



UNIVERSITY OF South Carolina

Office of the Controller

GASB Statement NO. 96 – Subscription-based Information Technology Arrangements (SBITA)

WHAT IS GASB?

GASB is the acronym for Governmental Accounting Standards Board. This organization is an independent, private-sector organization that establishes authoritative accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles (GAAP).

WHY IS THE REPORTING FOR SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITA) CONTRACTS CHANGING?

It has become common for government agencies to enter into subscription-based contracts to use vendor provided information technology (IT). In many cases, these subscription-based contracts extended beyond 1-year and create a financial liability for the government agency. GASB's concern is that the current financial statement presentation does not reflect outstanding obligations on SBITAs which could result in incorrect assumptions being made by users of the financial statements related to cash solvency of the governmental entity.

GASB Statement No. 96 establishes a definition for SBITAs and provides uniform guidance for accounting and financial reporting. This new standard will improve the comparability, relevance, and reliability of financial statements.

All Software Contracts meeting GASB 96 criteria must report a liability and an intangible right to use asset. Additionally, essential information about the arrangement must be disclosed on the financial statements.

GASB 96 – HOW DOES THIS AFFECT ME?

The process for establishing a Purchase Order to make payments pertaining to software contracts has not changed. Departments will be required to complete a fillable form that will provide the necessary information to assist in determining whether the contract for IT Software/capital assets meets the criteria of GASB 96 - SBITAs. This documentation will be used as support in determining how the contract will be recorded on the financial statements and serve as audit documentation.

WHAT IS THE DEFINITION OF A SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENT?

GASB 96 states, "A SBITA is defined as a contract that conveys **control of the right to use** another party'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.**"

Terminology in **bold** is broken down as follows:

"Control of the right to use" – requires both a right to obtain present service capacity from the use of the underlying IT assets and the right to determine the nature and manner of use of the underlying IT assets.

"IT software" – subscription-based information technology arrangements (SBITA) commonly include provisions such as remote access to software applications or cloud data storage and allows for temporary use that ends when the subscription expires.

"Period of time" – the subscription term is the period of time that the government has a noncancellable right to use the underlying IT assets plus any periods that the government or vendor have the option to extend the contract and it is reasonably certain that the option will be exercised. USC generally enters into subscription-based contracts for multiple year terms, with an initial year and additional renewal options of 1-5 years.

Subscription Term includes:

- Noncancelable period during which USC has a right to use the underlying asset.
- Any periods in which either USC or the Vendor have the option to extend the contract, if reasonably certain the option will be exercised by that party.
- Any periods in which either USC or the Vendor have the option to terminate the contract, if reasonably certain the option will not be exercised by that party.

The assessment of whether an option to extend or terminate the contract will be exercised should occur at the commencement of the contract.

Subscription Term excludes:

- Cancelable periods: Periods for which either USC or the Vendor have an option to terminate the contract **without permission** from the other party OR if **both parties have to agree to extend**.

"Exchange or exchange-like transaction" – both parties to the contract receive or give up essentially equal value or not quite equal value.

A common example of a SBITA is a cloud software contract. Cloud software such as Zoom Video Conferencing is typically sold to government agencies under a subscription or license based financial transaction. The government pays a monthly fee in exchange to use the Zoom Video Conference system. The vendor allows the government to access the IT service for a fee. The subscription in many cases extends beyond 1-year therefore creating a liability.

One important question to ask yourself when determining if a SBITA exists: *Will this software work/will we be able to log in once the contract term ends?*

If your answer is “no”, it is likely that a SBITA exists.