

### **GASB 96 Background**

GASB 96 was implemented in FY23 and changes the method of recording Subscription Based Information Technology Arrangements (SBITA). The concept of GASB 96 is similar to GASB 87. Common examples of SBITAs include the following items:

- SaaS (Software as a Service): provides customer the ability to use a SBITA vendor's software through the cloud.
- PaaS (Platform as a Service): allows customer to use a SBITA vendor's tools or coding language (software) to create applications that run on SBITA vendor's cloud infrastructure.
- IaaS (Infrastructure as a Service): allows customer to remotely access SBITA vendor's network, server and other computing tools to process, store and operate the customer's data.
- DWaaS (Data Warehouse as a Service): a service provider sets up, maintains, secures and upgrades a data warehouse. Example: AWS

\*It does not include subscriptions for online publications, such as newspapers, magazines and professional journals if the arrangement only provides access to view an online publication database.

Prior to GASB 96 these arrangements were expensed as invoices became due. With the new standard, an intangible asset along with a related liability is recorded to the balance sheet. The liability is reduced when payments are made and the intangible asset is amortized over the life of the arrangement. The types of transactions to consider when evaluating arrangements include long-term SBITAs, short-term SBITAs, non-SBITA subscriptions, and arrangements to electronic resources (non-SBITA).

### **GASB 96 Determination**

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (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.

The following questions should help guide you on what type of arrangement exists and the related accounting treatment.

- 1) Does the arrangement involve a tangible asset, such as land, building, or equipment?
  - a. Yes – Stop. If no software components, this is not related to GASB 96. Consider if the asset is related to GASB 87. If software component involved, move to question #2.
  - b. No – Move to question #2
- 2) Does the arrangement involve a vendor's information technology software?
  - a. Yes – Move to question #3
  - b. No – Stop. Expense invoices as they become due. Examples would include IT support services provided by a vendor, subscriptions to online databases, access to journals/periodicals, or membership fees to an organization.

- 3) Does the arrangement grant NDSU the right to use the vendor's software?
  - a. Yes – Move to question #4
  - b. No – Stop. Expense invoices as they become due. NDSU does not have the ability to obtain the present service capacity of the IT asset nor the ability to determine the manner of use of the IT asset. Therefore, it does not meet the definition of a SBITA.
- 4) Is the length of the arrangement greater than 12 months? The length includes all noncancellable periods, plus any options to extend if reasonably certain the option will be exercised.
  - a. Yes – Move to question #5
  - b. No – This is a short-term SBITA. Code invoices to 532130 as they become due.
- 5) Does the arrangement include a fixed payment schedule?
  - a. Yes – Move to question # 6 even if the arrangement contain some variable payments.
  - b. No – Code variable payments to 531020 – Variable SBITA payments
- 6) Do the total fixed payments expected to be made equal more than \$200,000 including implementation costs?
  - a. Yes – This is a long-term SBITA that will be capitalized. Code the fixed portion of invoices to 682120, implementation costs to 681026, and variable portions (if any) to 531020.
  - b. No – This is an immaterial SBITA. Expense invoices as they become due to 532130.

#### **GASB 96 Department Procedures**

- 1) Use the questions in the GASB 96 Determination section above to determine if GASB 96 applies.
  - a. Reach out to the Accounting Office if unsure how to answer any questions.
- 2) If GASB 96 applies, notify the Accounting Office of any new arrangements that should be tracked within the Lease Administration module.
  - a. Supply the Accounting Office with a copy of a signed agreement and most recent invoice (if available).
- 3) When a payment becomes due, the Accounting Service Center or department, as applicable, can enter in the AP voucher into PeopleSoft. Attach both the invoice and related agreements to the voucher in PeopleSoft.
  - a. Code any implementation costs to 681026.
  - b. Code the fixed payment amounts related to software to 682120.
  - c. Code the variable payment amounts related to software to 531020.
- 4) If a contract contains both software and a tangible capital asset related to GASB 87, the software can be combined with the tangible asset if the software component is insignificant when compared to the tangible asset cost.
  - a. If insignificant, apply GASB 87 accounting treatment.
- 5) Notify the Accounting Office about any changes in existing arrangements as soon as they are known, such as changes to terms or exercising options to extend.

### **GASB 96 GL Account Reference**

The below GL accounts are used for GASB 96 with explanation of each. For additional information, the GL accounts that should be used when GASB 96 does not apply are also listed.

#### AP Vouchers - SBITAs

##### 682120 – Software Subscription Cap

Used for fixed portion of SBITA payment if total fixed payments expected to be made are greater than \$200k.

##### 531020 – Variable SBITA payments

Used for variable long-term SBITA payments made. Example of a variable payment would be users that are added to an existing arrangement that create additional cost to the base user pricing.

##### 681026 – SBITA DIP Additions

Used to capture costs of implementing a subscription asset into service. This excludes training costs, the cost of evaluating options/needs, and subsequent maintenance. Once the asset has been placed into service and the term of the subscription has started, the costs will be capitalized in lease admin. This account does not need to be used if total expected payments will be \$200k or less during the term or if the term is 12 months or less.

##### 693035 – Intangibles-Capitalized Software

Used for perpetual software licenses payments exceeding \$5k, or for a subscription payment that is made which covers more than a 12-month period and exceeds \$200k. For example, a one-time \$360,000 payment was made to a supplier to use the supplier's software for 3 years. If 3 annual payments of \$120,000 were to be made instead, you would use account 682120.

#### AP Vouchers – Non SBITAs

Use the following accounts for items that will not be capitalized, including service maintenance agreements. Use the prepaid expense account 142002 to allocate expenses to appropriate fiscal year.

##### 531015 – Software/Licenses/Maint Non Cap

##### 532085 – Periodicals

##### 532120 – Research Supplies/Materials

##### 532121 – Electronic Resources Non-SBITA

##### 532130 – Subscriptions Non-SBITA

##### 611010 – Dues & Memberships

##### 621320 – Online Database Services

Lease Administration Module – SBITAs (Accounting Use Only)

The following GLs are used by the Lease Administration module when SBITAs are capitalized as intangible assets. Assets are added by the Accounting Office into the module which then generate journal entries based on that information entered. Details of each account is provided below in order to show the full picture of how GASB 96 assets are recorded. Lease admin is only used for ROU leases (GASB 87) and SBITAs (GASB 96). These entries are posted to the Fullaccrue ledger as opposed to the Actuals ledger where the AP vouchers are posted.

The module records the SBITA at the present value of all scheduled payments. Future payments consist of any *fixed* determinable payments and do not include *variable* payments that may not exist from one payment to another. SBITAs are considered intangible assets and thus are recorded using the intangible assets account setup specifically for SBITAs.

151178 – Intangible Assets – SBITA

The following accounts are used to record the liability remaining on any SBITA. The initial liability is equal to the intangible asset value recorded to 151178 (above). System generated journal entries are then created to reduce this liability balance based on the payment schedule entered into the lease admin module. Manual journal entries will be needed each year-end to reclass the balance from Noncurrent to Current.

232004 – Subscription Liability - Current

232104 – Subscription Liability – Noncurrent

When the system generated journal entries mentioned above are created to reduce the liability balance (with a debit), the other lines of that journal entry include a debit to SBITA interest and a credit to SBITA principal. The total credit to SBITA principal should be equal to the fixed payment amount recorded on the related AP voucher in the Actuals ledger. On the financial statements accounts 581070 and 682120 should net together to \$0.00 when combining the fullaccrue and actuals ledger.

581070 – SBITA Principal

581075 – SBITA Interest

At the end of each fiscal year depreciation/amortization is ran for all assets. Any assets that are classified as ROU leases will be amortized and recorded to the two amortization accounts below.

152178 – SBITA Accumulated Amortization

702010 – Intangible Amortization Expense

Asset Management – Capitalized Software (Accounting Use Only)

The following GLs are used by the Asset Management (AM) module. Software that is entered into AM include perpetual software license agreements exceeding \$5k, or one-time subscription payments that cover more than 12 months. Assets are added into AM by the Accounting Office. The module generates journal entries based on the information entered into the module. Detail of each account are provided below in order to show the full picture on how capitalized software assets are recorded. These entries are posted to the Fullaccrue ledger as opposed to the Actuals ledger where AP vouchers are posted.

Asset management will record the capitalized software at the purchase price. The asset will be recorded to one of the following GL accounts depending on if it is a perpetual license or a subscription payment.

151178 – SBITA Intangible

151177 – Intangible Assets

When the system generates the journal entries to record the asset at its purchase price, the offset (credit) side of this entry is to the capital asset additions account.

681025 – Intangible Asset Additions

When capitalized software is amortized it will use the following GLs to post the amortization expense and accumulated amortization. Accumulated amortization will depend on the asset type. If it is a perpetual license, it will use the 152177. If it is a one-time subscription payment for more than 12 months, it will use 152178.

152177 – Accumulated Amortization

152178 – SBITA Accumulated Amortization

702010 – Amortization Expense

## Examples

### Example 1 - Comprehensive 3-year SBITA

A department spent \$1,000 evaluating the best software solution. After determining the best option, the department enters into a noncancellable agreement with a supplier to use their software over the next 3 years. The initial implementation of the software contains a \$50,000 fee in addition to \$1,000 in training costs. Annual payments include \$120,000 that give the department the right to use the supplier's software and annual support and maintenance fees of \$5,000. The agreement provides the department access to 100 users to use the software. If additional users are needed, they are charged \$1,200 per 10 user increments.

The initial \$1,000 the department spent on evaluating the best software solution should be expensed and not capitalized as well as the \$1,000 in training costs. The annual support and maintenance should also be expensed to 531015. The annual subscription and implementation fees should be used to determine if the GASB 96 materiality threshold of \$200,000 has been met. In this example, the total fixed and determinable payments totaled to \$410,000 ( $\$120,000 \times 3 + \$50,000$ ). Because the total amount is \$200,000 or more and the agreement is greater than 12 months, the agreement is considered a SBITA and should be capitalized. The implementation costs should be coded to 681026 and the fixed and determinable payments should be coded to GL account 682120. If the department needs to add additional users, those additional costs will be considered variable costs and should be coded to 531020.

### Example 2 - 3-year SBITA with One-time Payment

Same as example 1 above, but the full \$410,000 in annual payments is due at the start of the term. Because the entire amount is paid upfront, there is no liability that remains related to a fixed and determinable payments. The software is still capitalized, but instead of using Lease Administration to calculate and capitalize the cost, the intangible asset is capitalized directly into Asset Management.

The only difference from the above example is that the department will code the \$410,000 to account 693035 instead of 682120 & 681026.

### Example 3 - Immaterial 3-year SBITA

Same as example 1 above, but there is no implementation fee and the annual subscription is only \$50,000/year for a total of \$150,000. Because total fixed or determinable payments is under \$200,000, the materiality threshold is not met. Therefore, this software subscription will not be capitalized and 532130 should be used for the annual subscription payments and any additional user charges. The prepaid expense account 142002 should be used to pro-rate expenses to the correct fiscal year.

#### Example 4 – Cancellable Periods

Same as example 1 above, but years 2 and 3 of the agreement can be canceled by either party after this first 12 months. Because the 2<sup>nd</sup> and 3<sup>rd</sup> years of the agreement can be canceled, they are not included in evaluating the agreement term length. Therefore, the length of the agreement is only 12 months, and considered a short-term SBITA. Payments for the implementation fee and annual subscription should be coded to 532130 and not capitalized.

#### Example 5 – Options to Extend

Same as example 1 above, but the initial agreement is only for 12 months, and contains the option to extend the agreement for an additional 24 months at a predetermined rate. If it is reasonably certain the department will exercise the option to extend, the agreement will be considered a long-term SBITA and be capitalized if the materiality threshold is also met. Because the asset will be capitalized, the same coding should be used as example 1.