



State of Arizona Accounting Manual

Topic 10 Accounting and Reporting Issued 04/15/24
Section 31 **GASB 96 Subscription-Based Information** Page 1 of 8
Technology Arrangements (SBITAs)

INTRODUCTION

In May 2020, the Government Accounting Standards Board (GASB) issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. GASB 96 applies to any agency using information technology (IT) software and applies to all contracts meeting the definition of a SBITA unless specifically excluded.

Beginning in fiscal year 2023, SBITAs that meet the materiality threshold must be reported on the State ACFR. If however, the contract meets the definition of a lease under GASB 87, see SAAM 1030, *GASB 87 Leases*, for guidance.

POLICY & PROCEDURES

1. Information Technology (IT) contracts that are either existing or entered into on or after July 1, 2022, must be evaluated, and if the contracts meet the criteria for GASB 96, tracked and reported in the ACFR.
2. A Subscription-Based Information Technology Arrangement (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.
3. A contract conveys control of the right to use the underlying asset if it has both of the following:
 - 3.1. The right to obtain the present service capacity from the use of the underlying IT assets as specified in the contract; and
 - 3.2. The right to determine the nature and manner of use of the underlying IT assets specified in the contract.
4. SBITAs can be a subscription for the software alone or can include a support component. Software support services alone do not qualify as a SBITA.
5. An example of a typical SBITA is a cloud computing arrangement. The three most common cloud computing arrangements are the following:
 - 5.1. Software as a Service (SaaS) – A software license allowing the end user to access cloud-based applications over the internet (e.g. Google Workspace, Cisco Web Ex, Microsoft Office 365, etc.)

State of Arizona Accounting Manual

Topic 10 Accounting and Reporting
Section 31 **GASB 96 Subscription-Based Information
Technology Arrangements (SBITAs)**

Issued 04/15/24
Page 2 of 8

-
- 5.2. Platform as a Service (PaaS) – A cloud computing platform where users are able to build, run, maintain, and manage applications (e.g. Windows Azure, Google App Engine, OpenShift, etc.)
 - 5.3. Infrastructure as a Service (IaaS) – A cloud computing infrastructure that allows the user to access the vendor’s server, network, operating system, and storage (e.g. Amazon Web Services (AWS), Cisco Metacloud, Google Compute Engine (GCE), etc.)
 6. All three models involve a SBITA vendor providing the customer with the right to use the SBITA vendor’s IT resources, including its software application and cloud infrastructure (network, servers, operating systems, storage, and other tools). Although these are referred to by many “as a Service,” the substance of those arrangements is, in fact, the right to use vendors’ IT assets, and should not be grouped with “support services” which are excluded from SBITA reporting (see exclusions below).
 7. Contracts that are specifically **excluded** from GASB 96 reporting include:
 - 7.1. Contracts that contain both IT software and tangible capital assets that meet the definition of a lease in GASB Statement No. 87 – *Leases*, in which the software component is insignificant when compared to the cost of the underlying tangible capital asset (e.g. a computer with operating software, a smart copier that is connected to an IT system, etc.)
 - 7.2. Agencies that provide the right to use their internally-generated IT software and associated tangible capital assets to outside unrelated third parties through SBITAs (e.g. the State is the vendor and the third party is the subscriber paying the State)
 - 7.3. Inter-agency SBITAs or shared SBITA charges (e.g. ADOA pays the vendor for AZ360 and charges each agency for their use, only ADOA will report AZ360 as a SBITA, the individual agencies will not report AZ360 as a SBITA)
 - 7.4. Public-Private and Public-Public Partnerships (P3s) as defined in GASB Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements (P3s and APAs)*
 - 7.5. Licensing arrangements that provide a perpetual license to governments to use a vendor’s computer software (agency owns the software or will own the software upon completion of all payments)
 - 7.6. Support services (solely) for IT software, OR the portion of a subscription that is identified as support or maintenance services
 - 7.7. Short-term SBITAs that the initial term measurement has a maximum possible term at commencement date of twelve (12) months or less including options to extend regardless of the plan to exercise or not.
 - 7.7.1. A SBITAs with an annual renewal option would qualify as short-term only if the agreement is cancellable.

State of Arizona Accounting Manual

Topic 10 Accounting and Reporting
Section 31 **GASB 96 Subscription-Based Information
Technology Arrangements (SBITAs)**

Issued 04/15/24
Page 3 of 8

-
- 7.8. A Cancellable Period occurs when both the state 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). It may also be described as an unconditional termination option. Whereas, a conditional termination usually means one party can only terminate the agreement if the other party does or does not meet a specified condition such as a breach of contract. Statewide contracts typically do not contain a Cancellable Period, as typically only the State has an unconditional termination option, not both parties. Examples of Cancellable Periods include:
- 7.8.1. A SBITA that continues into a holdover period (i.e. month-to-month) until a new SBITA contract is entered into would be considered a Cancellable Period.
- 7.8.2. Annual renewal SBITAs where both the state and the vendor can terminate at each renewal date for any reason, anything after the renewal date would be considered a Cancellable Period.
8. Materiality Threshold.
- 8.1. The State has determined that a materiality threshold for applying this policy shall be set at five million dollars (\$5,000,000) for the Statewide ACFR. To ensure all qualifying SBITAs are identified, agencies must evaluate all SBITAs with five hundred thousand (\$500,000) in remaining payments utilizing the Decision Form. The Decision Form contains an overview of GASB 96 and will assist in identifying what must be reported, including how to calculate the remaining payments and implementation costs in order to determine materiality.
9. Reasonably Certain.
10. To determine if a SBITA meets the threshold of “*reasonably certain*,” the state agency should assess all factors relevant to the likelihood that the state or vendor will exercise an option. Examples of factors to consider include, but are not limited to, the following:
- 10.1. Market-based factors such as whether contractual terms and conditions for the optional periods are favorable compared with current market rates.
- 10.2. Technological development factors such as a change in technological development that significantly affect the technology used by underlying IT assets.
- 10.3. Demand factors such as a potential significant change in the government’s demand for the SBITA vendor’s IT assets.
- 10.4. Economic disincentive factors such as costs to terminate the SBITA and sign a new SBITA (e.g. negotiation costs, costs of identifying another suitable underlying IT asset or another suitable SBITA vendor, implementation costs, or a substantial cancellation penalty).
- 10.5. Historical factors such as the history of exercising options to extend or terminate.
- 10.6. Asset-based factors such as whether the underlying IT assets in the SBITA are essential to the provision of the government services.

State of Arizona Accounting Manual

Topic 10 Accounting and Reporting
Section 31 **GASB 96 Subscription-Based Information
Technology Arrangements (SBITAs)**

Issued 04/15/24
Page 4 of 8

11. Subscription term.

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

12.1. Periods covered by the state's option to extend the SBITA if it is *reasonably certain*, based on all relevant factors, that the state will exercise that option.

12.2. Periods covered by the state's option to terminate the SBITA if it is *reasonably certain*, based on all relevant factors, that the state will *not* exercise that option.

12.3. 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.

12.4. 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.

13. SBITA Liability.

14. A SBITA liability is calculated when the agency provides the following:

14.1. Fixed payments for subscriptions,

14.2. Variable payments that depend on an index or rate (e.g. Consumer Price Index or market interest rate), measured using the index or rate as of the beginning of the subscription term,

14.3. Fixed In-Substance Variable payments (the minimum cost of a variable usage fee),

14.4. Payments for penalties for terminating the SBITA, if the agency is reasonably certain to terminate the subscription early. This could include a fiscal funding clause or termination clause the agency is reasonably certain will be exercised, which would trigger a penalty,

14.5. Less any SBITA vendor incentives receivable during the subscription period, and

14.5.1. A SBITA vendor incentive includes payments made to, or on behalf of, the state for which the state has a right to offset its obligations to the vendor, or other concessions granted to the state. A SBITA vendor incentive is equivalent to a rebate or discount and includes an agreement to pay the state's pre-existing subscription obligations to a third party, other reimbursements of end-user costs, free subscription periods, and reductions of interest or principal charges by the vendor.

14.6. 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.

State of Arizona Accounting Manual

Topic 10 Accounting and Reporting
Section 31 **GASB 96 Subscription-Based Information
Technology Arrangements (SBITAs)**

Issued 04/15/24
Page 5 of 8

-
15. Many SBITAs charge a per user fee, or a cloud storage by volume, etc. If no minimum (defined as Fixed in Substance, see above) is identified in the contract or price quote, then the per user fee, storage volume fee, etc. portion of the SBITA is variable and is excluded from the calculation of the SBITA liability.
 16. Many SBITAs include support service or maintenance service fees along with subscription fees. If separately identified in the price quote or contract, support and/or maintenance service fees should be excluded from the Fixed or Fixed In-Substance fees described above.
 17. The budgeted amount for a SBITA is not the Fixed or Fixed In-Substance amount used for calculating the SBITA liability. A line-by-line review of the contract and/or price quote is required.
 18. The State measures the SBITA Liability as the Present Value of payments expected to be made during the SBITA term and is centrally calculated.
 19. SBITA Asset.
 20. SBITA Assets are calculated when agencies provide:
 - 20.1. Amount of the initial measurement of the SBITA liability,
 - 20.2. Subscription-related payments made to the vendor before or at the beginning of the SBITA term (e.g. down payment),
 - 20.3. Less any SBITA incentives received from the vendor before or at the beginning of the SBITA term (see description of SBITA vendor incentives in the SBITA liability section), and
 - 20.4. Capitalizable initial implementation costs.
 - 20.5. To properly record prepaid assets and the SBITA asset, agencies must report all upfront costs such as down payments, implementation costs, and any incentives received from the SBITA vendor.
 21. Capitalizable Implementation Costs.
 22. Additional outlays to the vendor other than subscription costs can occur. Some are Capitalizable Implementation Costs and some are not. Activities associated with a SBITA, other than making subscription payments, are grouped into one of the following stages which determines the accounting treatment.
 - 22.1. Preliminary Stage includes activities such as conceptual formulation, evaluation of alternatives, determination of existence of needed technology, and final selection of alternatives. These activities are expensed as they are incurred.
 - 22.2. Initial Implementation Stage includes configuration, coding, and testing; installation for the access to the underlying IT asset, and other ancillary charges necessary to place the subscription asset into service. The Initial Implementation Stage is complete when the asset is put into service. These activities are capitalized as additions to the subscription asset (excluding short-term SBITAs).

State of Arizona Accounting Manual

Topic 10 Accounting and Reporting
Section 31 **GASB 96 Subscription-Based Information
Technology Arrangements (SBITAs)**

Issued 04/15/24
Page 6 of 8

22.3. Operations and Additional Implementation Stage includes maintenance, troubleshooting, all other activities for ongoing access to IT asset, and may include additional implementation for additional modules that occur after the IT asset is placed into service. These activities should be:

22.3.1. Expensed, unless the activity meets the following exclusion,

22.3.2. If the activity is a modification that increases the functionality and/or efficiency, the amount should be capitalized.

22.4. Training activities occurring during any stage should be expensed as incurred.

22.5. Data conversion is considered an activity of the initial implementation stage only to the extent that is determined to be necessary to place the subscription asset into service as a condition for use. Otherwise, data conversion should be considered an activity of the operations and additional implementation stage.

23. Special Circumstances.

24. Some contracts are more complex and may have special circumstances such as contracts with multiple components or contract combinations.

25. Contracts with Multiple Components.

26. A contract may have *multiple components* such as a subscription component (the right to use the underlying IT assets) and a non-subscription component (e.g. a separate perpetual licensing arrangement or maintenance services). When a contract contains multiple components, the subscription and non-subscription components should be treated as separate contracts. However, if a contract does not include prices for individual components and it is not practicable to determine the best estimate for price allocation for some or all components in the contract, the components should be included as a single SBITA.

27. If a contract involves multiple underlying IT assets with different subscription terms, the state should account for each underlying IT asset as a separate subscription component. However, if a contract does not include prices for individual underlying IT assets and it is not practicable to determine the best estimate for price allocation for some or all components in the contract, the IT assets should be included as a single SBITA.

27.1. For example, there are several statewide contracts available for software subscriptions in which the agency can request a price quote and then issue an annual purchase order with annual renewals available. Since these SBITAs have different starting and ending dates with individual price quotes, each should be evaluated separately.

28. Subscriptions with multiple modules where the term begins at the same time should be accounted for as a single SBITA.

State of Arizona Accounting Manual

Topic 10 Accounting and Reporting
Section 31 **GASB 96 Subscription-Based Information
Technology Arrangements (SBITAs)**

Issued 04/15/24
Page 7 of 8

29. Contract Combinations.

30. Contracts entered into at or near the same time with the same SBITA vendor are considered part of the same contract if either of the following is met:

30.1. The contracts are negotiated as a package with a single objective, or

30.2. The amount of consideration to be paid in one contract depends on the price or performance of the other contract.

31. Subscription Modifications and Terminations.

32. The provisions of a SBITA contract may be amended while the contract is in effect and are known as amendments (e.g. changing contract price of the arrangement, lengthening or shortening the subscription term, adding or removing underlying IT assets, and changing the index or rate upon which variable payments depend).

33. Amendments during the reporting period resulting in a modification to a SBITA contract should be reported as a separate SBITA if both of the following conditions are present:

33.1. The SBITA modification gives the government an additional subscription asset by adding access to more underlying IT assets that were not originally included in the original SBITA contract, and

33.2. The increase in subscription payments for the additional subscription asset does not appear to be unreasonable based on the terms of the amended SBITA contract and professional judgement, maximizing the use of observable information (e.g., using readily available observable stand-alone prices).

34. An amendment should be considered a SBITA modification unless the state's right to use the underlying IT assets decreases, in which case the amendment should be considered a partial or full SBITA termination.

35. SBITA Determination, Reporting, and Forms.

36. To determine which contracts must be reported as a SBITA, use the SBITA Information, Decision, and Collection Forms found on the GAO website under Financials, Annual Comprehensive Financial Reports (ACFR), Closing Package Information tab, Section O.

37. All reportable GASB 96 SBITAs must be included within the ACFR and should be reported to the GAO ACFR group at ACFR@azdoa.gov. Agencies should report their GASB 96 SBITAs either by submitting their audited financial statements using the accrual basis of accounting or using the Closing Package process located on the GAO website under Financials, ACFR, Closing Package Information.

38. Data Entry in AZ360.

39. There are currently no required changes in the way SBITA payments are made in AZ360. SBITA assets will be manually calculated and will not be tracked in AZ360.

State of Arizona Accounting Manual

Topic 10 Accounting and Reporting Issued 04/15/24
Section 31 **GASB 96 Subscription-Based Information** Page 8 of 8
Technology Arrangements (SBITAs)

There are the following object codes should be utilized for easier tracking of SBITAs:

- 39.1. Object 7160, *Other External Computer Processing, Hosting, Subscriptions, Maintenance and Support Costs.*
- 39.2. Object 8485, *SBITA Implementation.*
40. While SBITA Implementation costs should be posted to a capital outlay object code, these costs should not be capitalized in AZ360. All calculations for the SBITA liability and asset will be completed manually outside of AZ360.