

# FISCAL POLICIES MANUAL

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## Subscription-Based Information Technology Arrangements

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### Preface

State agencies may enter into subscription-based information technology arrangements (SBITAs) to access vendor's IT software without granting governments perpetual license or title to the software. Accounting for such arrangements requires adherence to materiality thresholds, establishing capitalization criteria for implementation costs, splitting out principal and interest payments, and the periodic recording of depreciation, if applicable.

Prior to the issuance of Governmental Accounting Standards Board (GASB) Statement 96, there was no accounting or financial reporting guidance specifically for SBITAs. Under this Statement, a government is required to recognize a subscription liability and an intangible right-to-use asset (subscription asset) at the commencement of the subscription term.

### Definitions

Future Subscription Payments - The payments the government is obligated to make to the SBITA vendor.

Initial Implementation Stage – Activities in this stage include any ancillary charges related to designing the chosen path, such as configuration, coding, testing, and installation associated with the government's access to the underlying IT assets. Other ancillary charges necessary to place the subscription asset into service also should be included in this stage. The initial implementation stage is completed when the subscription asset is placed into service.

Operation and Additional Implementation Stage – Activities in this stage include maintenance, troubleshooting, and other activities associated with the government's ongoing access to the underlying IT assets.

Preliminary Project Stage – Activities in this stage include the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the SBITA.

Present Value – Current worth of future sums of money.

SBITA – GASB Statement 96 defines a SBITA as 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 assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

Short-Term SBITA – 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.

Subscription Term – The period during which a government has a noncancelable right to use the underlying IT assets (known as the noncancelable period), plus the following periods, if applicable:

1. Periods covered by a government's option to extend the SBITA if it is reasonably certain, based on all relevant factors, that the government will exercise that option.
2. Periods covered by a government's option to terminate the SBITA if it is reasonably certain, based on all relevant factors, that the government will not exercise that option.
3. Periods covered by a SBITA vendor's option to extend the SBITA if it is reasonably certain, based on all relevant factors, that the vendor will exercise that option.
4. Periods covered by a SBITA vendor's option to terminate the SBITA if it is reasonably certain, based on all relevant factors, that the vendor will not exercise that option.

## Policy

### SBITA Accounting

All contracts that meet the following criteria shall be reported as a SBITA. The asset and corresponding liability will be reflected in the financial statements of the State.

1. A contract that conveys control of the right to obtain the present service capacity from use of the underlying IT assets as specified in the contract, and the right to determine the nature and manner of use of the underlying IT assets as specified in the contract
2. For a period of time (one year or greater)
3. In an exchange or exchange-like transaction
4. Have a present value of \$100,000 or more over the term, including any options to renew.

Agencies that have contracts with Office of Information Technology Services (ITS), such as Office 365, will not need to report these. ITS will be responsible for reporting these as they hold the contract with the actual SBITA vendor. Short-term SBITA subscription payments should be recognized as outflows of resources (expensed) based on the provisions of the SBITA contract.

### Accounting for outlays incurred:

- Preliminary project stage: outlays associated with this stage should be expensed

- Initial implementation stage: outlays associated with this stage generally should be capitalized as part of the subscription asset (if contract is a short-term SBITA and no asset is recognized outlays should be expensed).
- Operation and additional implementation stage: outlays associated with operational activities should be expensed. Outlays associated with additional implementation activities that increase functionality and efficiency of the asset should be added to the asset.
- All training costs should be expensed regardless of the stage they are incurred.

## Administrative Procedures

GASB Statement 96 requires the following reporting of SBITAs greater than 12 months (including all possible options to extend):

### Subscription Liability

The subscription liability should initially be measured at the present value of subscription payments expected to be made during the subscription term. Measurement of the liability should include the following, if required by a SBITA:

- Fixed payments
- Variable payments that are fixed in substance
- Variable payments based on an index or rate (such as CPI)
- Payments for penalties for terminating the SBITA, if the subscription term reflects the government exercising (1) an option to terminate the SBITA or (2) a fiscal funding or cancellation clause
- Any subscription contract incentives as discussed in GASBS 96 paragraphs 42 & 43) receivable from the SBITA vendor
- Any other payments to the SBITA vendor associated with the SBITA contract that are reasonably certain of being required based on an assessment of all relevant factors.

The principal portion of the payment will reduce the subscription liability and the interest portion will be recorded as an expense to the STARS subobject 5962/Luma account 676000 interest expense. Agencies will need to use capital outlay for SBITAs that are greater than a year and over the \$100,000 threshold. SBITAs greater than one year and \$100,000 that meet the requirements of GASB 96 should use the STARS subobject 6970/Luma account 786600 - subscription lease account.

### Identifying Interest Rate:

We will use the interest rate identified in each SBITA agreement. If an interest rate is not explicitly stated in the contract, we will:

1. Calculate the implicit interest rate of the fair market value of the subscription asset if reasonably obtainable or
2. Use the US Treasury yield rate plus 1% spread as the incremental borrowing rate. Use the rate in effect when the SBITA was entered into. A good resource for historical yield rates is the Treasury.gov website. The STO, Department of Finance, and SCO agreed this would be a good estimate to use the US Treasury yield rate because it most closely matches Idaho's borrowing rate based on its credit rating.

Accounts for short-term SBITAs (12 months or less including all options to extend regardless of intent), and SBITAs less than \$100,000 that do not meet GASB 96 requirements include:

- STARS subobject 5906-Computer Software-Rent/Luma Account 665500-Short-term SBITAs and SBITAs less than \$100,000

Subscription Asset:

The subscription asset should initially be measured as the sum of the following, less any SBITA vendor incentives received from the vendor at the commencement of the subscription term:

- The amount of the initial measurement of the subscription liability
- Payments associated with the SBITA contract made to the vendor at the commencement of the subscription term, if applicable
- Capitalizable initial implementation costs

The asset should be amortized in a systematic and rational manner over the shorter of the subscription term or the useful life of the underlying IT assets, and should be reported as an outflow of resources (i.e., amortization expense).

All records shall be retained for audit purposes.

Agencies shall disclose SBITA activities and provide all required information when completing the annual SBITA Closing Package for the State Controller's Office.