UNIVERSITY OF South Carolina

Office of the Controller

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

WHAT SHOULD BE CONSIDERED WHEN DETERMINING IF A SBITA MEETS GASB 96 CRITERIA?

NOTE: This section will assist in completing the required GASB 96 Questionnaire

Consideration #1 - Determine if the software contract is included or not. See "GASB 96 Exclusions" section on our website. If the contract is excluded, the questionnaire should not be completed. Please attach the Exclusion checklist, indicating the relevant selection, to your purchase requisition for review.

Consideration #2 - Determine the contract length. While the initial purchase request may only extend for 1 year, you will also need to know the period of time during which USC has a *noncancelable* right to use the underlying asset. Per GASB 96, the following periods should be included in this time period:

- Periods covered by USC's option to extend the contract if it is reasonably certain, based on all relevant factors, that USC will exercise that option.
- Periods covered by USC's option to terminate the contract if it is reasonably certain, based on all relevant factors, that USC will <u>not</u> exercise that option. (Not exercising an option to terminate just means that the contract will keep going)
- Periods covered by a vendor's option to extend the contract if it is reasonably certain, based on all relevant factors, that the Vendor will exercise that option.
- Periods covered by a vendor's option to terminate the contract if it is reasonably certain, based on all relevant factors, that the Vendor will <u>not</u> exercise that option.

Exclude any cancelable periods, or periods for which USC and the vendor both have the option to extend or terminate (such as rolling month-to-month contracts)

Cancelable right - Periods in a contract where both USC and the Vendor have an option to terminate the contract without permission from the other party (or if both parties have to agree to extend). Cancelable periods are excluded from GASB 96 in calculating contract terms.

> An example of a cancelable right would be an extension, during a holdover period until a new contract is signed, that allows for the contract to continue from month to month. The contract's "extension" months would not be included in the contract period calculation.

Noncancelable right - the contract term over which USC will be legally obliged to make payments, taking into account options to extend or terminate that are reasonably certain to be exercised.

If the contract will not extend beyond 12 months (including any exercised renewal periods), no further information is needed. If it will extend beyond 12 months continue to Consideration #3.

Consideration #3 - Materiality test to determine if the software contract is significant and should be accounted for under GASB 96 criteria.

The Controller's Office will perform final calculations as to the **subscription asset** and the **subscription liability** amounts. For considerations in submission of a software contract and the use of the appropriate account code on your purchase order, please consider the initial value as the sum of (1) the subscription payments, (2) payments made to the vendor at the commencement of the subscription term, such as one-time fees, and (3) capitalizable implementation costs, less any incentives received from the vendor at or before the commencement of the subscription term. Separately identifiable costs for maintenance and service contracts are not included.

If this total reaches $95,000, please use the GASB 96 account code 56209. If not, please use the services account code 52093. **USC will use the subscription asset as the basis for determining if the contract exceeds the materiality threshold.** If any changes are required, the Capital Asset team will contact you.

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

Stage	Activity	Accounting
Preliminary Project Stage	Activities in this stage include the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of vendors.	Outlays in this stage should be **expensed** as incurred.
This stage is complete when the above expenses are complete, and/or management implicitly or explicitly authorizes and commits the funding to the contract.		
Initial Implementation Stage	Activities in this stage include ancillary charges related to designing the chosen path, such as configuration, coding, testing, and installation associated with the government's access to the underlying IT assets. Data conversion if the asset cannot be used without data conversion, and other ancillary charges are necessary to place the subscription asset into service should also be included in this stage.	Outlays in this stage generally should be **capitalized** as an addition to the subscription asset.
This stage is complete when the asset is placed into service.		
Operation and Additional Implementation Stage	Activities in this stage include maintenance, troubleshooting, additional implementation activities (such as adding on modules), data conversion (not necessary to place the asset into service) and other activities associated with the government's ongoing access to the underlying IT asset.	Outlays in this stage should be **expensed** as incurred unless they meet specific capitalization criteria. Examples that would be capitalized, under this stage, include modifications that result in either: increased functionality of the asset that provide the ability to perform additional tasks, or increased efficiency of the asset or level of service provided by the asset.

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.**

Consideration #4 - Determine if USC will own the asset at the end of the contract term. If title will transfer to USC, then this is a financed purchase not a SBITA under GASB 96. Financed purchases of software will be accounted for separately from SBITAs and require the use of account code 56208 for purchases over $100,000.00 and 53031 for purchases below $100,000.00.

Note that certain contracts allow for an option to purchase at the end of the contract. A determination will need to be made at the beginning of the contract whether or not it is probable that this option to buy will be exercised. If it will, the contract should be considered a "financed purchase". If not, the contract should be considered as falling under GASB 96 considerations.

Consideration #5 - Determine if USC will have the right to control the asset. The "right to control" requires *both* of the following:

- The right to obtain the present service capacity from use of the underlying asset (the best way to describe this is to ask, "Do you currently have access to use the item?", if the answer is "YES", then you are presently using/benefiting from the item's service capacity.)
- The right to determine the nature and manner of use of the underlying asset (Do you have the right to control how the asset is used? Does the vendor place limitations on what you can do with the asset while in your use?) If the answer is "NO", then you have the right to determine the nature and manner of use.