

GASB 96 Frequently Asked Questions

- 1. GASB 96, Subscription-Based Information Technology Arrangements (SBITAs) is effective for fiscal years beginning after June 15, 2022. (Ohio governments are required to implement GASB 96 beginning with fiscal years ended June 30, 2023, and calendar years ending December 31, 2023). What are the reporting requirements for regulatory and OCBOA filers?**

GASB 96 requires the recognition of certain subscription liabilities for contracts that meet the GASB 96 definition of a SBITA.

These subscription liabilities will not be recognized on regulatory statements or on OCBOA cash basis (unmodified); therefore, regulatory and OCBOA cash basis (unmodified) filers will only need to incorporate changes to their Notes to the Basic Financial Statements. When preparing the Notes to the Basic Financial Statements, for both regulatory and OCBOA cash basis (unmodified), the following note disclosures should be made:

- the summary of significant accounting policies should describe the accounting treatment for SBITAs

For OCBOA modified cash basis, modifications for subscription liabilities should only be made when the transaction follows a cash transaction, there is substantial support in GAAP or other accounting literature, and the modification is logical. Since not all OCBOA modified cash basis preparers will elect to make this modification for subscription liabilities, note disclosures should be made as follows:

- If a local government is electing to make a modification for GASB 96 because the GASB 96 SBITA follows a cash transaction, the corresponding disclosure requirements from GASB 96 should be made.
- If an OCBOA modified cash basis preparer is electing not to make the GASB 96 modifications, the OCBOA cash basis (unmodified) disclosures identified above should be made.

- 2. My local government has a contract that conveys control of the right to use another party's IT software for one year with unlimited annual renewals. Does this contract meet the definition of a SBITA?**

If the unlimited renewals can be cancelled by either the government or the SBITA vendor, without permission from the other party, these renewal periods are cancellable and should be excluded from the maximum possible term. Thus, the maximum possible term is 12 months and the contract would be a short-term SBITA.

However, if the renewal is only at the option of one party, it is an option to extend which is included in the maximum possible term when determining if a contract is short-term. (See GASB 96 ¶ 13 as amended by GASB 99 ¶ 24)

Also, from GASB 87 in relation to leases that are signed every year (a new lease each year with no option to extend), the history of new leases being signed every year and the likelihood of a new lease being signed next year are not relevant for making the determination of whether a lease is a short-term lease. (GASBIG 2020-1, Q4.11; CIG 12.17.7)

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3. My local government has incurred significant initial implementation costs; however, my SBITA contracts are short-term. Can I still capitalize the initial implementation costs?

No, GASB 96 ¶ 36 indicates that 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.

4. The SBITA definition indicate that a SBITA is a contract that conveys control of the right to use another party's IT software. How do I determine if the control criterion has been met?

Determining control is a matter of professional judgment with many factors to consider.

At the commencement of a SBITA subscription term, a government obtains control of the right to use a SBITA vendor's IT assets by paying a subscription fee for access to those IT assets. The "right to use" is a resource that provides present service capacity to the government. That right to use may be the right to access the SBITA vendor's computing tools, or the right to run the SBITA vendor's cloud-based application (software) via internet access, or both. Paragraph 12 of Concepts Statement 4 explains that a government has control of the asset if it "has the ability to determine whether to (a) directly use the present service capacity to provide services to citizens; (b) exchange the present service capacity for another asset, such as cash; or (c) employ the asset in any of the other ways it may provide benefit." Within the confines of the contract, it is at the discretion of the government to decide whether, and to what extent, it will use the SBITA vendor's IT assets. In other words, the government has control over the nature and manner of the right to use the underlying IT assets, despite the SBITA vendor owning the IT assets. GASB noted that either the government or the SBITA vendor could have possession of the underlying IT assets associated with a SBITA. (GASB 96 ¶ B24)

Local governments do have control over the software they use for their day-to-day accounting as well as other types of software like Microsoft Office 365. For example, a local government that has a contract for Excel would have control of the right to use another party's software. As they could design their own spreadsheets, control what the software is used for, when it is available for use, and how it is being used.

GASB 87 ¶ B7 talks about supply contracts, such as those that are power purchase agreements, which normally convey access to the output of assets, rather than control of the right to use the asset. For software, you should consider if you are controlling the software itself (this does not mean you have control of the programming) or only have access to the outputs of the software. **See Example 3.**

Magazine and newspaper subscriptions likely do not convey control of the right to use another party's software. Research software used for legal research (Westlaw, Thomson Reuters) and accounting research (Checkpoint) are a gray area. The software is purchased for the research capabilities and an argument can be made that the government decides whether, and to what extent, it will use the SBITA vendor's IT assets, and thereby controls the subscription asset.

Contracts related to electronic books should be reviewed on a case-by-case basis.

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5. If the interest rate for discounting future subscription payments is not readily available, how do I determine the discount rate?

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) should be used. A government is not required to apply the guidance for imputation of interest in paragraphs 173–187 of Statement 62, as amended, but may do so as a means of determining the interest rate implicit in the SBITA. (GASB 96 ¶ 18)

6. My agreement with my software vendor is based on prior year student count, is that considered variable?

At the time the SBITA is recognized, payments based on prior year student count would be fixed in substance and should be included in the measurement of the subscription liability. Amounts based on future performance (student counts that are in the future at the time the SBITA is recognized) are variable and should not be included in the measurement of the subscription liability. (GASB 96 ¶ 16 & 17)

7. How do I account for a SBITA contract which includes both software related items and vendor provided IT support services?

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 the contract meets the exception in GASB 96 ¶ 48. (GASB 96 ¶ 45)

8. GASB 87 contains guidance for a sublease. Is there similar guidance for SBITAs?

No, SBITAs will usually be between the software vendor and the end user. If there is a third party facilitating the agreement or managing a group pricing arrangements, they are generally not a party to the SBITA agreement.

9. GASB 96 ¶ 4 indicates GASB 96 doesn't apply to governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs. If my local government has one of these types of arrangements, what guidance should I follow?

GASB 87 would be the best guidance to follow for governments with these types of contracts.

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10. How is State Software (USAS and USPS) viewed under GASB 96?

We understand relevant facts and considerations related to state software developed by the state software development team (SSDT) to be as follows:

- If an ITC is involved, see question 8 above to address a third party facilitating the agreement between the software vendor and the end user.
- SSDT does not charge a licensing fee.
- They charge 50 cents per ADM for support and maintenance. See GASB 96 ¶¶ 44 – 49 for discussion of contracts with multiple components. See also question 6 above for discussion of payments based on ADM.
- The support and maintenance agreement is typically based on a fiscal year and could be considered cancellable by either party each year.

Professional judgment plays a role in evaluating GASB 96 agreements and specifically, in evaluating the above facts. School Districts should review this fact pattern and determine their accounting treatment. Any reasonable conclusion should be acceptable. We also encourage School Districts to review their agreements to ensure they are consistent with the above facts and circumstances.

11. How are UAN agreements viewed under GASB 96?

The UAN agreement can be cancelled by AOS with 90 days written notice. It can also be cancelled by the local government after 12 months, after giving 90 days written notice. This language is interpreted by AOS to mean the contract has a maximum possible term of 12 months or less and would be a short-term SBITA.

12. Is a licensing agreement for a vendor's computer software that automatically renews until cancelled a licensing agreement that provides a perpetual license?

No. A provision under which a licensing agreement automatically renews until cancelled is an option to terminate the agreement at each renewal date. An agreement that includes an option to terminate is not a purchase, whereas a perpetual license is a purchase in which a government is granted a permanent right to use the vendor's computer software. Therefore, a licensing agreement for a vendor's computer software that automatically renews until cancelled does not provide a perpetual license. (GASB IG-2023 Q4.7)

13. For purposes of determining the applicability of Statement 96, do Software as a Service, Platform as a Service, and Infrastructure as a Service contain a combination of IT software and tangible capital assets?

Yes. Software as a Service, Platform as a Service, and Infrastructure as a Service are three common deployment models of cloud computing arrangements. Notwithstanding the labels of those arrangements, each deployment model contains IT software used in combination with tangible capital assets. To further assess the applicability of Statement 96, the substance of the arrangement should be evaluated in accordance with all aspects of paragraph 6 of that Statement to determine

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whether the arrangement meets the definition of a subscription-based information technology arrangement (SBITA). (GASB IG-2023 Q4.8)

- 14. A government enters into a six-year SBITA contract with no options to extend or terminate the contract and begins making semiannual subscription payments to the SBITA vendor immediately after the contract takes effect. The initial implementation stage is not completed until the end of the second year after the contract takes effect. What is the subscription term?**

Although the length of the contract is six years, the subscription term is four years. The initial implementation stage is completed at the end of the second year of the contract. Therefore, in accordance with paragraphs 9 and 15 of Statement 96, the subscription term commences at the beginning of the third year and ends at the conclusion of the sixth year when the SBITA contract ends. (GASB IG-2023 Q4.9)

GASB 96 Examples

For reference, in all GASB 96 examples, the GASB 96 ¶6 definition of a SBITA is as follows:

...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 (the underlying IT asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.

Example 1 – Accounting software with Implementation Costs

Ohio Government (government) has entered into a contract with Ohio IT Vendor (vendor) for accounting software. The term (non-cancelable) begins on 1/1/2023 and shall remain in effect until 12/30/2027. Ohio Government will pay annual payments in the amount of \$50,000 on January 1 of each year of the contract. Additionally, the vendor requires \$20,000 in up-front costs to import data from the government's prior software system and upgrade the firmware needed to place the new accounting software into service. No interest rate is stated in the agreement. The government will use an incremental borrowing rate of 2.5 percent. The terms of the agreement meet the GASB 96 ¶6 definition of a SBITA. How should the government account for this subscription under GASB 96?

Solution

Key Information

Commencement of subscription term (1)	January 1, 2023
Initial Term (2)	5 years
Base annual payment (1)	\$50,000
Due Date (1)	1 st day of each year
Present value (3)	\$232,291
Subscription Asset Value (3)	\$252,291

- (1) Information provided above.
- (2) Based upon last payment of January 1, 2027. Note there are no optional periods to extend or terminate to consider for inclusion so this would represent the subscription term.
- (3) The present value would represent the subscription payable and the starting point for calculating the corresponding subscription asset as of 1/1/2023.

See FAQ 5 above for discussion of determining the applicable interest rate.

In the scenario above, the present value is \$232,291 and the value of the agreement over its lifetime is \$250,000 (\$50,000 annual payments x 5 years). Based upon this rate the following amortization can be calculated:

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Annual amortization:

Year	Principal	Interest	Total Payment	Balance
				\$232,291
2023	\$44,193	\$5,807	\$50,000	188,098
2024	45,297	4,703	50,000	142,801
2025	46,430	3,570	50,000	96,371
2026	47,591	2,409	50,000	48,780
2027	48,780	1,220	50,000	0

Based upon the above information, the government would record a subscription payable of \$232,291 at January 1, 2023. (Based upon the above amortization schedules for the year ended December 31, 2023, the government would have reduced the subscription payable by the principal payments made of \$44,193. The government would record a subscription asset of \$252,291 (Payable of \$232,291 plus \$20,000 in implementation costs) at January 1, 2023. The asset would be amortized over the 5-year term of the subscription. Note for this example we are assuming there were no payments made before the commencement of the subscription term and there were also no capitalizable initial implementation costs before the commencement of the subscription term – See GASB 96 ¶ 26.

See FAQ 10 above for a discussion of how the completion of the initial implementation stage can impact the subscription term.

Example 2 – Office 365 (Productivity Software)

Facts and Assumptions

Ohio Government (government) has entered into a contract with Microsoft (vendor) for Office 365 productivity software. The term (non-cancelable) begins on 1/1/2023 and shall remain in effect until 12/31/2023. Ohio Government will make one annual payment in 2023 in the amount of \$6,000. There are no implementation costs associated with the software. No interest rate is stated in the agreement. The contract contains unlimited renewals which can be cancelled by either the government or vendor, without permission from the other party, these renewal periods are cancellable and should be excluded from the maximum possible term. The government will use an incremental borrowing rate of 2.5 percent. How should the government account for this subscription under GASB 96?

Solution

This agreement would meet the definition of a SBITA under GASB 96; however, no subscription liability would be recognized. GASB 96 ¶ 13 defines a short-term SBITA as a subscription with a maximum possible term of 12 months or less. Although the government has control over the asset, due to the agreement lasting 1 year (12 months), it is recognized as a short-term SBITA. Since the renewal periods can be cancelled by either party, they are considered cancellable and should be excluded from the maximum possible term. The government should recognize the payments as outflows of resources. (GASB 96 ¶ 14)

See FAQ 2 above for a discussion of unlimited renewals.

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Please note that this is just an example. Accounting for Office 365 agreements under GASB 96 may vary depending on the specific details of the agreement.

Example 3 – No Control of the Right to Use

Facts and Assumptions

Ohio School District (government) has entered into a contract with Coursework Plus (vendor) for classroom worksheets. The term (non-cancelable) begins on 7/1/2022 and shall remain in effect until 6/30/2025. The school district will make semi-annual payments in the amount of \$2,000 on July 1 and January each year. The software allows teachers to access predesigned worksheets for use in their classroom without the ability to make any modifications to the worksheets. How should the school district account for this subscription under GASB 96?

Solution

You could defend that this subscription would not meet the definition of a SBITA under GASB 96. Although the terms of the subscription qualify as a SBITA, the school district may not meet the control criterion of the SBITA definition. The teachers may only have access to the outputs of software and not meet the control criterion. However, a school district that has the same facts as above but has a contract for software that allows teachers to design their own worksheets would have control of the right to use another party's IT software and would be considered a SBITA under GASB 96.

The above example has a narrow scope. Determining if the control criterion is met is a matter of professional judgment and requires consideration of many factors. See FAQ 4 above for discussion of control. This question is not intended to address electronic books.

Example 4 – Variable Payments

Facts and Assumptions

Ohio School District (government) has entered into a contract with Finance Solutions Plus (vendor) for accounting software. The term (non-cancelable) begins on 7/1/2022 and shall remain in effect until 6/30/2026. The agreement provides for an annual base cost of \$4,000 plus \$5.50 per Average Daily Membership (ADM) of the future periods. The school district is billed annually. No interest rate is stated in the agreement. The government will use an incremental borrowing rate of 2.5 percent. The terms of the agreement meet the GASB 96 ¶6 definition of a SBITA. How should the government account for this subscription under GASB 96?

Solution

Key Information

Commencement of subscription term (1)	July 1, 2022
Initial Term (2)	4 years
Base annual payment (1)	\$4,000
Due Date (1)	1 st day of fiscal year

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Present value (3)

\$15,048

- (1) Information provided above.
- (2) Based upon last payment of July 1, 2025. Note there are no optional periods to extend or terminate to consider for inclusion so this would represent the subscription term.
- (3) The present value of the SBITA would represent the subscription payable and the corresponding subscription asset as of 7/1/2022).

In the scenario above the present value is \$15,048 and the value of the agreement over its lifetime is \$16,000 (\$4,000 annual payments x 4 years). Because the remaining part of the contract is based upon variable payments that are based on the future ADM of the district, that part of the payment would not be included in the measurement of the subscription liability. These payments would be recognized as outflows or resources (expenses) in the months in which the obligations for those payments are incurred. Variable payments not previously included in the measurement of the subscription liability should be disclosed in the notes. (GASB 96 ¶ 17)

See also GASB 96 ¶¶ 44 – 49 for discussion of contracts that contain both a subscription component and a nonsubscription component.

Example 5 – Short-Term SBITA -- Initial Year of Implementation

Facts and Assumptions

Ohio School District (government) has entered into a contract with Inventory Plus (vendor) for inventory tracking software. The term (non-cancelable) begins on 1/1/2019 and shall remain in effect until 12/31/2022. Ohio SD will make quarterly payments in the amount of \$2,400. How should the government account for this subscription in the initial year of implementation under GASB 96?

Solution

According to GASB 96 ¶ 64, assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the period of implementation. Therefore, Ohio SD would evaluate the agreement as if it began on 7/1/2022. Based upon these circumstances, the SBITA term for financial reporting purposes would be 6 months for Ohio SD. Because there is a maximum possible term of 12 months (or less) upon the implementation of GASB 96, the provisions for short-term SBITAs contained in GASB 96 ¶ 13-14 would apply. Ohio SD would recognize an expense based upon the payment provisions of the subscription contract.

Governments may wish to refer to GASB 96 ¶¶ 62-64 for more guidance regarding the recognition and measurement of subscriptions at transition.