

Office of Statewide Reporting and Accounting Policy
State of Louisiana
Division of Administration

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COMMISSIONER OF ADMINISTRATION

March 9, 2023

MEMORANDUM OSRAP 23-07

TO: Fiscal Officers

FROM: Brian Fleming, CPA
Director, Office of Statewide Reporting and Accounting Policy

SUBJECT: Implementation of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*

Link to full statement: [GASB 96](#)

Effective Date: State's fiscal year ended **June 30, 2023**.

Summary

Prior to the issuance of GASB Statement No. 96, there was no accounting or financial reporting guidance specifically for government end users of subscription-based information technology arrangements (SBITAs). The accounting for SBITAs under this new statement is similar to the accounting of lessee leases under GASB Statement No. 87.

SBITAs with a contract period exceeding 12 months that meet the criteria for reporting under GASB Statement No. 96 will result in a subscription liability and an intangible right-to-use asset (a capital asset hereinafter referred to as the subscription asset) being reported on the balance sheet and will require disclosures in the notes to the financial statements. OSRAP has set a threshold to report SBITAs if the contract value exceeds **\$100,000ⁱ**, which is the same threshold OSRAP has established for leases. Deloitte's LeaseController system has a SBITA component to provide calculations and amortization schedules that will be needed for reporting and will be available to all state entities. The fiscal year 2023 annual fiscal reports (AFR) will require additional disclosures for agencies' to report their SBITAs similar to the lessee lease disclosures.

Examples of arrangements that should be evaluated for SBITA reporting include the following:

- Cloud based ERP systems/modules.
- Online conferencing subscriptions (e.g. Zoom, Microsoft Teams).
- Cloud based data storage and cloud computing arrangements, including Software as a Service (SaaS), Platform as a Service (PaaS), Infrastructure as a Service (IaaS) (e.g. Google Cloud, Azure, Dropbox, Amazon Web Services).
- Other cloud or online based applications (e.g. Adobe Pro, Adobe Creative Cloud, Microsoft 365).

Contracts that are specifically excluded from GASB Statement No. 96 include the following:

- Contracts containing both a software component and underlying tangible capital asset (e.g. computer) when the software component is insignificant. In this situation, GASB Statement No. 87, *Leases*, would apply.
- Governments acting as SBITA vendors providing their own IT software to other entities for use.
- Contracts that meet the definition of public-private and public-public partnerships under GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which is also effective for fiscal year 2023.
- Licensing arrangements that provide a perpetual license to use software, which would be accounted for under GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This is often the case for software that is downloaded and available to the user indefinitely.

State agencies must complete the attached SBITA inventory analysis worksheet and return it to Latoya McCutcheon (latoya.mccutcheon@la.gov) no later than **April 3, 2023**. For agencies that do not have any SBITAs, please indicate on the worksheet that your agency has none to report.

Key Provisions

Definition

A SBITA is 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. To determine whether a contract conveys control of the right to use the underlying IT assets, a government should assess whether it has both of the following:

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

SBITAs include contracts providing both a right-to-use IT asset component and an IT support service component. However, contracts that solely provide IT support service are not SBITAs.

Subscription Term

The subscription term is the period during which the government has a noncancellable right to use the underlying IT assets in addition to the following:

- Periods covered by an option to extend if it is reasonably certain that government or vendor will exercise that option.
- Periods covered by an option to terminate if it is reasonably certain that the government or vendor will not exercise that option.

Periods for which both the government and the 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.

Fiscal funding or cancellation clauses allowing the government to cancel a SBITA only affect the subscription term if it is reasonably certain that the clause will be exercised.

Recognition and Measurement

At the commencement of the subscription term, a government should recognize a subscription liability and subscription asset. The commencement of the subscription term occurs when the initial implementation stage is completed (described below) at which time the government has obtained control of the right to use the underlying IT assets, and, therefore, the subscription asset is placed into service.

In the year of implementation, the subscription liability and asset should be recognized and measured using facts and circumstances that existed at the beginning of the fiscal year. Therefore, for SBITAs that were in effect prior to fiscal year 2023, the beginning subscription term date used for measuring the liability and asset would be July 1, 2022.

Subscription Liability

The subscription liability is initially measured at the present value of subscription payments expected to be made during the subscription term including the following:

- a) Fixed payments.
- b) 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.
- c) Variable payments that are fixed in substance.
- d) 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.
- e) Any subscription contract incentives receivable from the SBITA vendor.
- f) 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.

Future subscription payments should be discounted using the interest rate charged by the SBITA vendor, which may be the implicit rate in the contract. If the interest rate is not readily determinable, the

government's incremental borrowing rateⁱⁱ should be used. Amortization of the discount on the subscription liability should be reported as interest expense.

Subscription Asset

A government initially should measure the subscription asset as follows:

- Initial subscription liability (see above).
- Plus payments made to the vendor before commencement of the subscription term.
- Plus implementation costs that can be capitalized (see below).
- Less any incentives received from the SBITA vendor at or before commencement of the subscription term.

The subscription 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. The amortization of the subscription asset should be reported as an outflow of resources (for example, amortization expense), which may be combined with depreciation expense related to other capital assets for financial reporting purposes.

Short-term Exception

Statement No. 96 does provide for an exception for short-term SBITAs having a maximum possible term of 12 months or lease. Subscription payments for these are recognized as an outflow of resources based on payment provisions of the contract.

Implementation Costs

Activities associated with a SBITA should be grouped in to the following stages with costs accounted for accordingly.

State	Activities	Accounting
Preliminary Project Stage	Conceptual formulation, evaluating alternatives, determining needed technology, and final selection	Expense as incurred
Initial Implementation Stage	All necessary charges to place the subscription asset into service, including design, configuration, coding, testing and installation.	Capitalized, except for short-term SBITA
Operations and Additional Implementation Stage	Subsequent implementation activities such as maintenance, troubleshooting, and other activities for ongoing operations	Generally expense as incurred unless activity meets specific capitalization criteria. If the activity increases the efficiency of or adds to the functionality of the subscription asset in a way that did not exist before, the costs would be capitalized as an addition to the subscription asset.
All Stages	Training	Expense as incurred

For subscriptions that commenced prior to the implementation of this Statement, governments are permitted, but not required, to include in the measurement of the subscription asset capitalizable outlays

associated with the applicable stages above. For AFR and ACFR reporting purposes, state entities should not include capitalizable outlays that occurred prior to July 1, 2022, in the initial measurement of the subscription asset.

Contract Components

If a contract contains both a subscription component and nonsubscription component, the subscription and nonsubscriptions components should generally be accounted for as separate contracts. In this case, the contract price should generally be allocated to the different components based on the stand-alone price of each component included in the contract. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, it should be accounted for as a single SBITA.

Examples of nonsubscription components may be a separate perpetual licensing arrangement (which is excluded from this Statement) and maintenance services for the IT asset.

Contract Combinations

Contracts that are entered into at or near the same time with the same SBITA vendor should be considered part of the same contract if either of the following are met: (a) the contracts are negotiated as a package with a single objective or (b) the amount of consideration to be paid in one contract depends on the price or performance of the other contract.

Modifications and Terminations

Amendments to a SBITA should be accounted for as separate SBITA if the modification is adding access to more underlying IT assets and the increase in payments for the additional subscription asset does not appear unreasonable. Otherwise, the government should account for modification by remeasuring the subscription liability and adjusting the subscription asset by the difference between the remeasured liability and the liability immediately before the SBITA modification.

An amendment resulting in a decrease of the government's right to use the underlying IT asset is considered a full or partial termination. When this occurs, the carrying values of the subscription liability and asset should be reduced with a gain or loss recognized for the difference.

Disclosure Requirements

A government should disclose in notes to financial statements the following information about its SBITAs (which may be grouped for purposes of disclosure) other than short-term SBITAs:

- a) A general description of its SBITAs, including the basis, terms, and conditions on which variable payments not included in the measurement of the subscription liability are determined.
- b) The total amount of subscription assets, and the related accumulated amortization, disclosed separately from other capital assets.
- c) The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the subscription liability.
- d) The amount of outflows of resources recognized in the reporting period for other payments, such as termination penalties, not previously included in the measurement of the subscription liability.

- e) Principal and interest requirements to maturity, presented separately, for the subscription liability for each of the five subsequent fiscal years and in five-year increments thereafter.
- f) Commitments under SBITAs before the commencement of the subscription term.
- g) The components of any loss associated with an impairment.

LeaseController

Deloitte's LeaseController system contains a component for SBITA reporting which will be made available to all state entities to assist with SBITA calculations and disclosures. All state entities should adhere to the following as it relates to SBITAs and LeaseController:

- a) **Required use** - All primary government entities are required to use LeaseController for their SBITAs and include the contract and other relevant information supporting the inputs as attachments in LeaseController so that it will be available to OSRAP for review and disclosure purposes.
- b) **OTS-managed SBITAs** - SBITAs that were executed by OTS with the SBITA vendor being paid directly by OTS should not be entered into LeaseController by the user agency. These will be entered into LeaseController by the DOA and reported in OTS's AFR.
- c) **Reporting threshold** - SBITAs below the \$100,000 threshold are not required to be entered into LeaseController; however, if they are entered, the *immaterial* attribute must be selected. Also, these SBITAs should remain in "pending approval" status (i.e. reviewed for accuracy but not subject to final approval) to ensure they do not feed into the LeaseController financial reports. For State Entities with stand-alone financial statements that need to enter leases below the \$100,000 threshold, the *material to stand-alone only* attribute should be selected.
- d) **Short-term SBITAs** - Do not enter SBITAs with a term of 12 months or less in LeaseController. This includes transition SBITAs that have less than 12 months remaining on the contract (including optional renewal periods) as of the implementation date of July 1, 2022. In other words, a SBITA covering July 1, 2020, through June 30, 2023, would be considered short-term in the year of implementation because there is less than 12 months remaining as of the implementation date of July 1, 2022.
- e) **Timeframe** – OSRAP must "close the books" at the end of the fiscal year in order to generate the journal entries. This process can only be done statewide. Therefore, it is critical all entities enter their SBITAs timely. For fiscal year 2023, the year of implementation, **all SBITAs must be entered and in approved status, as applicable, no later than July 31, 2023.** Those not entered and approved by the deadline will not be included in the journal entries for fiscal year 2023 resulting in the entity having to manually calculate their own journal entries based on each SBITA's amortization schedule.

- f) **User roles** – Each SBITA will require preparer, reviewer, and approver (can be same person for smaller entities). To request changes to your entities user roles, complete the “LeaseController – Request to Update LC User Roles” which is available on the AFR portal in the GASB 87/94/96 Guidance section.
- g) **Transition SBITAs and capitalizable costs** – Although permitted by the Statement, the State will not include capitalizable outlays incurred prior to July 1, 2022, in the initial measurement of the subscription asset.

Additional Resources

Links to GASB literature and resources provided below, including lease guidance since SBITA reporting uses same framework as leases.

- [GASB Statement No. 96](#), *Subscription-Based Information Technology Arrangements*
- [GASB Statement No. 87](#), *Leases*
- [GASB Statement No. 51](#), *Accounting and Financial Reporting for Intangible Assets* (Note: this standard applies to purchased or internally developed software.)
- [GASB Implementation Guide No. 2019-3](#), *Leases*
- [GASB Implementation Guide No. 2020-1](#), *Implementation Guidance Update-2020*
- [GASB Implementation Guide No. 2021-1](#), *Implementation Guidance Update-2021*
- [Exposure Draft - GASB Implementation Guide-2023](#) and [Exposure Draft - Additional Proposal for Implementation Guidance Update—2023](#) (contain proposed guidance on subscriptions that are out for public comment).

Any questions concerning this bulletin can be directed to Latoya McCutcheon at 225-219-4445 or latoya.mccutcheon@la.gov.

Attachment

ⁱ Total contract value should be measured as the gross (undiscounted) aggregate value of fixed and fixed-in-substance cash flows remaining over the term of the contract, including reasonably certain renewal periods. For transition SBITAs only (i.e. those in effect as of the beginning of fiscal year 2023), the cash flows from periods prior to the transition date of July 1, 2022, may be excluded from the total contract value. SBITAs below the \$100,000 threshold are essentially being scoped out of GASB 96 due to materiality considerations and, therefore, will not be reported on the State’s balance sheet or subject to GASB 96 disclosure requirements. State entities that have their own stand-alone financial statements should consider their own materiality and reduce the \$100,000 threshold, if necessary, when preparing their stand-alone financial statements. If it is necessary that a state entity use a lower threshold for their separate stand-alone financial statements, they may use that same lower threshold for their AFR.

ⁱⁱ OSRAP annually calculates the State’s incremental borrowing rate based on the previous year’s effective interest rates on general obligation bonds. The calculated rates are available in LeaseController or upon request.