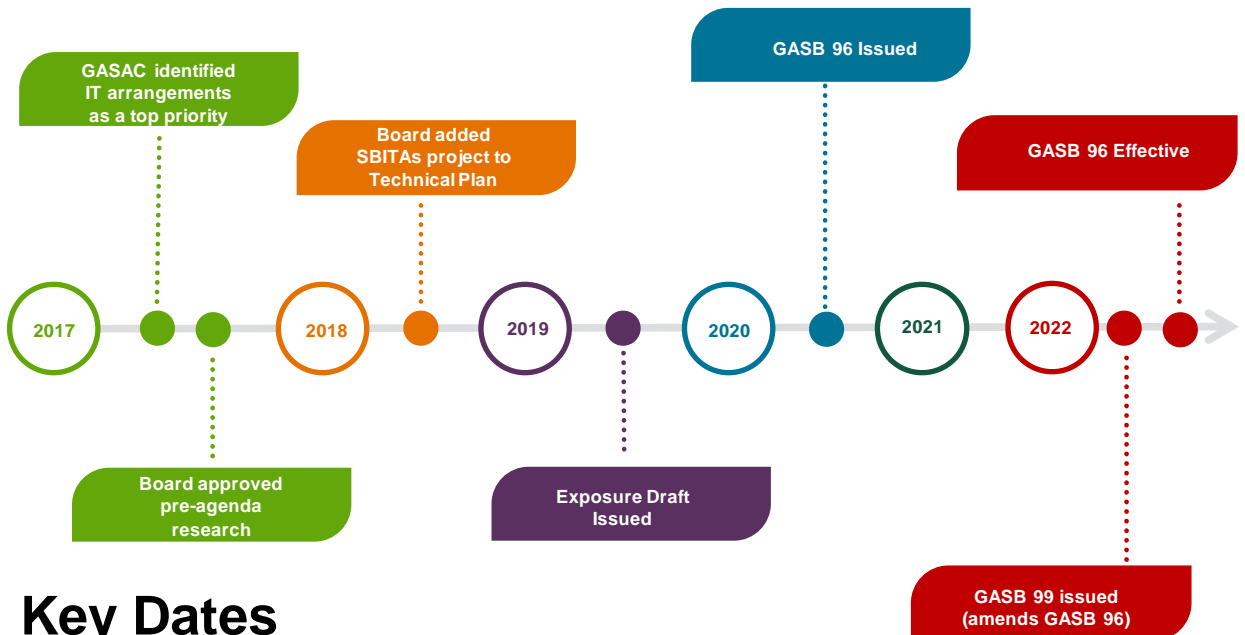


Subscription-Based Information Technology Arrangements

GASB 96



1

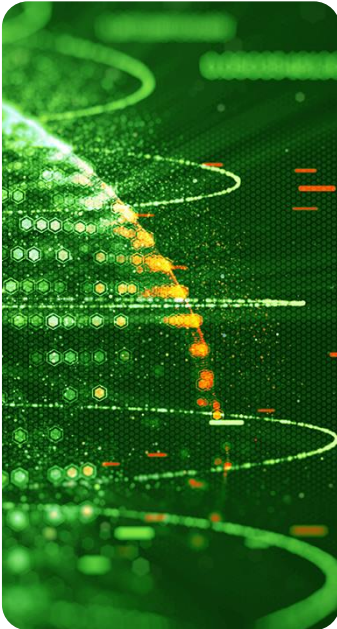


Key Dates

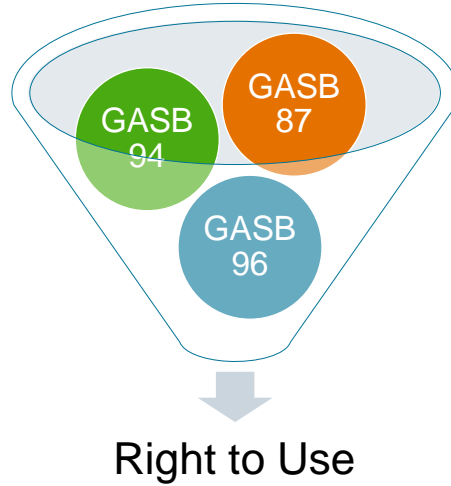
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Consistent Underlying Concept



3



3

Consistent Underlying Concept



4



4

Polling Question 1



5

Consistent Underlying Concept

| | Leases | P3s | SBITAs |
|-----------------------------------|--------|-----|--------|
| Short-term | ✓ | ✗ | ✓ |
| Contracts that Transfer Ownership | ✓ | ✗ | ✗ |
| Liability | ✓ | ✓ | ✓ |
| Right to Use Asset | ✓ | ✓ | ✓ |
| Underlying Asset | ✗ | ✓ | ✗ |
| Deferred Outflow of Resources | ✗ | ✓ | ✗ |



6

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Lessons Learned from GASB 87 Implementation

- ▶ Right-to-use asset = Capital asset
- ▶ Lease liability should be disclosed with long-term liabilities
- ▶ Restatement of RSI?
- ▶ Retroactive implementation vs “facts and circumstances that existed at the beginning of the fiscal year...”

7



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Scope Exclusions

Combination if IT Software and tangible capita asset when the software component is insignificant

Govts that provide others the right to use through SBITAs

Contracts that meet the definition of a P3 in Statement 94

Licensing arrangements that provide a perpetual license subject to Statement 51

8



8

SBITA - Defined

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**



9



9

SBITA - Defined

Contract

- Legal enforceability
- Substance rather than label

Exchange or Exchange-like

- Give equal value

Period of Time

- Not perpetual

10



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SBITA - Defined

Control of the Right to Use (judgement required)



Obtain present service capacity



Determine the nature and manner of use

11



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CONTROL OF THE RIGHT TO USE

Lease Implementation Guide Q&A



QUESTION 1:

A government enters into an agreement that allows a rancher to use the government's land for grazing. The agreement states that the rancher is required to allow access to the land for compatible public recreation activities. In addition, the agreement states that the government can construct roads and buildings, or otherwise alter the land, without the permission from the rancher. Does the grazing rights agreement meet the definition of a lease?



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CONTROL OF THE RIGHT TO USE

Lease Implementation Guide Q&A



ANSWER 1:

No. The agreement does not convey the right to determine the nature and manner of use of the underlying asset because the rancher cannot prevent others from accessing, using, or altering the land.



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CONTROL OF THE RIGHT TO USE

Lease Implementation Guide Q&A



QUESTION 2:

An electric utility enters into a contract with a nongovernmental telecommunications company that allows the telecommunications company to install an antenna on one of the electric utility's transmission poles. The electric utility will determine the location of the antenna on the pole and retains the right to move the antenna to another location on the pole. Does this contract convey control of the right to use the underlying asset?



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CONTROL OF THE RIGHT TO USE

Lease Implementation Guide Q&A



ANSWER 2:

Yes. In this example, the electric utility conveys the right to use a connection point on the pole....[A] right of substitution does not affect the determination of whether a contract conveys control of the right to use an underlying asset. Even though the electric utility can change the specific connection point, the telecommunications company maintains the same right to obtain the present service capacity from the use of a connection point.



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CONTROL OF THE RIGHT TO USE

Lease Implementation Guide Q&A



QUESTION 3:

A city enters into an agreement that allows an organization to use one floor of a city building at a market rate. The contract states that the space is to be used only for a restaurant. Does the organization have control of the right to determine the nature and manner of use of the space for purposes of meeting the criterion in paragraph 5b of Statement No. 87, Leases?



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CONTROL OF THE RIGHT TO USE

Lease Implementation Guide Q&A



ANSWER 3:

Yes. Paragraph 5b of Statement 87 states that control includes the “right to determine the nature and manner of use of the underlying asset as specified in the contract”. The organization has control of the right to determine the nature and manner of use of the space within parameters of the contract (for a restaurant); therefore, the criterion in paragraph 5b is met.



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IT Software...

...not defined



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Cloud Computing Arrangements

Software as a Service (SaaS)

- Provides a customer with the ability to use a vendor's applications through a cloud infrastructure

Platform as a Service (PaaS)

- Allows a customer to use a vendor's tools or coding language to create applications that will run on the vendor's cloud infrastructure

Infrastructure as a Service (IaaS)

- Allows a customer to remotely access a vendor's network, server, and other fundamental computing tools to process, store, and operate the customer's data

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Cloud Computing Arrangement Examples

SaaS

- Google Apps (i.e. gmail)
- Cisco WebEx
- Microsoft Office 365
- Dropbox
- GoToMeeting
- Concur

PaaS

- Google App Engine
- AWS Elastic Beanstalk
- Adobe Commerce
- Windows Azure
- Force.com
- Stratos OpenShift

IaaS

- Google Compute Engine
- Amazon Web Services
- Cisco Metapod
- Microsoft Azure
- Rackspace
- DigitalOcean

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Polling Question 2



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Subscription Term

- ▶ Start with noncancellable period



- ▶ Plus periods covered by options to:
 - Extend subscription (if reasonably certain of being exercised)
 - Terminate subscription (if reasonably certain of *not* being exercised)
- ▶ Excludes cancellable periods:
 - Periods for which subscriber and vendor both have option to extend or terminate
- ▶ Term begins after implementation stage is completed

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SBITA

Tentative Q&A for Next IGU

**QUESTION:**

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



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SBITA

Tentative Q&A for Next IGU

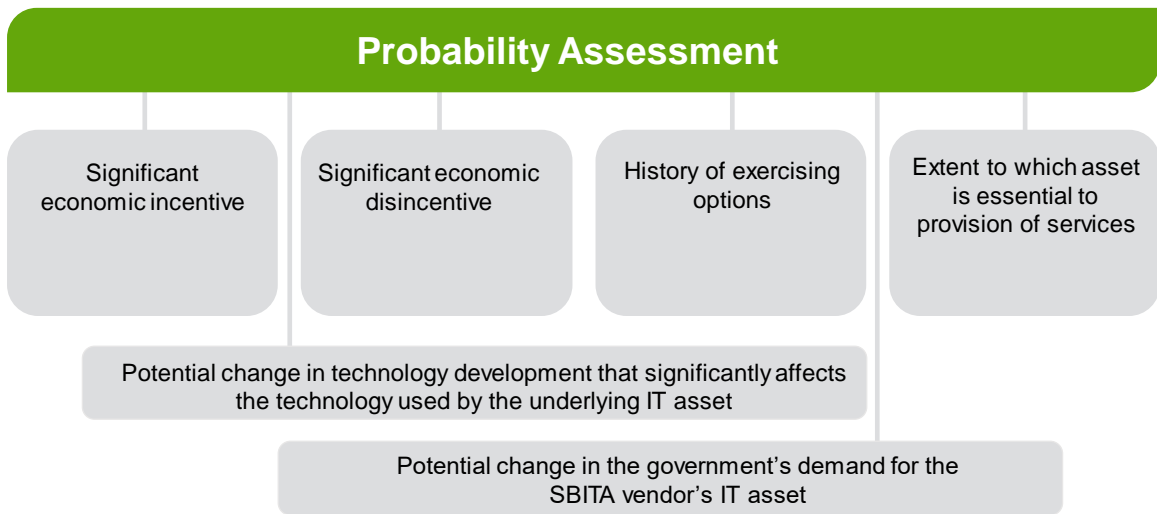
**ANSWER:**

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.



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Subscription term

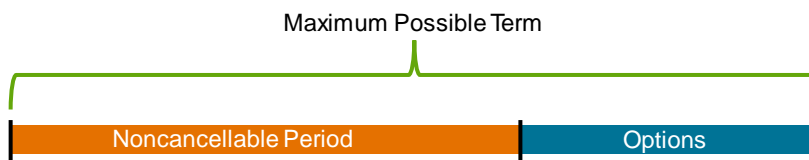


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Short-Term SBITAs

- ▶ Maximum possible term is 12 months or less



- ▶ No probability Assessment – assume all options to extend are exercised and no options to terminate are exercised.

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Short-Term SBITAs



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LEASE

Tentative Q&A for Next IGU



QUESTION:

In what circumstances does a lease modification result in a short-term lease?



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LEASE

Tentative Q&A for Next IGU

**ANSWER :**

There are two circumstances in which a lease modification results in a short-term lease:

- a. If the lease was a short-term lease before the modification and the maximum possible term after the modification to the extend the lease is 12 months or less, then the lease remains a short-term lease.
- b. Regardless of whether the lease was a short-term lease before the modification, if the modification meets the criteria in paragraph 72 of Statement 87 to be accounted for as a separate lease and the maximum possible term of that separate lease is 12 months or less, then the modification would result in a separate short-term lease.



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Short-Term SBITAs Reporting

- ▶ Recognize expenses based on the terms of the contract
- ▶ Do not recognize assets or liabilities associated with the right to use the underlying asset
- ▶ No disclosure

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SBITAs Reporting (not short-term)

Initially:

- ▶ Asset - Intangible SBITA asset (right-to-use underlying IT asset)
- ▶ Liability – Present value of future SBITA payments for the SBITA term

Subsequently:

- ▶ Asset - Amortize over the shorter of useful life of the underlying asset or the SBITA term
- ▶ Liability – reduce by SBITA payments (less amount for interest expense)

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Subscription Liability

Fixed payments

Variable payments that depend on an index or rate

Variable payments that are fixed in substance

Payments for penalties for terminating the SBITA (if the subscription term reflects exercising that option)

Any subscription contract incentives receivable from the SBITA vendor

Any other payments to the SBITA vendor associated with the SBITA contract that are reasonably certain of being required

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Discount Rate

- ▶ Rate vendor charges the subscriber
 - May be rate implicit in the SBITA
- ▶ If not readily determinable, use incremental borrowing rate
- ▶ Not a risk-free rate and not a municipal bond rate



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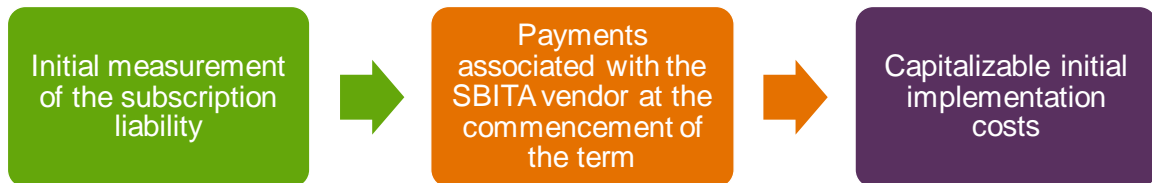
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Polling Question 3



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Subscription Asset



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SBITA Remeasurement

Remeasurement required when:

- ▶ Change in SBITA term
- ▶ Change in estimated amounts for subscription payments already included in the measurement of the liability
- ▶ Change in interest rate charged by the vendor
- ▶ Contingency resolved for variable payments
- ▶ AND only if it is expected to significantly affect the liability measurement)

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SBITA Remeasurement (continued)

If liability is remeasured:

- ▶ Update rate used for variable payments
- ▶ Update discount rate
- ▶ Adjust the SBITA asset by the same amount

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Stages of Implementation

Preliminary Project Stage

- Evaluating alternatives
- Selecting vendor

Initial Implementation Stage

- Time and cost to place the subscription asset into service
- Completed when asset is placed into service

Operation and Additional Implementation Stage

- Maintenance
- Ongoing operations related to SBITA
- Subsequent implementation activities

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Stages of Implementation

| Preliminary Project Stage | Initial Implementation Stage | Operation and Additional Implementation Stage |
|--|---|--|
| <ul style="list-style-type: none"> • Outlays should be expensed as incurred | <ul style="list-style-type: none"> • Outlays capitalized as part of subscription asset • Exception: short-term subscription | <ul style="list-style-type: none"> • Outlays should be expensed as incurred • Exception: capitalize if increases the functionality or efficiency of subscription asset |

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SBITA

Tentative Q&A for Next IGU



QUESTION:

A government enters into a six-year SBITA contract with no options to extend or terminate the contract and begins making semi-annual 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?



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SBITA

Tentative Q&A for Next IGU



ANSWER:

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.



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Other Topics

Contracts with Multiple Components

Contract Combinations

Modifications and Terminations

Disclosures

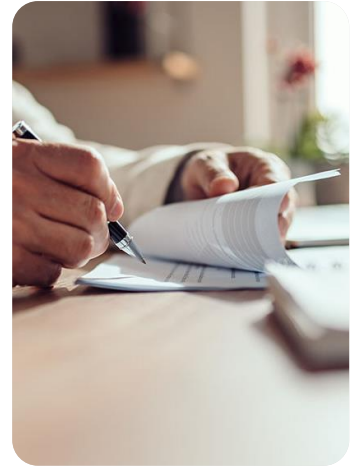


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Contracts with Multiple Components

- ▶ Separate contracts into subscription and nonsubscription components or multiple subscription components
- ▶ Separate multiple underlying assets if differing subscription terms



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Contracts with Multiple Components

Allocation process:

1. Use any component prices in the contract if do not appear unreasonable

2. If no component prices or prices unreasonable, use best estimate of separate prices

3. If not practicable to estimate, account for all components as single SBITA

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Contract Combinations

- ▶ Contracts entered into at or near the same time with the same counterparty 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
- ▶ Combined contract then subject to multiple components guidance
- ▶ Implementation Guide 2019-3
 - Procurement processes (Q4.63)
 - Master vendor agreements (Q4.64)

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Modifications & Terminations

- ▶ Result from **amendments** to SBITA contract, not from exercising options in that contract
- ▶ Amendment is SBITA modification unless subscriber's right to use underlying asset decreases
 - Partial or full termination if subscriber's right to use underlying asset decreases



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Modifications

- ▶ Report as **new SBITA** by subscriber *if*
 - New assets are added and
 - Not unreasonably priced
- ▶ Otherwise, **remeasure** liability or receivable
- ▶ Implementation Guide 2021-1
 - Remeasurement under modification or termination means reperforming initial measurement, including discount rate
 - Q4.20 and 4.21



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Polling Question 4



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Disclosures

- ▶ Information may be grouped for disclosure purposes (no need to provide detailed disclosures for each individual contract)
- ▶ General description of SBITAS, including the basis, terms, and conditions on which variable payments are determined
- ▶ Total amount of subscription assets, and the related accumulated amortization, disclosed separately from other capital assets
- ▶ The amount of outflows recognized in the reporting period
- ▶ Principal and interest requirements to maturity, presented separately, for each of the five subsequent fiscal years and in five-year increments thereafter

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Disclosures (continued)

- ▶ Commitments under SBITAs before the commencement of the subscription term
- ▶ Components of any loss associated with an impairment



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Questions

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