MOM-SAFRS-POL-SAB 338- Accounting for Subscription-Based Information Technology Arrangements (SBITA) Software (338)

Note: This document is a preliminary draft and may be subject to change.

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I. Purpose

This policy provides guidance related to the financial transactions and reporting of subscription-based information technology arrangements (SBITAs) assets and liabilities, using the SABHRS Lease Administration (LA) module under the provisions of GASB Statement No. 96 (GASB 96) as amended by GASB Statement No. 99 (GASB 99).

II. Scope

This policy applies to all state agencies and component units, excluding community colleges. GASB 96 is effective for fiscal years beginning after June 15, 2022. State agencies are required to use the LA module to record SBITAs.

Note: All potential SBITA agreements should be evaluated and recorded based only on the terms effective on the first day of the fiscal year of GASB 96 implementation onward. For example, for the fiscal year ending 6/30/2023, agreements that existed before 7/1/2022 should be treated as if they commenced on 7/1/2022.

III. SBITA Criteria

A SBITA is 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. SBITAs include contracts that, although not explicitly identified as SBITAs, meet the definition of a SBITA. This definition excludes contracts for services except for those contracts that contain both a subscription component and a service component. A decision tree is available in Appendix A to aid in evaluating a contract for the presence of a SBITA.

If a SBITA is identified, a subscription liability and a subscription asset are recognized at the commencement of the subscription term of the SBITA, which occurs when control of the right to use the underlying IT asset is obtained. GASB 96 requires the State to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and additional essential information that will be documented through the LA module or requested by SAB at year-end.

~~This policy does not apply to: (Awaiting GASB inquiry response)~~

- ~~Agreements between State Agencies that are not defined as Component Units of the State and listed in MOM-SFSD-POL-SAB 371 -Annual Comprehensive Financial Report, Section VI(B)(2). (For subscriptions between State Agencies that are not defined as Component Units, account for the subscription payments as directed in MOM-SFSD-POL-SAB 345 -Interfund Activities, Section XI) For instance, contracts in which an agency pays SITSD for software offered by an outside vendor fall under this exception. SITSD will report the agreements between the State and vendors, if appropriate.,,~~[KC1]other[KC2][KC3]
- ~~Contracts that convey control of the right to use another party's combination of Information Technology (IT) software and tangible capital assets that meets meet the definition of a lease, as defined in MOM-SFSD-POL-SAB 336-Accounting for Leases as a Government (MOM Policy 336)~~[KC4]~~, 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)~~

- ~~Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs~~
- ~~Contracts that meet the definition of a public-private and public-public partnership as defined in MOM-SFSD-POL-SAB 350 - Service Concession Arrangements~~[KC5]
- ~~Licensing arrangements that provide a perpetual license or a transfer of ownership, which should be accounted for in accordance with should be accounted for per the guidance found in MOM-SFSD-POL-SAB 335 - Capital Assets. Indicators of a perpetual license arrangement may include contract provisions that require source code to be held in escrow in case of dissolution of the vendor entity.~~

Contracts that are 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:

1. The contracts are negotiated as a package with a single objective
2. The amount of consideration to be paid in one contract depends on the price or performance of the other contract.

If a SBITA contract contains multiple components, each component should be accounted for as a separate SBITA or nonsubscription component and allocate the contract price to the different components. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, <u>including requesting the information from the SBITA vendor</u>, the components should be accounted for as a single SBITA unless they are combined as described in Section VIII (Allocation of Payments for Contracts with Multiple Components).

If a SBITA involves multiple underlying IT asset components and the IT asset components have different subscription terms, each underlying IT asset component should be accounted for as a separate subscription component.

A cloud computing arrangement may or may not meet the definition of a SBITA. Cloud computing arrangements have three common deployment models: Software as a Service, Platform as a Service, and Infrastructure as a Service. All three deployment models provide the customer with the right to use a combination of another party’s IT software and tangible capital assets. The definition of a SBITA requires, in part, that a contract convey control of the right to use another party’s IT software, alone or in combination with tangible capital assets (the underlying IT assets). Therefore, for cloud computing arrangements evaluation of whether the contract conveys control of the right to use the underlying IT assets is required.

To determine whether a contract conveys control of the right to use the underlying asset, it must have both of the following:

1. The right to obtain the present service capacity from the use of the underlying IT asset as specified in the contract
2. The right to determine the nature and manner of use of the underlying IT asset as specified in the contract

Exchange and Exchange-Like Transactions

A “pure” exchange transaction occurs when each party receives and gives up essentially equal values. The difference between exchange and exchange-like transactions is a matter of degree. In contrast to a "pure" exchange transaction, an exchange-like transaction is one in which the values exchanged, though related, may not be entirely equal or in which the direct benefits may not be exclusively for the parties to the transaction. Nevertheless, the exchange characteristics of the transaction are strong enough to justify treating the transaction as an exchange for accounting recognition.

This policy does not apply to:

- Agreements between State Agencies not defined as Component Units of the State and listed in MOM-SFSD-POL-SAB 371 -Annual Comprehensive Financial Report, Section VI(B)(2).
  - For subscriptions between State Agencies not defined as Component Units, account for the subscription payments as directed in MOM-SFSD-POL-SAB 345 -Interfund Activities, Section XI. For example, contracts in which an agency pays SITSD for software offered by an outside vendor fall under this exception. SITSD will report the agreements between the State and vendors, if appropriate.
- Contracts that convey control of the right to use another party’s combination of Information Technology (IT) software and tangible capital assets that meet the definition of a lease, as defined in MOM-SFSD-POL-SAB 336- Accounting for Leases as a Lessee (MOM Policy 336)[KC6], 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)
- Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs
- Contracts that meet the definition of a public-private and public-public partnership as defined in MOM-SFSD-POL-SAB 350 - Public-Private and Public-Public Partnerships and Availability Payment Arrangements
- Licensing arrangements that provide a perpetual license or a transfer of ownership should be accounted for per the guidance found in MOM-SFSD-POL-SAB 335 - Capital Assets. Indicators of a perpetual license arrangement may include contract provisions that require source code to be held in escrow in case of dissolution of the vendor entity.

Agreements Involving Component Units

Component units are listed in MOM-SFSD-POL-SAB 371 -Annual Comprehensive Financial Report, Section VI(B)(2))

For agreements between the primary government and component units or between two component units when one entity is acting as a vendor (intra-entity vendor) and the other entity is acting as a subscriber (intra-entity subscriber), the intra-entity subscriber is only required to apply SBITA accounting, as detailed in this policy, when the underlying IT asset is software that was internally developed and is owned by the intra-entity vendor. An intra-entity subscriber should not apply SBITA accounting if the underlying IT asset is software licensed by the intra-entity vendor, regardless of modifications applied to the software (for example, SABHRS is licensed perpetually but is not owned by the State). In such cases, both entities should apply the guidance found in MOM-SFSD-POL-SAB 345 - Interfund Activities, Section XI. The intra-entity vendor should be able to provide information related to software ownership.

The intra-entity vendor should separately evaluate its agreements with software vendors and apply this policy or MOM-SFSD-POL-SAB 335 - Capital Assets, as appropriate. The intra-entity vendor should not record any receivables, outside of what may be directed by other policies, for agreements for which the intra-entity subscriber is required to apply SBITA accounting.

IV. Short-Term SBITAs

A short-term SBITA is 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. Periods for which both the subscriber and the SBITA vendor have an option to terminate the SBITA without permission from the other party (or if both parties must agree to extend) are cancellable periods and should be excluded from the maximum possible term. For a SBITA that is cancelable by either the subscriber or the SBITA vendor, such as a rolling month-to-month SBITA or a year-to-year SBITA, the maximum possible term is the noncancelable period, including any notice periods.

An option to terminate is an unconditional right that exists within the SBITA contract. A provision that gives a party to the SBITA the right to terminate the SBITA contract only in certain circumstances or upon the occurrence of certain events, such as the action or inaction of the other party to the SBITA contract, should not be considered an option to terminate the SBITA for purposes of determining the SBITA term. For example, provisions that allow for the termination of a SBITA due to a violation of SBITA terms and conditions, such as a default on payments, are not considered options to terminate the SBITA.

A subscriber should recognize short-term subscription payments as operating expenses. The subscriber should recognize a prepaid expense if subscription payments are made in advance or a liability if payments are to be made subsequent to the reporting period. The subscriber should not recognize an outflow of resources during any rent holiday period (for example, one or more months free).

Note: It is possible for a SBITA to exist with a term of less than 12 months and not be identified as a short-term SBITA because identification of a short-term SBITA is based on the maximum possible term of the contract without consideration of the "reasonably certain" factors discussed in Section VI (Subscription term).

Modification of a Short-Term SBITA

A SBITA that previously had been determined to be short-term and has been modified to extend the initial maximum possible term under the SBITA contract should be reassessed from the inception of the SBITA. If the reassessed maximum possible term is greater than 12 months, the SBITA should no longer be considered a short-term SBITA for purposes of this section. For a modified SBITA that is reclassified from a short-term SBITA, the SBITA term should be assessed beginning at the date of the modification for purposes of measuring the subscription liability.

V. SBITA Threshold

Considering the SBITA threshold, every possible payment to the SBITA vendor specified in the agreement (excluding amounts specifically identified for nonsubscription components) should be totaled regardless of the probability of the payments being made. Variable payments should be calculated as follows:

1. Variable payments that depend on an index rate should be calculated using the index rate in effect at the commencement of the SBITA.
2. All other variable payments should be calculated based on the portion of the payments that are fixed in substance and are not based on future performance.

In addition, payments not paid to the SBITA vendor which are identified as ancillary charges necessary to place the subscription asset into service, should be added to the total. SBITA vendor's incentives, (hereafter referred to as incentive(s)), that are certain to occur, may be subtracted from this calculation. The guidance in Section VIII (Allocation of Payments for Contracts with Multiple Components) should be applied for contracts with multiple components. This means that the payments for provisions within the contract that would be identified as separate SBITAs should be considered independently. If the calculation is less than the amount below, SBITA accounting is not to be used unless it is determined necessary for a fair presentation of separately issued financial statements. If SBITA accounting is not required, the payments to the SBITA vendor should be treated as operating expenses as they occur. If a contract otherwise meets the definition of a SBITA, variable payments should be recorded to account 62560.

SBITA Threshold	

If a modification to the terms occurs in the same fiscal year the original agreement was signed, which does not qualify as a new SBITA as described in Section VIII (Allocation of Payments for Contracts with Multiple Components), the threshold analysis should be reperformed using the process described above with all payments (as modified). If a modification occurs subsequent to the fiscal year the original contract was signed and did not qualify as a new SBITA as described in Section VIII (Allocation of Payments for Contracts with Multiple Components), the threshold analysis should be considered based only on payments to be made subsequent to the modification date.

This threshold should be evaluated and reduced for standalone financial statements if necessary for fair presentation of the[KC7][RS8] financial statements.

VI. Subscription Term

The subscription term commences when the subscription asset is placed in service. The subscription term is the period during which there is a noncancelable right to use an underlying asset (referred to as the noncancelable period), plus the following periods, if applicable:

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

An option to terminate is an unconditional right that exists within the SBITA contract. A provision that gives a party to the SBITA the right to terminate the SBITA contract only in certain circumstances or upon the occurrence of certain events, such as the action or inaction of the other party to the SBITA contract, should not be considered an option to terminate the SBITA for purposes of determining the SBITA term. For example, provisions that allow for the termination of a SBITA due to a violation of SBITA terms and conditions, such as a default on payments, are not considered options to terminate the SBITA.

Periods for which both the subscriber and the SBITA vendor have an option to terminate the SBITA without permission from the other party (or if both parties have to agree to extend) are cancellable periods and are excluded from the subscription term. For example, a rolling month-to-month SBITA~~,~~ or a SBITA that continues into a holdover period until a new SBITA contract is entered into~~,~~ would not be enforceable if both the subscriber and the SBITA vendor have an option to terminate and, therefore, either could cancel the SBITA at any time.

At the commencement of the subscription term, an assessment should be performed of all factors relevant to the likelihood that either party will exercise options that may affect the subscription term, whether these factors are contract-based, underlying IT asset-based, market-based, or subscriber-specific. The assessment often will require considering a combination of these interrelated factors. Examples of factors to consider include, but are not limited to, the following:

1. A significant economic incentive, such as contractual terms and conditions for the optional periods that are favorable compared with current market rates
2. A potential change in technological development that significantly affects the technology used by the underlying IT assets.
3. A potential significant change in the subscriber’s demand for the SBITA vendor’s IT assets
4. A significant economic disincentive, such as costs to terminate the SBITA and sign a new SBITA (for example, negotiation costs, costs of identifying another suitable underlying IT asset or another suitable SBITA vendor, implementation costs, or a substantial cancellation penalty)
5. The history of exercising options to extend or terminate
6. The extent to which the underlying IT assets in the SBITA are essential to the provision of government services.
7. A fiscal funding or cancellation clause allows a subscriber to cancel a

SBITA, typically on an annual basis, if the government does not appropriate funds for the subscription payments. That type of clause should affect the subscription term only if it is reasonably certain that the clause will be exercised.

The subscription term should be reassessed annually; see Section IX (SBITA Remeasurement).

VII. SBITA Payments

At the commencement of the subscription term, the subscriber should recognize a subscription liability and an intangible right-to-use subscription asset (a capital asset hereinafter referred to as the subscription asset), except short-term SBITAs and contracts that transfer ownership or perpetual license agreements. The present values of the subscription liabilities and subscription assets will be calculated by entering the payments into the Lease Administration Module (LA) under Asset Management (AM) in SABHRS using the "Add Base Rent" option for subscription payments as described in the LA Manual. A subscriber should initially measure the subscription liability at the present value of payments expected to be made to the SBITA vendor during the subscription term.

A. Discount Rate

The future subscription payments should be discounted using the interest rate the SBITA vendor charges the subscriber, which may be the interest rate implicit in the agreement. The subscriber's estimated incremental borrowing rate should be used if the interest rate is not stated in the contract. For SBITA purposes, the State of Montana's incremental borrowing rates is the rate for the Montana Board of Investments INTERCAP loan program that is in effect on July 1 of the fiscal year the SBITA commences. The INTERCAP rate will be updated in SABHRS annually as the default rate for a SBITA identified as the "Borrowing Rate Percent." Another rate may be used by adding it as the "Interest Rate Percent."

B. Project Stages

Activities associated with a SBITA, other than a subscriber making subscription payments to the SBITA vendor for the right to use the underlying IT assets, should be grouped into one of three stages, and their costs should be accounted for accordingly, detailed in the table below. In classifying outlays into the appropriate stage, the nature of the activity should be the determining factor. Training costs should be expensed as incurred, regardless of the stage in which they are incurred.

STAGES	ACTIVITIES	ACCOUNTING

Preliminary Project Stage	• Conceptual formulation • Evaluation of alternatives • Determination of needed technology • Selection of vendor	Expense as incurred
The stage is complete when the above expenses are complete~~,~~ and/or management implicitly or explicitly authorizes and commits to funding the contract (at least for the current fiscal year)		
Initial Implementation Stage	• Configuration • Coding • Testing • Installation • Data conversion only if the asset cannot be used without the data conversion • All other ancillary charges necessary to place the asset into service	Pre-Commencement Capitalizable Costs
The stage is complete when the asset is placed into service		
Operations and Additional Implementation Stage	• Maintenance • Troubleshooting • Data conversion (Not necessary to place the subscription asset into service)	Expense as incurred
	• Additional implementation activities, such as adding on modules • Increased functionality of the asset that provides the ability to perform additional tasks • Increased efficiency of the asset or level of service provided by the asset	Add as an amendment to SBITA in the LA module or add a new SBITA (see Section X. Modifications and Terminations)

The subscriber's employees may perform some of the activities that are in the initial implementation stage or the additional implementation stage. These expenses should be added to the capitalizable costs of the SBITA vendor. (See journal entry examples in section G. below)

If a SBITA has more than one module and the modules are implemented at different times, the initial implementation stage for the SBITA is completed, and, therefore, the subscription asset is placed into service when initial implementation is completed for the first independently functional module or the first set of interdependent modules, regardless of whether all remaining modules have been completely implemented.

Additional outlays that are not a result of SBITA modifications~~,~~ (see Section X. Modifications and Terminations)~~,~~ but that result in either of the following should be capitalized as an addition to an existing subscription asset by adding as an amendment in the LA module when the addition placed into service:

1. An increase in the functionality of the subscription asset; that is, the subscription asset allows the subscriber to perform tasks that it could not previously perform with the subscription asset
2. An increase in the efficiency of the subscription asset; that is, an increase in the level of service provided by the subscription asset without the ability to perform additional tasks.

C. Subscription Liability

A subscriber initially should measure the subscription liability at the present value of subscription payments expected to be made during the subscription term. Measurement of the subscription liability should be entered in the LA module using the "Add Base Rent" payment type in the LA module and should include the following~~,~~ if required by a SBITA:

1. Fixed payments
2. Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), measured using the index or rate as of the commencement of the subscription term
3. Variable payments that are fixed in substance, as discussed below
4. Payments for penalties for terminating the SBITA, if the subscription term reflects the subscriber exercising (1) an option to terminate the SBITA or (2) a fiscal funding or cancellation clause
5. Any subscription contract incentives receivable from the SBITA vendor
6. 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.

Variable payments other than those that depend on an index or a rate, such as variable payments based on the future performance of a subscriber, usage of the underlying IT assets, or the number of user seats, should not be included in the measurement of the subscription liability. Instead, those variable payments should be recognized as outflows of resources (for example, expense) in the period in which the obligation for those payments is incurred. However, any component of those variable payments that is[RS9] fixed in substance should be included in the measurement of the subscription liability. **Note:** variable payments not included in the subscription liability should be recorded to account 62560.

Estimates may be used for payments that meet the above requirements but for which a price will be identified at a future date (for example, extensions that are reasonably certain to occur). Variable payments based on the future performance of the subscriber or usage of the underlying asset (for example, percentage of sales) should not be included in the measurement of the subscription liability. Instead, variable payments should be recorded as an operating expense in the period in which the obligation for those payments is incurred. However, any component of those variable payments that is[RS10] fixed in substance should be included in the measurement of the subscription liability. For example, if a variable payment is based on an index rate, it is considered fixed in substance and is estimated using the index rate that is in effect at the commencement of the subscription.

Incentives

Incentives are:

1. Payments made to, or on behalf of, the subscriber, for which the subscriber has a right of offset with its obligation to the SBITA vendor, or
2. Other concessions granted to the subscriber

An incentive is equivalent to a rebate or discount. It includes assumption of a subscriber's preexisting SBITA obligations to a third party, other reimbursements of subscriber costs, rent holidays, and reductions of interest or principal charges by the SBITA vendor.

Incentives reduce the amount that a subscriber is required to pay for a SBITA. Incentives that provide payments to, or on behalf of, a subscriber at or before the commencement of a subscription term are included in the initial measurement by directly reducing the amount of the subscription asset. These should be recorded as a "SBITA Incentive" payment type in LA as directed by the LA Manual.

Incentive payments, to be provided after the commencement of the SBITA term, should be accounted for as reductions of subscription payments for the periods in which the incentive payments will be provided. These payments should be included in the initial measurement and any remeasurement if they are fixed or fixed in substance. The incentive should be incorporated into calculations to reduce a "Base Rent" payment type in LA for applicable periods.

Variable or contingent incentive payments are not included in the initial measurement and should be treated as a reduction of subscription payments as they occur. This will require a SBITA remeasurement under the "change in the estimated amounts for payments already included in the measurement of the subscription liability" provision of Section IX (SBITA Remeasurement).

D. Initial Direct Costs

Initial Direct Costs payment type should be entered in the LA module for amounts that meet the following criteria.

1. Payments associated with the SBITA contract made to the SBITA vendor at the commencement of the subscription term, if applicable.
2. Capitalizable initial implementation costs as described in project stages.
    a. Should be recorded in conjunction with reversal of CWIP if CWIP was recorded.

Pre-commencement capitalizable costs and Pre-commencement Incentives
Note: A system constraint requires a manual adjustment to correct an entry made by the LA module when these payment types are used; see below.

Subscription payments to a SBITA vendor before the commencement of a SBITA (when the subscriber gains physical possession of the asset or attains access to use the underlying asset) which meet the definition of Initial Implementation Stage expenses, as described in Project Stages, should be accounted for as Construction Work in Progress (CWIP). At the commencement of a SBITA, CWIP assets should be retired and included as an "Add Initial Direct Cost" payment type in the LA module.

Pre-commencement capitalizable cost entries before commencement

~~Manual Entry~~[KC11]*AP Voucher-Record Pre-Commencement capitalizable payments to vendor (Actuals)*

Debit	63414	Capitalized SBITA Expense	5,000
Credit	1104	Cash	5,000

Additional entries are required if the commencement of the subscription is in the subsequent fiscal year.

AM Entry-CWIP Asset added to AM for Pre-Commencement capitalizable payments to the vendor at year-end if the commencement of the subscription is in subsequent year (Entitywide or Actuals, depending on fund type)

Debit	1706	Construction Work in Progress	5,000
Credit	1811	Fixed Asset Clearing	5,000

Manual Entry-Required to clear Fixed Asset Clearing Account balance from addition of CWIP for Pre-Commencement payments to the vendor at year-end if commencement of the subscription is in subsequent year (*Entitywide or Actuals, depending on fund type*)

Debit	1811	Fixed Asset Clearing	5,000
Credit	63497	Full Accr SBITA Offset - NB	5,000

Pre-commencement capitalizable cost entries at commencement

LA Entry-Add Initial Direct Cost payment type entries (Entitywide or Actuals, depending on fund type)

Debit	1840	Intng Right to Use SBITA	5,000

Credit	69602[KC12] [FB13]	Right of Use SBITA Princ - NB	5,000

Due to system constraints for LA, the following adjustment is required to establish the SBITA in LA when the “Add Initial Direct Cost” payment type is used.

Manual Entry – Required to correct Add Initial Direct Cost payment type entries (Entitywide or Actuals, depending on fund type)

Debit	69602	Right of Use SBITA Princ - NB	5,000
Credit	63497	Full Accr SBITA Offset - NB	5,000

Additional Entries for CWIP Reversal, If CWIP Recorded for SBITA

AM Entry-Retirement of CWIP Asset (Entitywide or Actuals, depending on fund type)

Debit	1811	Fixed Asset Clearing	5,000
Credit	1706	Construction Work in Progress	5,000

Manual Entry-Required to clear Fixed Asset Clearing Account balance from CWIP Retirement (Entitywide or Actuals, depending on fund type)

Debit	63497	Full Accr SBITA Offset - NB	5,000
Credit	1811	Fixed Asset Clearing	5,000

Incentives received before the commencement of the SBITA should be subtracted from any capitalizable expenses recorded for the SBITA. If incentives received before the commencement of the SBITA exceed capitalizable expenses recorded for the SBITA, the excess should be recorded to Account 2591 – Pre-Commence SBITA Incentive. At the commencement of the SBITA, the Account 2591 balance should be reversed with a debit and account 63414 should be credited.

<u>Pre-commencement capitalizable incentive entries before commencement</u>

Manual Entry-Record Pre-Commencement payments incentive payments from the vendor (Actuals)

Debit	1104	Cash (Another account may be more appropriate if cash not received, contact SAB for guidance)	11,000
Credit	63414	Capitalized SBITA Expense	11,000

Additional entries are required if the commencement of subscription is in the subsequent fiscal year.

Manual Entry-Record liability for Pre-Commencement incentive payments at year-end if commencement of the subscription is in the subsequent year. This example includes reversing the prepaid expense demonstrated above (Actuals)

Debit	63414	Capitalized SBITA Expense	11,000
Credit	2591	Pre-Commencement SBITA Incentive	11,000

<u>*Pre-commencement capitalizable incentive entries at the commencement*</u>

LA Entry-Add Lease Incentives payment type entries (Entitywide or Actuals, depending on fund type)

Debit	69602	Right of Use SBITA Princ - NB	11,000
Credit	1840	Intng Right to Use SBITA	11,000

Due to system constraints for LA, the following adjustment is required to establish the SBITA in LA when the "Add Lease Incentive" payment type is used.
LA Entry-Required to correct Add Lease Incentives payment type entries (Entitywide or Actuals, depending on fund type)

~~Credit~~Debit	63497	Full Accr SBITA Offset - NB	11,000
Credit	69602	Right of Use SBITA Princ - NB	11,000

Manual Entry-Reverse liability for Pre-Commencement incentive payments in the year the subscription commences (Actuals)

Debit	2591	Pre-Commencement SBITA Incentive	11,000
Credit	63414	Pre-Commencement SBITA Incentive	11,000

E. Nonsubcription Expenses
Recurring charges for nonsubscription components of a SBITA agreement (separate perpetual licensing arrangement and maintenance services) may also be added to LA using the "Add Miscellaneous Rent" and "Add Operating Expense" payments options as described in the LA Manual.

F. Voucher Coding
Vouchers for subscription payments should use the coding below.

Journal entries for payment (Actuals):

Debit	69601	Right of Use SBITA Principal	10,000
Credit	1104	Cash	10,000

Payments may include several items not included in the subscription liability or recurring operating expenses recorded in SABHRS. Coding for nonsubscription payments must be updated to a 62xxx account on LA-generated vouchers. In addition, any payments that are necessary along with the items on an LA-generated voucher will require a separate manual voucher as the system-generated voucher total cannot change.

SBITA Payment Accounts

63414	Capitalized SBITA Expense - Payments made at or before the commencement of the SBITA that are initial direct costs or ancillary to putting the asset into service.
69601	Right of Use SBITA Principal - Payments to SBITA vendor included in the subscription liability (AM will code to 69502; all auto-generated vouchers must have this account changed to 69601; (an interest adjustment will take place during fiscal year-end)
62XXX	Payments for non-SBITA components (examples include perpetual licensing arrangements and maintenance) should be recorded to an appropriate operating expense account.
62560	Variable SBITA Exp - Costs associated with variable SBITA payments not included in the original SBITA liability.
62561	Unexpected Early Term SBITA Exp - Early termination fees not included in the subscription liability
62562	Residual Value SBITA Exp - Costs associated with residual value expenses for a SBITA. This calls for net settlement in that the lessor will receive a net payment for any difference between the leased asset’s residual value and the guaranteed amount.

G. Journal Examples

The scenario for all the following journal entry examples describes a SBITA contract entered into with a term of 3 years. Monthly payments are $10,000, paid in advance. LA calculates a $351,991 right-to-use asset, offset by $341,991 payable and a principal payment of $10,000.

This LA entry is automatically generated when entering a SBITA into the LA module–To record the asset and associated SBITA liability for the financed asset. (Entitywide or Actuals, depending on fund type)

Debit	1840	Intangible Right to Use IT Software-SBITA	341,991
Debit	1840	Intangible Right to Use IT Software-SBITA	10,000
Credit	2104F	SBITA Payable -LT	341,991
Credit	69602	Right of Use SBITA Principal – NB	10,000

LA ADD journals with initial implementation stage costs (initial direct costs). (Entitywide or Actuals, depending on fund type)

Debit	1840	Intangible Right to Use IT Software-SBITA	341,991
Debit	1840	Intangible Right to Use IT Software-SBITA	12,000
Debit	1840	Intangible Right to Use IT Software-SBITA	10,000
Credit	2104F	SBITA Payable -LT	341,991
Credit	69602	Right of Use SBITA Principal - NB	22,000

Due to system constraints for LA, the following adjustment is required to establish the SBITA in LA when the "Add initial Direct Cost" or Add Prepaid Rent" payment types are used. (Entitywide or Actuals, depending on fund type)

Debit	69602	Right of Use SBITA Principal - NB	12,000
Credit	63497	NB Full Accr SBITA Offset	12,000

Manual - payment of an Initial Direct Cost should look like this: (Actuals)

Debit	63414	Capitalized SBITA Expense	12,000
Credit	1104	Cash	12,000

Any initial direct costs that would be considered debt issuance costs should be expensed in the period they are incurred.

Subsequent LA entries after month-end close include entries for asset amortization and liability amortization. (Entitywide or Actuals, depending on fund type)

Debit	62877B	NB SBITA Amortization	1,667
Credit	1841	Accum Amort Intang Right SBITA	1,667

Debit	2104F	SBITA Payable -LT	9,558
Debit	69602	Right of Use SBITA Principal - NB	442
Credit	69602	Right of Use SBITA Principal - NB	10,000

When the subscriber provides services toward the implementation of the software in addition to the SBITA vendor, these entries are to reconcile GAAP costs with budgeted costs. (Actuals ledger only)

Debit	63497	Full Accr SBITA Offset – NB	5,000
Credit	61170	Capitalizable Salary – NB	5,000

VIII. Allocation of Payments for Contracts with Multiple Components

To allocate the contract price to the different components, subscribers first should use any prices for individual components that are included in the contract; if the price allocation does not appear to be unreasonable based on the terms of the contract and professional judgment, maximizing the use of observable information; for example, using readily available observable stand-alone prices. Stand-alone prices would be paid or received if the same or similar assets were subscribed for individually or if the same or similar nonsubscription components (such as services) were contracted separately. Some contracts provide discounts for bundling multiple subscriptions or subscription and nonsubscription components together in one contract. Those discounts should be considered when determining whether individual component prices do not appear to be unreasonable. For example, if the individual component prices are each discounted by the same percentage as normal market prices, the discount included in those prices would not appear unreasonable.

If a contract does not include prices for individual components, or if any of those prices appear to be unreasonable, subscribers should use professional judgment to determine their best estimate for allocating the contract price to those components, maximizing the use of observable information, including requesting the information from the SBITA vendor. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a subscriber should account for those components as a single SBITA.

If multiple components are accounted for as a single SBITA, the accounting should be based on the primary subscription component within the SBITA. For example, the primary subscription component's subscription term should be used for the SBITA if those components have different subscription terms. The following characteristics, among others, may be indicative of a primary component:

1. The component performs a function that is the subscriber's primary objective in entering into the contract.
2. The component's fair value is substantial relative to the fair values of the other components.
3. The subscription term of the component is longer than the subscription terms of the other components.
4. The component's benefit to the subscriber is substantial relative to the benefits of the other components.

IX. SBITA Remeasurement[KC14][FB15]

Every active SBITA with optional provisions should be evaluated annually, using the guidance below to determine if remeasurement of the subscription liability is necessary. It is recommended that the checklist below, also found in Appendix B, be completed~~,~~ and added as an attachment to each SBITA in LA.

A.	The subscriber or SBITA vendor elects TO exercise an option even though it was previously determined that it was reasonably certain that the subscriber or SBITA vendor would not exercise that option?		Yes/No
B.	The subscriber or SBITA vendor elects NOT TO exercise an option even though it was previously determined that it was reasonably certain that the subscriber or SBITA vendor would exercise that option?		Yes/No
C.	An event specified in the SBITA contract occurs that requires an extension or termination of the SBITA?		Yes/No
D.	There is a change in the estimated amounts for payments already included in the measurement of the subscription liability (Not including a change in the index rate used to determine variable payments)?		
E.	There is a change in the interest rate the SBITA vendor charges the subscriber~~,~~ if used as the initial discount rate?		Yes/No
F.	A contingency, upon which some or all the variable payments made over the remainder of the subscription term are based, is resolved such that those payments now meet the criteria for measuring the subscription liability, as defined in Section VII (SBITA Payments)? For example, an event occurs that causes variable payments contingent on the performance or use of the underlying IT assets to become fixed for the remainder of the subscription term.		Yes/No

G.	If "NO" was answered to all the above, then Liability Remeasurement is not required. If "YES" to any, proceed to H.		Yes/No
H.	There is a change in the index rate used to calculate variable payments. If yes, recalculate the variable payment as part of the amendment.		Yes/No

A "Yes" answer to A-G above will require the SBITA to be updated using the amendment process described in the LA Manual. If a subscription liability is remeasured for any of the changes in the above table, the liability also should be adjusted for any change in an index or a rate used to determine variable payments if that change in the index or rate is expected to significantly affect the amount of the liability since the previous measurement. A subscription liability is not required to be remeasured solely for a change in an index or a rate used to determine variable payments.

X. SBITA Modifications and Terminations

The provisions of a SBITA contract may be amended while the contract is in effect. Amendments change the provisions of the SBITA contract. Examples of amendments to SBITA contracts include changing the contract price of the arrangement, adding an escalation, lengthening or shortening the subscription term, adding or removing underlying IT assets, and changing the index or rate upon which variable payments depend. An amendment should be considered a SBITA modification unless the subscriber's right to use the underlying IT assets decreases, in which case the amendment should be considered a partial or full SBITA termination. By contrast, exercising an existing option, such as an option to extend or terminate the SBITA, is subject to guidance for remeasurement.

A. Modifications

A subscriber should account for an amendment during the reporting period resulting in a modification to a SBITA contract as a separate SBITA (that is, separate from the most recent SBITA contract before the modification) if both of the following conditions are present:

1. The SBITA modification gives the subscriber an additional subscription asset by adding access to more underlying IT assets not included in the original SBITA contract.

2. The increase in subscription payments for the additional subscription asset does not appear to be unreasonable based on (1) the terms of the amended SBITA contract and (2) professional judgment, maximizing the use of observable information (for example, using readily available observable standalone prices).

Unless a modification is reported as a separate SBITA, a subscriber should account for a SBITA modification by remeasuring the subscription liability. The subscription asset should be adjusted by the difference between the remeasured liability and the liability immediately before the SBITA modification. However, if the change reduces the carrying value of the subscription asset to zero, any remaining amount should be reported as a gain.

Modifications due to an increase or decrease in the SBITA term:

*AM ADJ entries for an **increase in the contract term** (Entitywide or Actuals, depending on fund type)*

Debit	1840	Intangible Right to Use IT Software-SBITA	150,000
Credit	2104F	SBITA Payable -LT	150,000

*AM ADJ entries for a **decrease in the contract term** (Entitywide or Actuals, depending on fund type)*

Debit	2104F	SBITA Payable -LT	150,000
Credit	1840	Intangible Right to Use IT Software-SBITA	150,000

*AM ADJ entries for a **decrease in the contract term when the asset value is exhausted** (Entitywide or Actuals, depending on fund type)*

Debit	2104F	SBITA Payable -LT	140,000
Credit	1840	Intangible Right to Use IT Software-SBITA	130,000
Credit	583202	Gov FA Disp Full Acc Gain	10,000

B. Terminations

A subscriber should account for an amendment during the reporting period resulting in a decrease in the subscriber's right to use the underlying IT assets (for example, the subscription term is shortened, or the underlying IT assets are reduced) as a partial or full SBITA termination.

A subscriber generally should account for the partial or full SBITA termination by reducing the carrying values of the subscription asset and subscription liability and recognizing a gain or loss for the difference.

The following journal entries are associated with a SBITA that is terminated before the original termination date.

AM journal entries for a contract terminated before the original termination date. (Entitywide or Actuals, depending on fund type)

Credit	1840	Intangible Right to Use IT Software-SBITA	351,991

Debit	2104F	SBITA Payable -LT	284,456
Debit	1841	Accum Amort Intang Right SBITA	58,665
Debit	62808D*	NB SBITA Loss	8,870

*Could be a Gain (583202) depending on other balances

C. Debt Refunding

If, before the expiration of the subscription term, a change to the provisions of a SBITA results from a debt refunding by the SBITA vendor, including an advance refunding, such transactions should be evaluated on a case-by-case basis with consultation from the State Accounting Bureau.

XI. SBITA Asset Impairment

The presence of impairment indicators (described in paragraph 9 of GASB Statement 42, as amended) with respect to the underlying IT assets may result in a change in the manner or duration of use of the subscription asset. Such a change in the manner or duration of use of the subscription asset may indicate that the service utility of the subscription asset is impaired. The length of time during which the subscriber cannot use the underlying IT assets or is limited to using them in a different manner, should be compared to their previously expected manner and duration of use to determine whether there is a significant decline in the service utility of the subscription asset. If a subscription asset is impaired, the amount reported for the subscription asset should be reduced first for any change in the corresponding subscription liability. Any remaining amount should be recognized as an impairment.

XII. SBITAs between Related Parties -In GASB 87 but not GASB 96 ~~(Awaiting GASB inquiry response)~~

In the separate financial statements of the related parties, the classification and accounting should be the same as for similar SBITAs between unrelated parties, except in cases in which it is clear that the terms of the transaction have been significantly affected by the fact that the subscriber and SBITA vendor are related. In such cases, the classification and accounting should be modified as necessary to recognize the substance of the transaction rather than merely its legal form. For example, if the SBITA contract is structured to meet the definition of a short-term SBITA but the related parties have a mutual understanding that the SBITA contract will stay in effect for several more years, that SBITA should not be accounted for as a short-term SBITA. The nature and extent of leasing transactions with related parties should be disclosed. The Statewide Accounting Bureau should be consulted case-by-case when SBITA agreements potentially involve related parties.

XIII. Fiscal Year-End Entries

After the close of the Lease Administration Module and before the close of ~~the~~ General Ledger, the State Accounting Bureau will record adjusting entries~~,~~ based on LA balances, which will reclassify a portion of amounts recorded as SBITA principal payments (69602) to SBITA interest (69603).

SAB FYE adjusting entries (Actuals)

Debit	69603	Right of Use SBITA Interest - NB	1,667
Credit	69602	Right of Use SBITA Principal - NB	1,667

Additionally, for modified accrual funds, an expenditure and other financing source should be reported when the subscription asset is initially recognized. Entries will be recorded in the Actuals Ledger and the Entitywide Ledger to record Capital Outlay Expenditures (Account 63409) and Other Financing Source Revenue (Account 583301) as required by GAAP.

SAB FYE adjusting entries (Actuals)

Debit	63409	Incept SBITA Proc Mod Accr NB	351,991
Credit	583301	Incept SBITA Exp Mod Accr NB	351,991

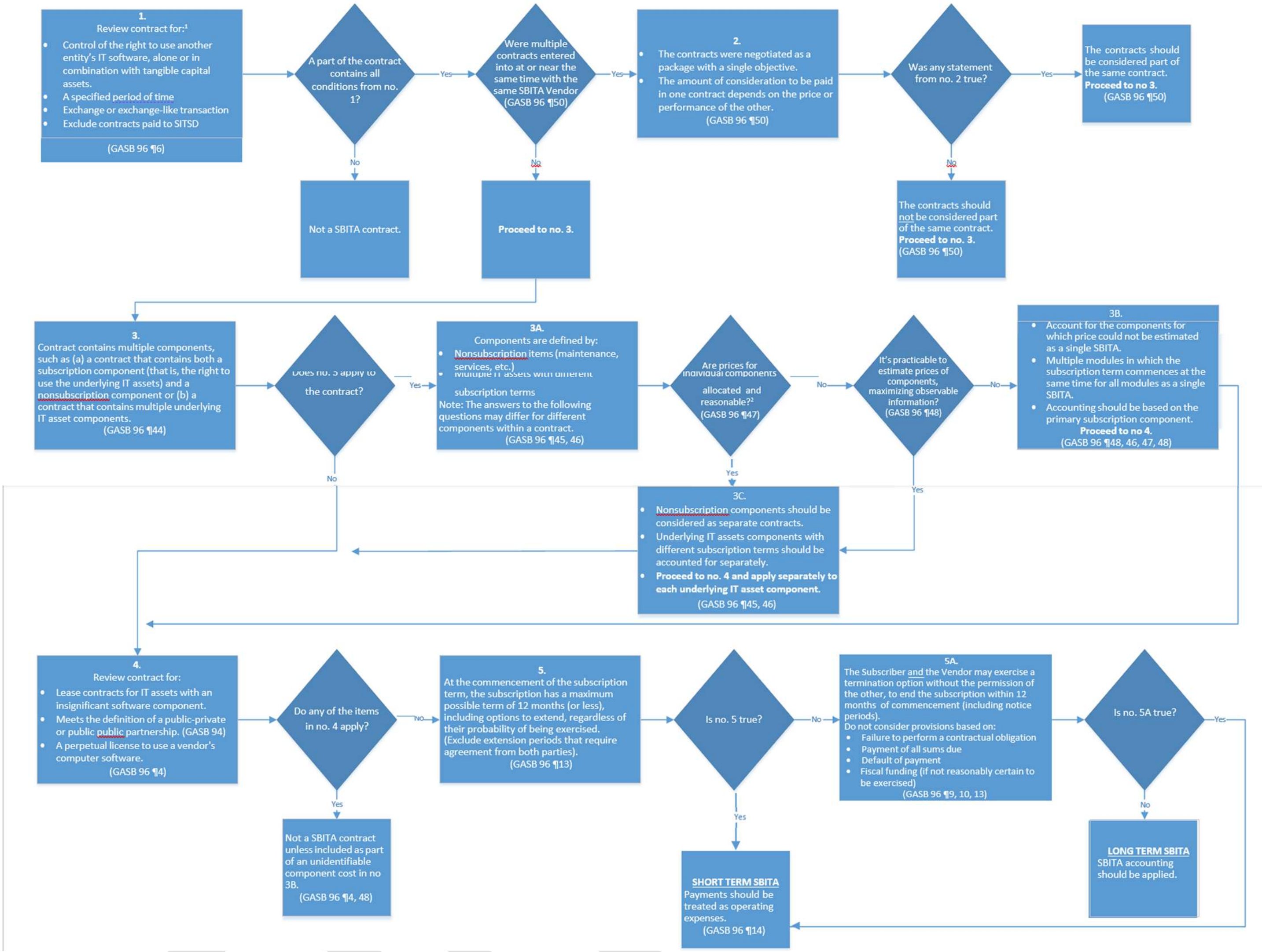
SAB FYE adjusting entries (Entitywide)

Debit	583301	Incept SBITA Exp Mod Accr NB	351,991
Credit	63409	Incept SBITA Proc Mod Accr NB	351,991

For all funds, an adjustment will be made in the Actuals or Enititywide Ledger, depending on Fund Type~~,~~ to identify the current portion of the subscription liability in Account 2124F.

Debit	2104F	SBITA Payable -LT	117,169
Credit	2124F	SBITA Payable - Due W/in 1 Yr	117,169

Appendix A - Decision Tree



SBITA Flowchart – Footnotes

[1]
Control
GASB 96 ¶7. To determine whether a contract conveys control of the right to use the underlying IT assets, a subscriber should assess whether it has both of the following:

a. The right to obtain the present service capacity from the use of the underlying IT assets as specified in the contract
b. The right to determine the nature and manner of use of the underlying IT assets as specified in the contract.

Exchange and Exchange-Like Transactions
GASB 96 Footnote 1. The scope of this Statement includes both exchange and exchange-like transactions. Footnote 1 of Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, states that the difference between exchange and exchange-like transactions is a matter of degree. In contrast to a "pure" exchange transaction, an exchange-like transaction is one in which the values exchanged, though related, may not be entirely equal or in which the direct benefits may not be exclusively for the parties to the transaction. Nevertheless, the exchange characteristics of the transaction are strong enough to justify treating the transaction as an exchange for accounting recognition

[2]
Reasonable

GASB 96 ¶47 … based on the terms of the contract and professional judgment, maximizing the use of observable information (for example, using readily available observable stand-alone prices). Stand-alone prices are those that would be paid if the right to use the same or similar IT asset components were contracted individually or if the right to use the same or similar nonsubscription components were contracted individually. Some contracts provide discounts for bundling multiple subscription components or bundling subscription and nonsubscription components together in one contract. Those discounts may be considered when determining whether individual component prices do not appear to be unreasonable. For example, if the individual component prices each are discounted by the same percentage from normal market prices, the discount included in those component prices would not appear to be unreasonable.

Appendix B – Remeasurement Checklist

A.	The subscriber or SBITA vendor elects TO exercise an option even though it was previously determined that it was reasonably certain that the subscriber or SBITA vendor would not exercise that option?		Yes/ No
B.	The subscriber or SBITA vendor elects NOT TO exercise an option even though it was previously determined that it was reasonably certain that the subscriber or SBITA vendor would exercise that option?		Yes/ No
C.	An event specified in the SBITA contract occurs that requires an extension or termination of the SBITA?		Yes/ No
D.	There is a change in the estimated amounts for payments already included in the measurement of the subscription liability (Not including a change in the index rate used to determine variable payments)?		
E.	There is a change in the interest rate the SBITA vendor charges the subscriber~~,~~ if used as the initial discount rate?		Yes/ No
F.	A contingency, upon which some or all the variable payments made over the remainder of the subscription term are based, is resolved such that those payments now meet the criteria for measuring the subscription liability, as defined in Section VII (SBITA Payments)? For example, an event occurs that causes variable payments contingent on the performance or use of the underlying IT assets to become fixed for the remainder of the subscription term.		Yes/ No
G.	If "NO" was answered to all the above, then Liability Remeasurement is not required. If "YES" to any, proceed to H.		Yes/ No
H.	There is a change in the index rate used to calculate variable payments. If yes, recalculate the variable payment as part of the amendment.		Yes/ No

A "Yes" answer to any of the above will require the SBITA to be updated using the amendment process described in the LA Manual. If a subscription liability is remeasured for any of the changes in the above table, the liability also should be adjusted for any change in an index~~,~~ or a rate used to determine variable payments if that change in the index or rate is expected to significantly affect the amount of the liability since the previous measurement. A subscription liability is not required to be remeasured solely for a change in an index or a rate used to determine variable payments.