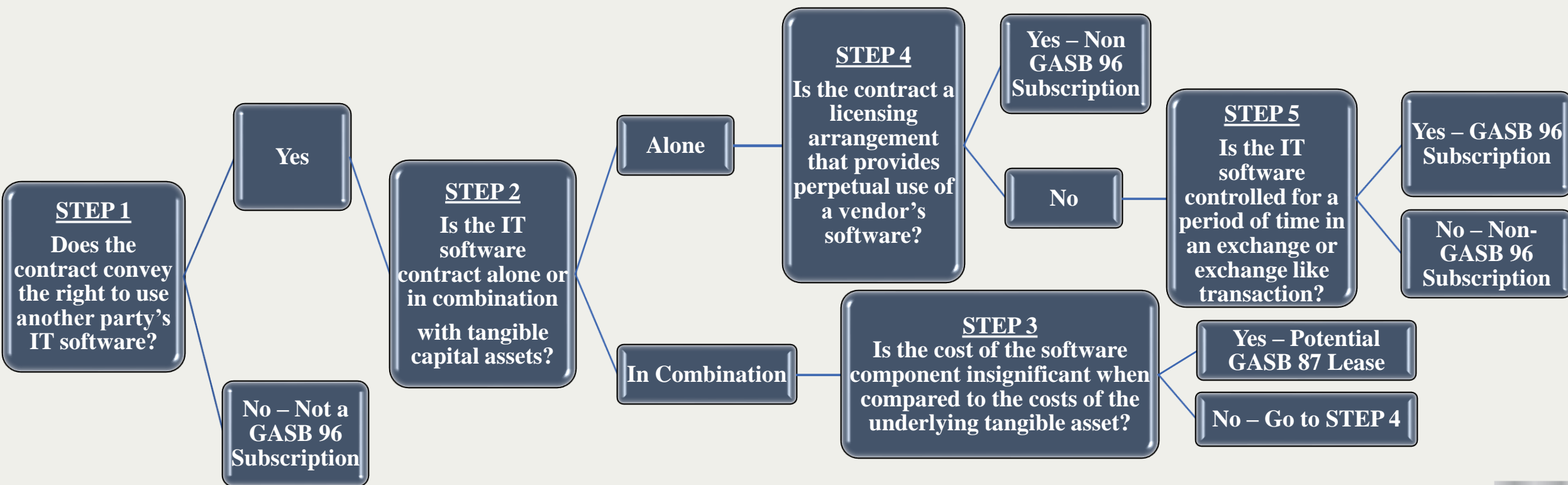
- **“Gathering” Phase**
 - Step 1: Prepare list of all subscription-based IT arrangements
 - Relevant Information: Subscription terms, interest rates, payment information
 - Work with IT Department and those responsible for tracking SBITA’s
 - Keep agreements and all subsequent amendments in a folder for auditors
 - Step 2: Rule out contracts that do not meet the necessary criteria
 - Step 3: Work with auditors on their preferred method of preparing necessary schedules
 - Each firm may have their own template that will assist with present value calculation and amortization

Auditor Responsibilities

- **“Analyzing” Phase**

- Step 1: Review District’s list of potential SBITA’s that they felt met SBITA requirements
- Step 2: Helping to interpret certain pieces of SBITA agreements that Districts are unsure on
 - Examples: measurement of agreement period, termination clauses, optional renewal periods
- Step 3: Assisting Districts with government-wide journal entries for audit reporting
- Step 4: Preparation of related footnote disclosures

GASB 96: Decision Tree



Measurement of Subscription Period

- Period in which a government has a *noncancellable* right to use an underlying IT Asset
- Include any of the following, if applicable:
 - Periods covered by a government's option to extend or terminate the SBITA, if it is reasonably certain that the *government* will exercise the option
 - Periods covered by a SBITA vendor's option to extend and/or terminate the SBITA, if it is reasonably certain that the *vendor* will exercise the option

When to Remeasure the Liability

A District should remeasure the subscription liability annually if one or more of the following changes have occurred:

There is a change in the subscription term

There is a change in the estimated amounts for subscription payments already included in the measurement

A change in the interest rate the SBITA vendor charges

An event occurs that causes variable payments that were contingent on the performance or use of the underlying IT assets to become fixed for the remainder of the subscription term

Accounting for SBITAs Under GASB 96

Initial Liability Recognition

- Present value of subscription payments expected to be made during the term
- Discounted using the interest rate the SBITA vendor charges the government. If the interest rate cannot be readily determined, estimated incremental borrowing rate should be used.

Initial Asset Recognition

- Initial Subscription Liability *plus*
- Payments made to vendor before the commencement of the subscription *plus*
- Capitalizable implementation costs* *less*
- Incentives received by the vendor

Annual Amortization

- Amortization of the discount on the subscription liability as an outflow of resources (i.e., interest expense)
- Asset amortized in a systematic and rational manner over shorter of subscription term or useful life of IT asset

*Implementation costs are all ancillary charges necessary to place the subscription asset into service

- Configuration, coding, testing, installation
- Data conversion to the extent required to place the asset into service

SBITA Example and Journal Entries

Anywhere School District – June 30 Year-End

- **SBITA Information**

- Subscription Start Date: July 1, 2022
- Subscription End Date: June 30, 2025
- First Payment: July 1, 2022
- Payments: \$5,000 annually, paid at the beginning of the period
- Interest Rate: 3.50%

- **Additional Costs**

- Preliminary Project Stage Costs - \$1,000 to a consultant for assistance in selection of software (expensed as incurred)
- Implementation Stage Costs - \$3,000 to transfer data to the new software (capitalized and amortized)
- Operation and Additional Implementation Stage Costs - \$2,000 to convert legacy data on an old server to vendor's cloud storage (expensed as incurred)

SBITA Example and Journal Entries

Anytown School District – June 30 Year-End - Continued

• PV Calculation of Subscription Liability

	PV Inputs	
Amount of Regular Payments (\$)	\$	5,000
Residual Value at End of Subscription	\$	-
First Payment Date		7/1/2022
Number of Payments for Lease Term		3
Increments Between Payments		12 <i>Monthly = 1; Quarterly = 3; Annual = 12</i>
Annual Interest Rate		3.50%
Periodic Interest Rate		3.500% <i>FORMULA</i>
When are payments made?		1 <i>Beginning of period = 1; End of period = 0</i>
PV of Subscription Payments	\$	14,498 <i>FORMULA</i>
Total PV of Subscription Liability	\$	14,498 <i>FORMULA</i>
Regular Payment Amount	\$	5,000 <i>FORMULA</i>

Date	Payment	Interest	Principal	Balance
Totals	\$ 15,000	\$ 502	\$ 14,498	
July 1, 2022	\$ 5,000	\$ -	\$ 5,000	\$ 14,498
July 1, 2023	5,000	332	4,668	4,830
July 1, 2024	5,000	170	4,830	-

SBITA Example and Journal Entries

Anytown School District – June 30 Year-End - Continued

- **Calculation of Subscription Asset**

- **\$14,498 Subscription Liability + \$3,000 Initial Implementation Costs = \$17,498 Subscription Asset**

Subscription Asset Value = Liability at Inception	\$	14,498	FORMULA
Initial Implementation Stage Costs		3,000	
Net Subscription Asset Balance	\$	17,498	
Useful Life of Underlying Asset (in Months)		36	
Amortization Expense - Monthly	\$	486	FORMULA
Amortization Expense - Annually	\$	5,832	FORMULA

#	Date	Amortization	Balance
			\$ 17,498
1	July 1, 2022	\$ 486	17,012
2	August 1, 2022	486	16,526
3	September 1, 2022	486	16,040
4	October 1, 2022	486	15,554
5	November 1, 2022	486	15,068
6	December 1, 2022	486	14,582
7	January 1, 2023	486	14,096
8	February 1, 2023	486	13,610
9	March 1, 2023	486	13,124
10	April 1, 2023	486	12,638
11	May 1, 2023	486	12,152
12	June 1, 2023	486	11,666
13	July 1, 2023	486	11,180
14	August 1, 2023	486	10,694
15	September 1, 2023	486	10,208
16	October 1, 2023	486	9,722

17	November 1, 2023	486	9,236
18	December 1, 2023	486	8,750
19	January 1, 2024	486	8,264
20	February 1, 2024	486	7,778
21	March 1, 2024	486	7,292
22	April 1, 2024	486	6,806
23	May 1, 2024	486	6,320
24	June 1, 2024	486	5,834
25	July 1, 2024	486	5,348
26	August 1, 2024	486	4,862
27	September 1, 2024	486	4,376
28	October 1, 2024	486	3,890
29	November 1, 2024	486	3,404
30	December 1, 2024	486	2,918
31	January 1, 2025	486	2,432
32	February 1, 2025	486	1,946
33	March 1, 2025	486	1,460
34	April 1, 2025	486	974
35	May 1, 2025	486	488
36	June 1, 2025	488	0



SBITA Example and Journal Entries

Anytown School District – June 30 Year-End – Continued

• Adjusting Journal Entries

	Debit	Credit
Governmental Fund		
Capital Outlay - Expenditure	\$ 17,498	
SBITA Proceeds - Other Financing Source		\$ 14,498
Cash (Implementation Costs)		\$ 3,000
<i>To Record the Commencement of the SBITA</i>		
Principal Retirement - Expenditure	\$ 5,000	
Interest - Expenditure	-	
Cash		\$ 5,000
<i>To Record SBITA Payment (P&I)</i>		

SBITA Example and Journal Entries

Anytown School District – June 30 Year-End – Continued

• Adjusting Journal Entries – Government-Wide

	Debit	Credit
Government-Wide Financial Statements (or Full-Accrual Funds)		
SBITA Proceeds - Other Financing Source	\$ 14,498	
SBITA Payable - Liability		\$ 14,498
<i>To Reclass SBITA Proceeds from Revenue to Liability on Statement of Net Position</i>		
SBITA Asset - Intangible Asset	\$ 17,498	
Capital Outlay - Expenditure		\$ 17,498
<i>To Reclass SBITA Capital Outlay from Expenditure to Asset on Statement of Net Position</i>		
SBITA Payable - Liability	\$ 5,000	
Principal Retirement - Expenditure		\$ 5,000
<i>To Reclass SBITA Principal Payment to Reduce Outstanding SBITA Payable Liability</i>		
Amortization - Expense	\$ 5,832	
Accumulated Amortization - Contra SBITA Asset		\$ 5,832
<i>To Record Amortization Expense for the Fiscal Year</i>		

Footnote Disclosures

General Description of SBITAs

- Include basis, terms, and conditions on which variable payments not included in the measurement are determined

Total Amount of subscription assets and related amortization

- Disclosed Separate from other Capital Assets

Amount of Outflows recognized in the current year

- Variable payments not previously included
- Other payments such as termination penalties not previously included

Footnote Disclosures - Continued

Principal and Interest Requirements to Maturity

- Separately for each of the subsequent five years
- Five-year increments thereafter

Commitments under SBITAs before the commencement of the subscription term

- Ex: Significant contract entered into prior to year-end, but subscription term has not started at the financial statement date

Impairment losses, if applicable

- Very unlikely

DPI's Perspective



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Questions?

Brad Porter, CPA

bporter@lauterbachamen.com

815-671-1608