

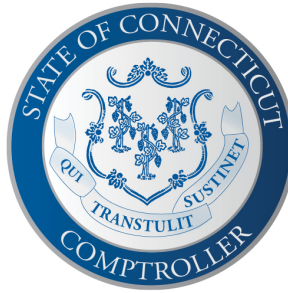
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INTERDEPARTMENTAL MEMORANDUM
Asset Management and Inventory Directive #5

To: Chief Administrative and Fiscal Officers, Business Managers, Core-CT Asset Management Module Personnel

**From: Elizabeth Macha, Director
Central Accounts Payable
Office of the State Comptroller
165 Capitol Avenue
Hartford, CT 06106**

Re: Implementation of GASB Statement No. 96, Subscription - Based Information Technology Arrangements

I. PURPOSE

The purpose of this Asset Management Directive is to notify agencies of the actions they need to take prior to July 1, 2022 due to the implementation of GASB Statement No. 96. Accounting and Financial Reporting for Subscription-Based Information Technology Arrangement will be effective with the fiscal year ending June 30, 2023.

II. GENERAL INFORMATION

A Subscription-Based Information Technology Arrangement (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.

All SBITAs Have the Following Defining Characteristics:

1. They are for the temporary use rather than ownership of IT assets,
2. They grant a government control of the right to use a SBITA vendor's IT assets,
3. They are exchange or exchange-like transactions.

This Statement does not apply to:

1. Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets that meets the definition of a lease in Statement No. 87, Leases, 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)

2. Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs
3. Contracts that meet the definition of a public-private and public-public partnership in paragraph 5 of Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements
4. Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software, which are subject to Statement No. 51, Accounting and Financial Reporting for Intangible Assets, as amended
5. A SBITA contract that is 12 months or less, including any options to extend, regardless of the possibility of being exercised
6. A SBITA that is month to month

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:

1. The right to obtain the present service capacity from use of the underlying IT assets as specified in the contract. For example, the right to use could be the right to access the SBITA vendor's computing tools, or the right to run the SBITA vendor's cloud-based application (software) via internet access, or both.
2. The right to determine the nature and manner of use of the underlying IT assets as specified in the contract. In essence, the government has the right to determine how and to what extent it will use the SBITA vendor's IT asset. This must be defined in the contract.

An SBITA asset is measured as the sum of three things:

1. The initial subscription liability amount
2. Payments made to a SBITA vendor before the end of the subscription term
3. The capitalizable implementation costs

Activities associated with a SBITA, other than making subscription payments, should be grouped into the following three stages, and their costs should be accounted for accordingly:

- Preliminary Project Stage, including activities such as evaluating alternatives, determining needed technology, and selecting a SBITA vendor. Outlays in this stage should be expensed as incurred.
- Initial Implementation Stage, including all ancillary charges necessary to place the subscription asset into service. Outlays in this stage generally should be capitalized as an addition to the subscription asset.
- Operation and Additional Implementation Stage, including activities such as subsequent implementation activities, maintenance, and other activities for a government's ongoing operations related to a SBITA. Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria.

Hardware that is a part of SBITA must be accounted for in accordance with GASB 87, and the corresponding subscription must be accounted for in accordance with GASB 96.

In classifying certain 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. If a SBITA contract contains multiple components, a government should account for each component as a separate SBITA or non-subscription component and allocate the contract price to the different components.

III. AGENCY RESPONSIBILITIES

Agencies and component units must review existing SBITAs to determine if it exists. Agencies and component units must review the SBITA and categorize them as long or short term by adding the time period of payments and any extension or renewal options available. The guidance below will aid with identifying agencies' SBITA. Review the contract to determine:

- If the software will not work or you are unable to log into the software at the end of the contract, then it is likely that the contract is an SBITA.
- If the contract conveys the right to use the underlying IT asset. For example, software applications or cloud data storage.
- If there is a Non-Cancellable Period. The subscription term starts with the non-cancellable period. The non-cancellable period is when the SBITA vendor does not have the ability to cancel the contract, increase or decrease rates, or change the benefits/terms of the service.

1. Define the Subscription Term

The subscription term is the period during which a government has a noncancellable right to use the underlying IT assets (referred to as the non-cancellable period), plus the following periods, if applicable:

- 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
- 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
- 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
- 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

2. Calculate the Noncancelable Period

A non-cancelable period is when one party has the right to terminate the subscription but it is reasonably certain they will not. "Reasonably certain" is a high threshold of probability. The contract term excludes periods in which both the state and the vendor have options to terminate regardless of probability.

NOTE: A fiscal funding or cancellation clause allows a government 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. A fiscal funding or cancellation clause is equivalent to a cancellation option in a SBITA.

Once **both** parties have a right to terminate a subscription, it becomes cancelable, an example is a month-to-month lease. Cancellable periods and are excluded from the subscription term.

3. Review SBITAs that Contain Multiple Components

a. Identify Separate SBITAs Components

SBITAs components with different terms must be accounted for as separate contracts. If the underlying assets are for different asset categories, the assets must be accounted for separately.

b. Identify Any Non-SBITA Components

Non-SBITA components must be accounted for separately. Examples of non-subscription components include a separate perpetual licensing arrangement and maintenance services for the IT assets. If a SBITA involves multiple underlying IT asset components and the IT asset components have different subscription terms, the government should account for each underlying IT asset component as a separate subscription component.

c. Determine the Contract Price

Use prices for individual components that are included in the contract, as long as they are not unreasonable. If a contract doesn't include separate prices for individual components or they seem unreasonable, use judgement to best estimate the allocation for each component.

4. An agency should reassess the subscription term only if one or more of the following occur:

- The government or SBITA vendor elects to exercise an option even though it was previously determined that it was reasonably certain that the agency or SBITA vendor would not exercise that option
- The agency or SBITA vendor elects not to exercise an option even though it was previously determined that it was reasonably certain that the agency or SBITA vendor would exercise that option
- An event specified in the SBITA contract that requires an extension or termination of the SBITA takes place

New account codes have been established and are listed on page 5 of this Directive. Account code updates to effected purchase orders or contracts should be completed prior to the first SBITA payments in fiscal year 2023.

IV. ACCOUNT CODES

New account codes have been established to record SBITAs:

A. Non Capitalized SBITAs

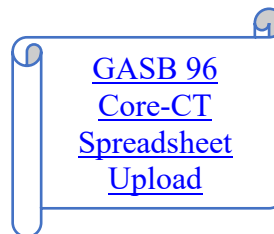
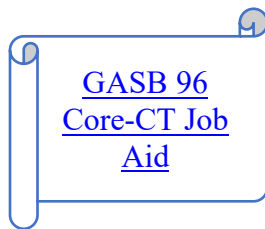
<u>Account</u>	<u>Description</u>
54148	Controllable SBITAs
54149	Non-Controllable SBITAs

B. Capitalized SBITAs

<u>Account</u>	<u>Description</u>
55901	Capitalized SBITAs

V. CORE AGENCIES

Beginning July 1, 2022 all Core-CT agencies will enter their **new** SBITAs into the Core-CT Asset Management Module through Basic Add or **existing** SBITAs through the spreadsheet upload process. Refer below to the link for the job aid and spreadsheet upload process:

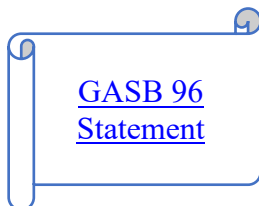


New profiles will be added for SBITAs. A Daily mail will be forthcoming on rolling the purchase orders for existing SBITAs.

VI. NON-CORE AGENCIES

Non-Core agencies will report their subscriptions through the GAAP closing packages at fiscal year end.

VII. GASB 96 STATEMENT



VIII. FREQUENTLY ASKED QUESTIONS

Q. What Are SBITAs?

A. SBITAs allow governments to benefit from the use of IT software without maintaining a perpetual license or title to the software. These arrangements are mutually beneficial for both the vendor and the government. The State pays a monthly or annual fee for use of the software, which is essentially leasing the software and not buying it, outright. At the end of the SBITA the State will lose rights to the use of the software.

Q. What is the difference between software licenses and SBITAs?

A. Software that uses a license is owned. The software will work when the license expires. SBITAs are not owned. The State has the right to use the underlying asset for the subscription period and the software will not work when the subscription expires.

Q. When is the right to use the underlying asset recognized for SBITAs?

A. At the commencement of the subscription term.

Q. How are agencies accounting SBITAs contract with multiple components?

A. If a SBITA contract contains multiple components, a government should account for each component as a separate SBITA or non-subscription component and allocate the contract price to the different components.

Q. How are the Month-to-Month extensions or holdover periods on subscription handled in GASB 96?

A. Month to Month extensions or holdover periods would not be enforceable if both the State and the SBITA vendor have an option to terminate and, therefore, either could cancel the SBITA at any time.

Q. When determining the cost of the underlying asset are there additional costs to be included other than the lease payments?

A. Yes, ancillary costs to place the leased asset into service are added to the cost of the leased asset.

IX. CONCLUSION

GASB 96 is effective for all state agencies and component units beginning July 1, 2022. Questions regarding Asset Directive #5 should be directed to OSC.Assets@ct.gov.

The State Property Control Manual and the State Accounting Manual will be updated to reflect the changes made by GASB 96.