



West Virginia DEPARTMENT OF
EDUCATION

GASB 96: SBITAs

October 19, 2022

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GASB 96 Overview

- Effective for reporting periods beginning after June 15, 2022 (FY23).
- This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs).
- SBITA Definition:
 - A contract that **conveys control of the right to use** another party's IT software, alone or in combination with tangible capital assets as specified in the contract **for a period of time** in an **exchange or exchange-like transaction**.



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GASB 96 Overview

- How to determine whether a contract conveys control of the right to use the underlying IT assets.
 - The entity should assess whether it has both of the following:
 - The right to obtain the present service capacity from use of the underlying IT assets as specified in the contract.
 - The right to determine the nature and manner of use of the underlying IT assets as specified in the contract.

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GASB 96 Overview

- Accounting is very similar to the lessor accounting outlined in GASB 87: Leases
 - Difference
 - Provides the right-to-use asset capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA.
- A SBITA agreement results in
 - A right-to-use subscription asset (an intangible asset)
 - A corresponding subscription liability

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GASB 96 Overview

- Does not apply to:
 - Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets that meets the definition of a lease in Statement 87, in which the software component is insignificant compared to the cost of the underlying tangible capital asset.
 - Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs (no lessor side).
 - Licensing arrangements that provide a perpetual license.

GASB 96 Overview

- Difference between a perpetual software license and a subscription-based license

Perpetual License	Subscription-Based
One-time fee	Monthly or yearly fee
Can use the software after the expiration date, but:	The right to use expires after a certain amount of time.
<ul style="list-style-type: none"> - No maintenance provided - No security patches and/or updates 	After expiration, software cannot be used until it is renewed.

GASB 96 Overview



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GASB 96 Overview

Decision Guide

1. Does the contract extend past 6/30/22?

- YES (go to question 2.)
- NO (this contract does not contain a GASB 96 SBITA)

2. Does the department have control³ of the right to use the SBITA asset?

- YES (go to question 3.)
- NO (this contract does not contain a GASB 96 SBITA)

3. Does the contract meet any of the exclusions for GASB 96? (See Chart Below)

GASB 96 does **NOT** apply to:

1. 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 lease⁴ in GASB Statement No. 87 (GASB 87), in which the software component is insignificant when compared to the cost of the underlying asset.
2. Governments that provide the right to use their IT software to other entities through SBITAs (as a passthrough and therefore not the end user).
3. Contracts that meet the definition of Public-Private and Public-Public Partnerships⁵ in GASB Statement No. 94.
4. Licensing arrangements that provide a perpetual license (subject to GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets.)

- YES (this contract does not contain a GASB 96 SBITA)
- NO (go to question 4.)

4. Is the subscription term⁶ greater than 12 months?

- YES (go to question 5.)
- NO (this contract does not contain a GASB 96 SBITA)

5. Does the SBITA have any fixed or fixed in-substance payments⁷?

- YES (go to question 6.)
- NO (this contract does not contain a GASB 96 SBITA)

6. Do the SBITA payments meet the criteria for an exchange or exchange-like transaction⁸?

- YES (this contract contains a GASB 96 SBITA)
- NO (this contract does not contain a GASB 96 SBITA)

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GASB 96 Overview

- Once a SBITA is identified, the county would recognize a subscription liability and a subscription asset at the commencement of the subscription term of the SBITA, which occurs when the county obtains control of the right to use the underlying IT asset.

GASB 96 Overview

- The subscription term is the period that the government has the noncancelable right to use the underlying IT assets, plus the following periods, if applicable:
 - Periods covered by a county or vendor's extension option if it is reasonably certain that the respective party **WILL** exercise that option.
 - Periods covered by the county or vendor's termination option if it is reasonably certain that the respective party **WILL NOT** exercise that option
 - Periods where both the county or the vendor have an option to terminate the SBITA without permission from the other party are cancellable periods and are **EXCLUDED** from the subscription term.

GASB 96 Overview

- Subscription Liability
 - Like GASB 87: *Leases*, the initial subscription liability is measured as the present value of the total subscription payments expected to be made.
 - The total future payments are discounted using the either the interest rate the vendor charges the government or the implicit interest rate.
 - If the implicit interest rate is not readily determinable, the LEA may use an estimated incremental borrowing rate.

GASB 96 Overview

- Subscription Liability (continued)
 - Payments that should be included in the PV calculation of the subscription liability:
 - Fixed payments
 - Variable payments based on an index or a rate, measured using the index or rate as of the commencement of the subscription term
 - Variable payments that are fixed in substance
 - Termination penalties, if the subscription term reflects the government exercising either an option to terminate the agreement or a fiscal funding or cancellation clause
 - Incentives receivable from the vendor
 - Other payments the government is reasonably certain will be required to be made to the vendor

GASB 96 Overview

- Subscription Asset
 - Measured as the initial value of the subscription liability plus:
 - payments made to the vendor at the commencement of the subscription term
 - capitalizable initial implementation costs
 - **minus** any vendor incentives received at the commencement of the subscription term
 - The county will then 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.

GASB 96: Other Outlays

- In addition to subscription payments, there may be cash outlays for other activities associated with SBITAs.
- The type and timing of the activity dictates the accounting treatment of these cash outlays.
- Other activities associated with SBITAs are grouped into three stages:
 - Preliminary project stage
 - Initial implementation stage
 - Operations and additional implementation stage

GASB 96: Other Outlays

Stage	Activities	Accounting
Preliminary Project Stage	<ul style="list-style-type: none"> - Conceptual formulation - Evaluation of alternatives - Selection of vendor 	Expense as incurred
Initial Implementation Stage	<ul style="list-style-type: none"> - Configuration - Coding - Testing - Installation 	Generally capitalized as an addition to the subscription asset
Operations and Additional Implementation Stage	<ul style="list-style-type: none"> - Subsequent implementation activities - Maintenance - Troubleshooting 	Expense as incurred, unless activity meets specific capitalization criteria
All Stages	<ul style="list-style-type: none"> - Training 	Expense as incurred

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GASB 96: Example

- A county has a contract with Office 365 which provides access to the Microsoft Suite for students and staff. The county recognizes its contract with Office 365 as a SBITA due to the following facts:
 - The agreement does not meet the definition of a lease under GASB 87 or scoping criteria for GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*.
 - The agreement provides the county the use and control of an instance of Office 365's software in an exchange-like transaction.
 - The agreement has a defined, finite, non-cancelable subscription term of three years.
 - Below are the additional details of the SBITA:
 - Subscription Start Date: July 1, 2022
 - Subscription End Date: June 30, 2025
 - First Payment Date: July 1, 2022
 - Payments: \$5,000 annually, paid in advance (on July 1st)
 - Discount Rate: 2%

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GASB 96: Example

- Other Outlays
 - The county hired an outside consultant to assist with the selection and evaluation of software. They incurred fees of **\$1,000**, paid to the consultant during the evaluation process.
 - Expense as incurred or capitalize into the subscription asset?



GASB 96: Example

- Other Outlays
 - The county hired an outside consultant to assist with the selection and evaluation of software. They incurred fees of **\$1,000**, paid to the consultant during the evaluation process.
 - Expense as incurred or capitalize into the subscription asset?

Preliminary Project Stage - Expense as incurred



GASB 96: Example

- Other Outlays
 - During the initial implementation stage, the county needed to migrate data from their existing Microsoft perpetual license agreement into the new subscription-based cloud environment of Office 365. The data migration cost the government **\$2,000** and was paid directly to Microsoft.
 - Expense as incurred or capitalize into the subscription asset?

GASB 96: Example

- Other Outlays
 - During the initial implementation stage, the county needed to migrate data from their existing Microsoft perpetual license agreement into the new subscription-based cloud environment of Office 365. The data migration cost the government **\$2,000** and was paid directly to Microsoft.
 - Expense as incurred or capitalize into the subscription asset?

Initial Implementation Stage - Capitalize into the subscription asset

GASB 96: Example

- Other Outlays
 - Subsequent to placing Office 365 into service, the county experienced operational challenges, which required additional support services and cost an additional **\$300**. These services did not add to the functionality of Office 365.
 - Expense as incurred or capitalize into the subscription asset?



GASB 96: Example

- Other Outlays
 - Subsequent to placing Office 365 into service, the county experienced operational challenges, which required additional support services and cost an additional **\$300**. **These services did not add to the functionality of Office 365.**
 - Expense as incurred or capitalize into the subscription asset?

Operations and Additional Implementation Stage - Expense as incurred



GASB 96: Example

- The initial subscription liability is measured as the present value of the subscription payments expected to be made to the vendor during the subscription term. The necessary variables for this calculation are below:
 - \$5,000 annual subscription payments, paid in advance,
 - 3 year (36 months) subscription term,
 - 2% borrowing rate,

Subscription Liability= \$14,708

GASB 96: Example

- The initial subscription asset is calculated by taking the subscription liability of \$14,708 and adding the capitalizable initial implementation costs for data migration of \$2,000.

Subscription Asset = \$16,708

GASB 96: Example

- Annualized payment Schedule and Amortization Expense

Year	Principal	Interest	Total payment		Amortization Expense
2023	\$4,898	\$102	\$5,000	Year 1	\$5,569.33
2024	\$4,903	\$97	\$5,000	Year 2	\$5,569.33
2025	\$4,907	\$93	\$5,000	Year 3	\$5,569.34
Total	\$14,708	\$292	\$15,000	Total	\$16,708

GASB 96: Example

- Journal Entries

Governmental Fund: Initial Journal Entry		
	Debit	Credit
Capital Outlay	\$14,708	
Other Financing Sources – SBITA Proceeds		\$14,708
To record capital expenditure and related proceeds from IT subscription		
Entity-Wide: Initial Journal Entry		
	Debit	Credit
Other Financing Sources – SBITA Proceeds	\$14,708	
Subscription liability – due within one year		\$4,898
Subscription liability – due beyond one year		\$9,810
Subscription Asset	\$16,708	
Capital Outlay		\$14,708
Cash (implementation costs)		\$2,000
To record intangible asset and related liability from IT subscription		

GASB 96: Example

• Journal Entries

Governmental Fund: Annualized Year 1 Journal Entry	Debit	Credit
Interest Expenditure	\$102	
Lease principal payment expenditure	\$4,898	
Cash		\$5,000
To record annual payment for first year		
Entity-Wide: Annualized Year 1 Journal Entries	Debit	Credit
Subscription liability – due within one year	\$4,898	
Lease principal payment expenditure		\$4,898
Amortization Expense	\$5,569.33	
Accumulated Amortization		\$5,569.33
To eliminate fund level activity for first year		

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GASB 96: PowerSchool Example

Contract Details:
 Contract Term: 36 Months
 Start Date: 5/1/2020
 End Date: 6/30/2021

License and Subscription Fees:

Schoolology LMS Subscription	12,500.00	Students	USD 72,215.75
Schoolology LMS One Time Discount	1.00	Each	USD -10,340.75
License and Subscription Totals: USD 61,875.00			

Professional Services and Setup Fees:

Schoolology LMS Implementation - Advanced	1.00	Each	USD 5,130.00
Schoolology Project Management	20.00	Hours	USD 4,000.00
Schoolology Keys To Ownership	5.00	Hours	USD 1,000.00
Schoolology Additional Data Integration Services	1.00	Each	USD 4,500.00
			Professional Services and Setup Fee Totals: USD 14,630.00

Training Services:

Schoolology Remote Professional Development	6.00	Hours	USD 1,800.00
Schoolology Onsite Professional Development	1.00	Day	USD 3,500.00
			Training Services Total: USD 5,300.00

Annual Ongoing Fees as of 7/1/2021:

Schoolology LMS Subscription	12,500.00	Students	USD 81,875.00
			Annual Ongoing Fees Total: USD 81,875.00

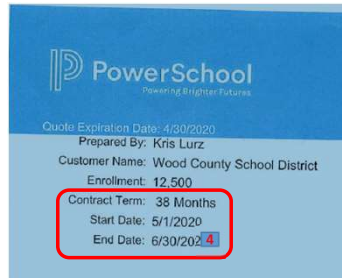
Payment Schedule:

Due Date	Payment Amount
5/1/2020	USD 0.00
7/1/2020	USD 81,805.00
Payment Total	USD 81,805.00

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GASB 96: PowerSchool Example

Subscription Start Date: May 1, 2020
Subscription End Date (changed for example): June 30, 2024
First Payment Date: July 1, 2020 (This will be July 1, 2022, in the CIVIX Software)
Payments: \$61,875 annually, paid in advance (on July 1st)
Discount Rate: ???



Due Date	Payment Amount
5/1/2020	USD 0.00
7/1/2020	USD 81,805.00
Payment Total	USD 81,805.00

12,500.00	Students	USD 61,875.00
Annual Ongoing Fees Total:		USD 61,875.00

GASB 96: PowerSchool Example

- How to determine your discount rate
 - Future subscription payments should be discounted using the interest rate the SBITA vendor charges the LEA, which may be implicit, or the LEA's incremental borrowing rate if the interest rate is not readily determinable.
 - LEAs should make appropriate efforts to determine the interest rates used for their SBITA agreements.
 - One possible resource to use is the Applicable Federal Rates on the IRS website. (Please check with your individual audit firms before using these tables)
 - <https://www.irs.gov/applicable-federal-rates>
 - All decisions regarding interest rate determinations for leasing agreements should be documented and maintained by the LEA.

GASB 96: PowerSchool Example

Subscription Start Date: May 1, 2020
Subscription End Date (changed for example): June 30, 2024
First Payment Date: July 1, 2020 (This will be July 1, 2022, in the CIVIX Software)
Payments: \$61,875 annually, paid in advance (on July 1st)
Discount Rate: 2.99%

REV. RUL. 2022-12 TABLE 1
 Applicable Federal Rates (AFR) for July 2022

	Annual	Period for Compounding		
		Semiannual	Quarterly	Monthly
<u>Short-term</u>				
AFR	2.37%	2.36%	2.35%	2.35%
110% AFR	2.62%	2.60%	2.59%	2.59%
120% AFR	2.85%	2.83%	2.82%	2.81%
130% AFR	3.09%	3.07%	3.06%	3.05%
<u>Mid-term</u>				
AFR	2.99%	2.97%	2.96%	2.95%
110% AFR	3.30%	3.27%	3.26%	3.25%
120% AFR	3.59%	3.56%	3.54%	3.53%
130% AFR	3.90%	3.86%	3.84%	3.83%
150% AFR	4.51%	4.46%	4.44%	4.42%
175% AFR	5.27%	5.20%	5.17%	5.14%
<u>Long-term</u>				
AFR	3.22%	3.19%	3.18%	3.17%
110% AFR	3.54%	3.51%	3.49%	3.48%
120% AFR	3.87%	3.83%	3.81%	3.80%
130% AFR	4.19%	4.15%	4.13%	4.11%

GASB 96: PowerSchool Example

Subscription Liability Calculation

- **Subscription Start Date:** May 1, 2020
- **Subscription End Date (changed for example):** June 30, 2024
- **First Payment Date:** July 1, 2020 (This will be July 1, 2022, in the CIVIX Software)
- **Payments:** \$61,875 annually, paid in advance (on July 1st)
- **Discount Rate:** 2.99%

The initial subscription liability is measured as the present value of the subscription payments expected to be made to the vendor during the subscription term.

PV = \$118,413.10

GASB 96: PowerSchool Example

Subscription Asset Calculation

Measured as the initial value of the subscription liability plus:

- payments made to the vendor at the commencement of the subscription term
- capitalizable initial implementation costs
- **minus** any vendor incentives received at the commencement of the subscription term

Present Value	\$118,413.10
Payments made at commencement	???
Capitalizable initial implementation costs	???
Vendor incentives received at commencement	<u>(???)</u>
TOTAL SUBSCRIPTION ASSET	???

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GASB 96: PowerSchool Example

Subscription Asset Calculation

Product Description	Quantity	Unit	Extended Price	
License and Subscription Fees				
Schoolology LMS Subscription	12,500.00	Students	USD 77,245.75	
Schoolology LMS One Time Discount	1.00	Each	USD -10,349.75	Vendor Incentive?? NO* Used to Calculate PV of Subscription Asset
			License and Subscription Totals: USD 61,875.00	
Professional Services and Setup Fees				
Schoolology LMS Implementation - Advanced	1.00	Each	USD 5,130.00	Capitalize into Subscription Asset
Schoolology Project Management	20.00	Hours	USD 4,000.00	
Schoolology Keys To Ownership	5.00	Hours	USD 1,000.00	
Schoolology Additional Data Integration Services	1.00	Each	USD 4,500.00	
			Professional Services and Setup Fee Totals: USD 14,630.00	
Training Services				
Schoolology Remote Professional Development	6.00	Hours	USD 1,800.00	Expense as Incurred
Schoolology Onsite Professional Development	1.00	Day	USD 3,500.00	
			Training Services Total: USD 5,300.00	

*Subscription incentives that are fixed and are to be provided after the commencement date are deducted from the fixed subscription payments in the measurement of the subscription liability.

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GASB 96: PowerSchool Example

Subscription Asset Calculation

Measured as the initial value of the subscription liability plus:

- payments made to the vendor at the commencement of the subscription term
- capitalizable initial implementation costs
- **minus** any vendor incentives received at the commencement of the subscription term

Present Value	\$118,413.10
Payments made at commencement	\$0.00
Capitalizable initial implementation costs	\$14,630.00
Vendor incentives received at commencement	<u>(\$0.00)</u>
TOTAL SUBSCRIPTION ASSET	\$133,043.10

GASB 96: Disclosures

- A general description of the government's SBITAs, including the basis, terms, and conditions of any variable payments not included in the measurement of the subscription liability.
- The total amount of subscription assets and related accumulated amortization reported on a separate line item from other capital assets.
- The amount of outflows of resources recognized in the current period for
 - variable payments not included in the measurement of the subscription liability and any other payments (for example, penalties) not included in the measurement of the subscription liability
 - The maturity of the subscription liability separated into principal and interest, for each of the five years subsequent to the reporting period and in five-year increments for the remaining term of the SBITA.
 - Any SBITA commitments not yet reported as a subscription liability on the statement of net position (i.e. prior to the commencement of the subscription term).
 - Any impairment loss and the applicable adjustment to the subscription asset.

GASB 96: WVDE Software Solution

- Counties will use the same software that was used to implement GASB 87.
- Future trainings will be provided on how to import your SBITA data into the software and run the necessary reports for financial reporting.



QUESTIONS?

Thank You

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