

Implementation of GASB 96

Subscription Based IT Arrangements (SBITAs)





What Is a SBITA?

“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.”

- **Prior Accounting:** Record payments as operating expenses
- **GASB 96 Accounting:** Record intangible asset and liability

- **Stipulations**
 - Includes only exchange transactions – rentals for \$1 a year are excluded
 - Requires defined rental period and rental amount
 - Excludes any agreements where CU Boulder is renting IT software to a third party





Combination IT Software and Tangible Asset

“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 No. 87, Leases, in which the software component is insignificant when compared to the cost of the underlying tangible capital asset (for example, a computer with operating software or a smart copier that is connected to an IT system)”

- Departments will need to determine if the software or tangible asset component is more significant
 - Good indication is the account code used to record the payment
- Could be either GASB 87 lease or GASB 96 SBITA





Other Exclusions

➤ **Service only contracts:**

The definition of a SBITA “excludes contracts that solely provide IT support services but includes contracts that contain both a right-to-use asset component and an IT support services component.”

- There has to be a software component that CU Boulder is allowed to use, either by itself or in combination with support services.

➤ **Internal IT software rentals**

- IT agreements between CU Boulder departments
- For example, account 500499 – ID IT Software Licenses





Short-Term SBITAs - Excluded

“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”

- CU Boulder department signs a contract to rent IT software. The contract says the term is one year, but the department can extend the contract for a second year at its discretion. The department is 100% sure they won't opt to extend the contract. Is this a short-term SBITA?
 - No. As long as the contract provides for the possibility of CU extending the lease beyond a year, regardless if CU will exercise that option, it's a GASB 96 SBITA
 - A short-term SBITA only exists if the agreement's longest possible term is a year or less
- **Criteria for a short-term SBITA is different than criteria for the SBITA term**
 - SBITA term takes into account CU's intention of exercising an option to extend the agreement





SBITA Subscription Term

- ***The value of the intangible asset and the liability will be based on the term of the agreement***

“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 a government’s option to extend the SBITA if it is reasonably certain that the government will exercise that option
- Periods covered by a government’s option to terminate the SBITA if it is reasonably certain that the government will not exercise that option
- Periods covered by a government’s option to extend the SBITA if it is reasonably certain that the government will exercise that option
- Periods covered by a government’s option to terminate the SBITA if it is reasonably certain that the government will not exercise that option





SBITA Term Example

CU department signs a contract to rent IT software. The contract says the term is one year, but the department can extend the contract for a second year at its discretion. The department is 100% sure they won't opt to extend the agreement. What is the term of this SBITA?

- One year
- Short term SBITA criteria doesn't take into account the government's expectations of exercising options to extend or cancel SBITAs
- The SBITA term does take into account the government's expectations of exercising options to extend or cancel SBITAs





SBITA Subscription Term

- **The subscription term does not include:**
 - *“Periods for which both the government and the SBITA vendor have an option to terminate the SBITA without permission from the other party*
 - *Periods for which both the government and the SBITA vendor have to agree to extend the lease*





Expenses Other than Subscription Payments

- Costs are divided into the following groups:
 - **Preliminary Project Stage** – Not capitalized as part of the intangible asset
 - Evaluating alternatives, determining needed technology, and selecting a SBITA vendor
 - **Initial Implementation Stage** – Capitalized as part of the intangible asset
 - Follows CU Boulder capitalization rules: Any expenses incurred to place the asset into service
 - **Operation and Additional Implementation Stage** – Not capitalized as part of the intangible asset
 - Subsequent implementation activities, maintenance, and ongoing operations





Incentives Provided by the SBITA Vendor

- Incentives decrease the intangible asset and the liability of the SBITA
- Any incentives provided by the vendor should be noted in the CCO template
 - Agreements to pay preexisting subscription obligations to a third party
 - Other reimbursements of end user costs
 - Free subscription periods
 - Reductions of interest or principal charges





Implementation Roles

Department

- No change in departmental accounting - record all SBITAs the same as in prior years
- Complete CCO GASB 96 template for all SBITAs for fiscal years 2022 and 2023
 - CCO website (www.Colorado.edu/controller) – Forms – Controller's Office
- Send template for FY22 SBITAs to Justin Church (justin.church@colorado.edu) by 3/31/2023
- Send template for FY23 SBITAs to Justin Church by 6/30/2023

CCO

- Use departmental templates to enter information into LeaseVision spreadsheet
- Reclassify all departmental activity into GASB 96 accounts in fund 98 speedtypes – departments won't see any reclassifications in their speedtypes
- Prepare completeness memo and documentation for auditors





Example

The CCO enters into a contract to rent the “Vi Talar Svenska!” software from Uppsala University to immerse employees in the Swedish language. The contract is for three years, but the CCO can opt to extend the contract for a fourth year. The CCO is certain that they’ll extend the contract.

The cost is \$2,000 per quarter, but every year, the cost increases by 2.5%. There isn’t a stated or imputed interest rate.

In order to implement this technology, the CCO made \$4,000 in structural adjustments to the ARC.

If the CCO extends the contract for the fourth year, Uppsala University will waive the first quarter payment of the fourth year.





Review of GASB 87

- **New standard for the accounting for leases implemented in FY22**

- **See recording of GASB 87 presentation on CCO website:**
 - Training
 - Video Library
 - GASB 87 Implementation

- **New leases or amendments of old leases**
 - Include in GASB 87 template found on CCO website
 - CCO website (www.Colorado.edu/controller) – Forms – Controller's Office
 - GASB 87 Lessee Template
 - GASB 87 Lessor Template
 - Send template to justin.church@colorado.edu

