**GASB 51 / GASB 96 CAPITALIZATION**

**QUICK REFERENCE**

(Frequently Asked Questions)

The purpose of this quick reference is to provide concise information and the Office of the State Controller’s interpretation of GASB standards in order to assist departments and service centers in identifying software and technology assets (and liabilities) which are to be reported in the State of Maine’s ***Annual Comprehensive Financial Report (ACFR)*** in accordance with GASB standards. This quick reference also provides the necessary background and technical information so that State agency personnel can plan ahead during the fiscal year to identify software and technology assets (and liabilities) that need to be reported to the Office of the State Controller as part of the yearend closing package process.

1. What is the GASB?

GASB is the ***Governmental Accounting Standards Board***. All governmental reporting entities, not just State governments, are required to adhere to GASB financial reporting standards.

1. What does “capitalization” mean?

“Capitalization” means that costs (expenditures) are reclassified for financial reporting purposes. Expenditures recorded in the accounting system which are normally reported on the Income Statement are “removed” and instead reported as Assets on the Balance sheet. (credit Expenditures, debit Assets). Correspondingly, the Assets are depreciated over the useful life of the assets (debit depreciation expense, credit accumulated depreciation). The affect of “capitalization” is to spread the cost of the asset over its useful life, i.e., instead of reporting total cost (outlays) on the Income Statement all in in one year, for example, costs are reported as “depreciation expense” (straight line method) in each year of the asset’s useful life.

1. Why is “capitalization” important?

Simply, because the GASB requires it. Nonconformity with GASB standards can result in audit findings and can result in the Office of the State Controller not obtaining its ***Certificate of Achievement for Excellence Financial Reporting*** from the Government Finance Officers Association (GFOA). Failure to obtain the annual GFOA certificate can adversely effect the State of Maine’s bond rating, i.e., resulting in higher interest rates on SOM’s debt.

1. Does my agency have to make any changes as to how we record transactions in the accounting system?

Generally, NO. The “capitalization” process is performed “off book” by the Office of the State Controller with the assistance of State agencies. However, OSC would encourage departments and service centers to develop contract and/or transaction coding in order to assist in the identification of capital assets, i.e., to facilitate contract and accounting transaction queries to identify capital assets.

1. Do GASB 51 and/or GASB 96 assets have to be recorded in the accounting system in the fixed asset module?

Generally, NO, since the process of capitalizing assets with respect to these GASB standards occurs “off book,” i.e., OSC tracks these capital assets in spreadsheets.

1. What is GASB 51?

GASB 51 requires governments to identify and include in the financial statements (ACFR), “intangible assets.” A subset of intangible assets includes “internally generated software.” It is “internally generated software” that OSC is most interested.

1. What is “internally generated software?”

Internally generated software includes software that is developed “in-house” and/or by contracted developers. Internally generated software also includes commercial off-the-shelf (COTS) when “more than an incremental effort” is required to modify or configure the COTS software in order to make it ready for use (place into production). The term “more than an incremental effort” is subjective. But, in general, and as an example, the cost of modifying the COTS software should be considered. Also, if the cost to modify the COTS is material, then an argument could be made to support that “more than an incremental effort” was involved in making the software ready for use. See FAQ regarding “materiality.” Also, refer to the definition of “internally generated software” per GASB 51 provided in subsequent pages.

1. What is GASB 96?

GASB 96 is Subscription Based Information Technology Arrangements (SBITAs). SBITA’s involve subscriptions of “right to use assets” with subscriptions periods, including optional renewal periods, longer than one year. SBITA assets include implementation costs and the present value of the future subscription payments. The GASB’s opinion is that SBITAs are essentially a long-term financing arrangement and thus under the standard, OSC is required to generate an amortization schedule (similar to any loan) in order to track an imputed interest expense and the change in the liability balance. Additionally, GASB 96 amortization schedules calculate amortization (depreciation) expense and accumulated amortization (depreciation).

1. What is the difference between GASB 51 and GASB 96?

The basic difference between the two standards is the GASB 51 “internal generated software” capitalizes assets (cost incurred during the software development phase) only. GASB 96, capitalizes implementation cost AND the present value of future subscription costs including renewal periods. It should be noted that GASB 96 assets may be more than GASB 96 liabilities because implementation costs are included in assets but not in liabilities. Conversely, GASB 96 assets and liabilities may be the same amount when there are no implementation costs, for example, when the government subscribes to COTS software or COTS “environments” in which are no implementation costs.

1. What is materiality?

The materiality level for GASB 51 and GASB 96 is $1,000,000 for capitalizable costs involved for the “project” taken as a whole. Also, refer to the FAQ regarding the definition of a “project.”

Note that for GASB 96, the total current contract amount as recorded in the accounting system (encumbered, unencumbered and/or future budget fiscal year staged amounts) may be something less than materiality. However, because GASB 96 factors the optional renewal periods into the calculation of the present value of future payments, an agency should develop a mechanism to assess or track potentially material SBITAs.

1. What is a project? Or, how is a project defined?

There is a certain amount of subjectivity in defining a “project.” However, in general, the scope of “project” may defined to include multiple vendors and “components” of a system that function as a complete system. A project may also include an upgrade of an existing system if the project significantly “increases the useful life of the system or provides additionally functionality – again, all subjective. An state agency and/or OSC can define “projects” based on professional judgement.

1. What is a phase? Or how is a phase defined?

There is a certain amount of subjectivity in defining a “phase.” An IT project may involve progressive implementation of a series of modules over several phases which may occur over several years. Thus, qualifying costs may be capitalized when a particular phase is complete and certain modules are migrated into production. In general, when one or more “significant” functional modules are placed into production during the fiscal year they may be capitalized.

1. For GASB 96, how is the term of the subscription determined?

The term of the subscription for financial reporting purposes, i.e., calculation of liabilities includes the initial term, (which may likely include the initial staged budget fiscal years) AND optional renewal periods.

1. When are cost capitalized?

Costs are capitalized when the software or subscription asset in “placed into service,” during the fiscal year in which the system or system component or module “goes live.” Also note during the system implementation or development phase, any capitalizable cost incurred prior to go-live have to be captured and reported in the financial statements and either “work-in-process” (GASB 51 internally generated software) or “prepaid assets” (GASB 96 SBITAs)

1. For GASB 51, what specific costs are capitalized and what specific costs are not capitalized?

Capitalized Costs include:

* Costs incurred during the ***software development phase***
* Data conversion if necessary to place the system into service
* Change Orders if occurring during the software development phase

Costs NOT Capitalized include:

* Costs incurred during the ***preliminary project phase***
* Costs incurred during the ***post implementation phase***
* Training
* Maintenance and Operations

It should be noted that capitalization of assets occurs for financial reporting purposes. Materiality of capital assets in total in the financial statements is extremely high, with total capital assets reported reaching into the billions of dollars. Therefore, OSC does not require absolute precision and scrutiny of every detail expenditure item to determine capitalizable costs.

1. How do we determine when the software development or implementation phase begins?

In general, for GASB 51 or GASB 96 any activities or costs that were incurred prior to the commencement of a signed contract or other agreement. The activities (costs) related to the RFP process and obtaining funding for the project would not be included in the implementation phase.

1. For GASB 96, what specific costs are capitalized and what specific costs are not capitalized?

Capitalized Costs include:

In general, all cost incurred related to activities or components under a signed contract or agreement could be potentially capitalized.

* COTS software perpetual licenses
* COTS software subscriptions
* Software as a Service (SAAS) subscriptions
* Infrastructure as a Service (IAAS) subscriptions
* Platform as a Service (PAAS) subscriptions
* Hosting (such as Amazon Web Services – AWS) subscriptions
* Data migration
* Requirement gathering
* Design Development and Implementation

Costs NOT Capitalized include:

* Training
* Maintenance and Operations
* Immaterial change orders subsequent to “go-live.”

1. For GASB 96 Subscriptions, what is included in the Liability amount?

Only subscription services with terms longer than one year are included in the liability amount. The subscription term must include optional renewals periods that are specified in the contract or agreement. In the case of a Buyer’s Purchase Order (BPO) for example, the optional renewal period can be considered to be for the term offered by the vendor in its official product quote. Acceptance of the quote and subsequent payment of fees specified in the quote is considered acceptance of an agreement between the government and vendor.

1. BPO and DO type procurement documents are not “contracts” per se. How should these be evaluated for potential capitalization?

Supporting documentation such as invoices, quotes, master agreements must be examined to determine whether the term of the “agreement” is longer than on year. For master agreements, the expiration date of the master agreement would be considered the end of the term.

1. For GASB 96 liabilities, do agencies have to calculate the present value of the future subscription payments?

No. The Office of the State Controller will generate an “amortization” schedule for each project or system to be capitalized. However, the agencies should insure that contracts provide sufficient detail to determine the term of the contract/subscription including optional renewal periods. The fee schedule for optional renewal periods should be included in the contract.

1. Ok, now that OSC has provided answers to some frequently asked questions, what should agencies being doing in order to help OSC comply with the GASB reporting standards?

When initiating any information technology contracts or agreements, the agency should make an assessment as to whether the cost of the project over its lifecycle, **including optional renewal periods** (in the case of GASB 96 subscriptions) is likely to exceed the materiality threshold; and beginning tracking project costs in order to disclose the project in the Office of the State Controller’s required closing package surveys.

1. These standards are complicated. How do I get additionally help?

To assist in making capitalization decisions, a Decision Tree, the text of GASB 51 (intangible assets / internally generated software) and the text of GASB 96 (subscription based information technology arrangements) are provided in the following pages.

In general, when evaluating an IT project to determine whether costs should be capitalized, the project should first be evaluated to see if there are subscription costs (longer that one year) involved; and if the project does not involve subscriptions, then the project should be evaluated to determine if it meets the guidelines and materiality threshold under GASB 51 internally generated software.

# GASB 96/51 Capitalization Decision Tree

GASB 96/51 Capitalization Questions:

1. Does the contract convey the right to use another party’s IT software?

* If YES, continue to question 2.
* If NO, the contract is a not a GASB 96 agreement. Skip to Question 7.

1. Is the IT software “controlled” by the government for a period of time in an exchange or exchange-like transaction?

* If YES, continue to question 3.
* If NO, then the government does not have “control,” therefore not a GASB 96 SBITA asset. Skip to Question 7.

1. Is the IT software contract alone or in combination with other tangible assets?

* If YES, if a “combination”, continue to Question 4.
* If NO, if “alone,” skip to Question 5.

1. Is the cost of the software component insignificant when compared to the cost of the underlying license to use a vendor’s software?

* If YES, then assess the hardware component of the contract for a GASB 87 “embedded lease.” This would be extremely rare. Consult with the Office of the State Controller.
* If NO, continue to Question 5.

1. Is the contract a licensing arrangement that provides a perpetual license to use a vendor’s software?

* If YES, then the contract does not meet the definition of a GASB 96 SBITA. End.
* If NO, then continue to Question 6.

1. Is the period, including optional renewal periods, for the right to use the software longer than 12 months?

* If YES, then the contract may meet the definition of a GASB 96 SBITA. Calculate the potential capitalizable amount.
* If NO, the contract does not meet the definition of a GASB 96 SBITA. Continue to Question 7.

1. Does the contract involve software development that meets the definition of “internally generated software” under GASB 51?

* If YES, then continue to Question 8.
* If NO, then the software development does not meet the definition of “internally generated software.” End.

1. Does the software development cost (GASB 51) or the present value of the future subscription payments plus implementation costs exceed the software capitalization threshold of $1,000,000?

* If YES, then the “costs incurred during the application development phase should be capitalized.
* If NO, then the assets (and/or GASB 96 liabilities) are not material to the financial statements and do not need to be capitalized.

# GASB 96 – Subscription Based Information Technology Arrangements

**INTRODUCTION**

1. It has become common for governments to enter into subscription-based contracts to use vendor-provided information technology (IT). Subscription- based information technology arrangements (SBITAs) provide governments with access to vendors’ IT software and associated tangible capital assets for subscription payments without granting governments perpetual license or title to the IT software and associated tangible capital assets. Prior to the issuance of this Statement, there was no accounting or financial reporting guidance specifically for SBITAs.
2. The objective of this Statement is to better meet the information needs of financial statement users by (a) establishing uniform accounting and financial reporting requirements for SBITAs; (b) improving the comparability of financial statements among governments that have entered into SBITAs; and (c) enhancing the understandability, reliability, relevance, and consistency of information about SBITAs.

**STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING**

**Scope and Applicability of This Statement**

1. This Statement establishes standards of accounting and financial reporting for SBITAs by a government end user (a government). The requirements of this Statement apply to financial statements of all state and local governments.
2. 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.
3. This Statement supersedes *Implementation Guide No. 2015-1,* Questions Z.51.21 and Z.51.38. This Statement amends Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments,* paragraphs 116 and 117; Statement No. 38, *Certain Financial Statement Note Disclosures,* paragraph 10; Statement No. 42, *Ac- counting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* paragraphs 11 and 12; Statement 51, paragraph 3; Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* paragraph 135; Statement 87, paragraph 8; Implementation Guide 2015-1, Questions 5.77.1, Z.51.18, Z.51.22, and Z.51.23; Implementation Guide No. 2017-2, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* Question 4.61; and Implementation Guide No. 2019-3, *Leases,* Questions 4.22, 4.25, 4.64, and 4.67.

**Definition**

1. For purposes of applying this Statement, a 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-like1 transaction.
2. 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
   2. The right to determine the nature and manner of use of the underlying IT assets as specified in the contract.
3. SBITAs include contracts that, although not explicitly identified as a SBITA, meet the definition of a SBITA in paragraph 6. That definition excludes contracts that solely provide IT support services but includes contracts that contain *both* a right-to-use IT asset component and an IT support services component.

**Subscription Term**

1. 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:
   1. 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
   2. 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
   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
   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.

Periods for which both the government and the SBITA 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. For example, a rolling month-to-month SBITA, or a SBITA that continues into a holdover period until a new SBITA contract is entered into, would not be enforceable if both the government and the SBITA vendor have an option to terminate and, therefore, either could cancel the SBITA at any time. Provisions that allow for termination of a SBITA as a result of either payment of all sums due or default on subscription payments are *not* considered termination options.

1. 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.

1The scope of this Statement includes both exchange and exchange-like transactions. Foot- note 1 of Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* states, “The difference between exchange and exchange-like transactions is a matter of degree. In contrast to a ‘pure’ exchange transaction, an exchange-like transaction is one in which the values exchanged, though related, may not be quite equal or in which the direct benefits may not be exclusively for the parties to the transaction. Nevertheless, the exchange characteristics of the transaction are strong enough to justify treating the transaction as an exchange for accounting recognition.”

1. At the commencement of the subscription term, a government should assess all factors relevant to the likelihood that the government or the SBITA vendor will exercise the options identified in paragraphs 9a–9d, whether those factors are contract based, underlying IT asset based, market based, or government specific. The assessment often will require the consideration of a combination of interrelated factors. Examples of factors to consider include, but are not limited to, the following:
   1. A significant economic incentive, such as contractual terms and conditions for the optional periods that are favorable compared with current market rates
   2. A potential change in technological development that significantly affects the technology used by the underlying IT assets
   3. A potential significant change in the government’s demand for the SBITA vendor’s IT assets
   4. A significant economic disincentive, such as costs to terminate the SBITA and sign a new SBITA (for example, negotiation costs, costs of identifying another suitable underlying IT asset or another suitable SBITA vendor, implementation costs, or a substantial cancellation penalty)
   5. The history of exercising options to extend or terminate
   6. The extent to which the underlying IT assets in the SBITA are essential to the provision of government services.
2. A government should reassess the subscription term only if one or more of the following occur:
   1. The government or SBITA vendor elects to exercise an option even though it was previously determined that it was reasonably certain that the government or SBITA vendor would not exercise that option.
   2. The government or SBITA vendor elects not to exercise an option even though it was previously determined that it was reasonably certain that the government or SBITA vendor would exercise that option.
   3. An event specified in the SBITA contract that requires an extension or termination of the SBITA takes place.

**Short-Term SBITAs**

1. A short-term SBITA is a SBITA that, at the commencement of the subscription term, has a maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. As discussed in paragraph 9, periods for which both the government and the SBITA 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 should be excluded from the maximum possible term. For a SBITA that has cancellable periods, such as a rolling month-to-month SBITA or a year-to-year SBITA, the maximum possible term of that SBITA is the noncancellable period, including any notice periods.
2. A government should recognize short-term subscription payments as out- flows of resources (for example, expense) based on the payment provisions of the SBITA contract. A government should recognize an asset if subscription payments are made in advance or a liability if subscription payments are to be made subsequent to the reporting period. A government should not recognize an outflow of resources for the period for which the SBITA vendor grants the right to use the underlying IT assets to the government free of charge (for example, one or more months free).

**Recognition and Measurement for SBITAs Other Than Short-Term SBITAs—Economic Resources Measurement Focus**

1. At the commencement of the subscription term, a government should recognize a subscription liability and an intangible right-to-use asset (a capital asset hereinafter referred to as the subscription asset), except as provided in paragraphs 13 and 14 (short-term SBITAs). The commencement of the subscription term occurs when the initial implementation stage is completed, as described in paragraphs 29 and 30, 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.

**Subscription Liability**

1. A government initially should measure the subscription liability at the present value of subscription payments expected to be made during the sub- scription term. Measurement of the subscription liability should include the following, if required by a SBITA:
   1. Fixed payments
   2. 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
   3. Variable payments that are fixed in substance, as discussed in paragraph 17
   4. 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
   5. Any subscription contract incentives (as discussed in paragraphs 42 and 43) receivable from the SBITA vendor
   6. 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.
2. Variable payments other than those that depend on an index or a rate, such as variable payments based on future performance of a government, usage of the underlying IT assets, or number of user seats, should not be included in the measurement of the subscription liability. Rather, those variable payments should be recognized as outflows of resources (for example, expense) in the period in which the obligation for those payments is incurred. However, any component of those variable payments that is fixed in substance should be included in the measurement of the subscription liability.
3. The future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be the interest rate implicit in the SBITA. If the interest rate cannot be readily determined by the government, the government’s estimated incremental borrowing rate (an estimate of the interest rate that would be charged for borrowing the subscription payment amounts during the subscription term) should be used. A government is not required to apply the guidance for imputation of interest in paragraphs 173–187 of Statement 62, as amended, but may do so as a means of deter- mining the interest rate implicit in the SBITA.
4. In subsequent financial reporting periods, a government should calculate the amortization of the discount on the subscription liability and report that amount as an outflow of resources (for example, interest expense) for those periods. Any subscription payments made should be allocated first to the accrued interest liability and then to the subscription liability.
5. A government should remeasure the subscription liability at subsequent financial reporting dates if one or more of the following changes have occurred at or before those financial reporting dates, based on the most recent SBITA contract before the changes,2 and the changes individually or in the aggregate are expected to significantly affect the amount of the subscription liability since the previous measurement:
   1. There is a change in the subscription term.
   2. There is a change in the estimated amounts for subscription payments already included in the measurement of the subscription liability (except as provided in paragraph 21).
   3. There is a change in the interest rate the SBITA vendor charges the government, if used as the initial discount rate.

2Changes arising from amendments to a SBITA contract should be accounted for in accordance with the provisions in paragraphs 54–57 for SBITA modifications and terminations.

* 1. A contingency, upon which some or all of the variable payments that will be made over the remainder of the subscription term are based, is resolved such that those payments now meet the criteria for measuring the subscription liability in accordance with paragraph 16. For example, an event occurs that causes variable payments that were contingent on the performance or use of the underlying IT assets to become fixed for the remainder of the subscription term.

1. If a subscription liability is remeasured for any of the changes in para- graph 20, the liability also should be adjusted for any change in an index or a rate used to determine variable payments if that change in the index or rate is expected to significantly affect the amount of the liability since the previous measurement. A subscription liability is not required to be remeasured solely for a change in an index or a rate used to determine variable payments.
2. A government also should update the discount rate as part of the remeasurement if there is a change3 in the subscription term and that change is expected to significantly affect the amount of the subscription liability.
3. A subscription liability is not required to be remeasured, nor is the discount rate required to be reassessed, solely for a change in a government’s incremental borrowing rate.
4. If the discount rate is required to be updated based on the provisions in paragraph 22, the discount rate should be based on the revised interest rate the SBITA vendor charges the government at the time the discount rate is updated. If that interest rate cannot readily be determined, the government’s estimated incremental borrowing rate at the time the discount rate is updated should be used.

3See footnote 2.

**Subscription Asset**

**Measurement**

1. A government initially should measure the subscription asset as the sum of the following, less any SBITA vendor incentives (as discussed in paragraphs 42 and 43) received from the SBITA vendor at the commencement of the subscription term:
   1. The amount of the initial measurement of the subscription liability, as dis- cussed in paragraph 16
   2. Payments associated with the SBITA contract made to the SBITA vendor at the commencement of the subscription term, if applicable
   3. Capitalizable initial implementation costs as described in paragraph 29b.
2. Payments before the commencement of the subscription term associated with the SBITA contract made to the SBITA vendor, as well as payments made for the capitalizable initial implementation costs before the commencement of the subscription term, should be reported as a prepayment (an asset). A prepayment to a SBITA vendor should be reduced by any incentives received from the same SBITA vendor before the commencement of the subscription term, if a right of offset exists (as described in paragraph 501 of Statement 62, as amended). That prepayment should be reclassified as an addition to the initial measurement of the subscription asset at the commencement of the subscription term. If the SBITA vendor incentives are greater than the SBITA vendor prepayments made to the same vendor, the difference should be reported as a liability until the commencement of the subscription term, at which time that amount should reduce the initial measurement of the subscription asset.
3. A 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. Amortization should begin at the commencement of the subscription term as described in paragraph 15.
4. A subscription asset generally should be adjusted by the same amount as the corresponding subscription liability when that liability is remeasured based on paragraphs 20–24. However, if that change reduces the carrying value of the subscription asset to zero, any remaining amount should be reported in the resource flows statement (for example, a gain).

**Outlays Other Than Subscription Payments, including Implementation Costs**

**Stages of implementation**

1. Activities associated with a SBITA—other than a government making subscription payments to the SBITA vendor for the right to use the underlying IT assets—should be grouped into the following stages:
   1. *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 alternatives for the SBITA.
   2. *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. Other ancillary charges necessary to place the subscription asset into service also should be included in this stage. The initial implementation stage for the SBITA is completed when the subscription asset is placed into service.
   3. *Operation and Additional Implementation Stage*. Activities in this stage include maintenance, troubleshooting, and other activities associated with the government’s ongoing access to the underlying IT assets. Activities in this stage also may include additional implementation activities, such as those related to additional modules as discussed in paragraph 30, that occur after the subscription asset is placed into service.
2. If a SBITA has more than one module and the modules are implemented at different times, the initial implementation stage for the SBITA is completed, and, therefore, the subscription asset is placed into service when initial implementation is completed for the first independently functional module or for the first set of interdependent modules, regardless of whether all remaining modules have been completely implemented. For the remaining modules of that SBITA, all additional implementation activities should be considered subsequent implementation outlays and should be accounted for in accordance with para- graphs 38–40.
3. Data conversion should be considered an activity of the initial implementation stage only to the extent that it is determined to be necessary to place the subscription asset into service—that is, in condition for use. Otherwise, data conversion should be considered an activity of the operation and additional implementation stage.

**Accounting for outlays incurred**

1. Other than subscription payments for the right to use the underlying IT assets, outlays incurred prior to completing all of the following should be expensed as incurred:
   1. Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the subscription asset
   2. Demonstration of the technical or technological feasibility such that the subscription asset will provide its expected service capacity
   3. Demonstration of the current intention, ability, and presence of effort to enter into a SBITA contract.
2. The requirements in paragraph 32 should be considered to be completed only when both of the following occur:
   1. The activities noted in the preliminary project stage as described in para- graph 29a are completed.
   2. Management implicitly or explicitly authorizes and commits to funding the SBITA, at least for the current fiscal year in the case of a multiyear project.

**Preliminary project stage**

1. Outlays associated with activities in the preliminary project stage should be expensed as incurred.

**Initial implementation stage**

1. Outlays associated with activities in the initial implementation stage generally should be capitalized as part of the subscription asset.
2. If no subscription asset is recognized (for example, if the contract is a short-term SBITA), activities in the initial implementation stage should be expensed as incurred.

**Operation and additional implementation stage**

1. Outlays in this stage that are associated with operational activities should be expensed as incurred, except for those that meet one of the capitalization criteria in paragraph 40. Outlays in this stage that are associated with additional implementation activities should be accounted for in accordance with para- graph 40.

### Accounting for certain outlays, including subsequent implementation outlays

1. The activities of implementation of a SBITA described in paragraph 29 may overlap or occur in multiple cycles. Regardless of whether a SBITA is composed of one module, more than one module implemented at the same time, or more than one module implemented at different times, the recognition guidance for outlays other than subscription payments should be applied based on the nature and timing of the activity. Although both factors should be considered, the nature of the activity should be the determining (that is, more influential) factor. Subscription payments should be accounted for in accordance with the recognition and measurement requirements in paragraphs 16–28.
2. Training costs should be expensed as incurred, regardless of the stage in which they are incurred.
3. If outlays are a result of SBITA modifications as described in para- graphs 52–55, the outlays should be accounted for in accordance with those paragraphs. There also may be outlays associated with a SBITA already in operation that are incurred in addition to subscription payments. For example, after the subscription asset is placed into service, a government may incur outlays associated with converting its legacy data on an old server to the vendor’s cloud storage. Generally, those outlays should be expensed as incurred. However, additional outlays that are not a result of SBITA modifications but that result in either of the following should be capitalized as an addition to an existing subscription asset:
   1. An increase in the functionality of the subscription asset; that is, the sub- scription asset allows the government to perform tasks that it could not previously perform with the subscription asset
   2. An increase in the efficiency of the subscription asset; that is, an increase in the level of service provided by the subscription asset without the ability to perform additional tasks.

**Impairment**

1. The presence of impairment indicators (described in paragraph 9 of Statement 42, as amended) with respect to the underlying IT assets may result in a change in the manner or duration of use of the subscription asset. Such a change in the manner or duration of use of the subscription asset may indicate that the service utility of the subscription asset is impaired. The length of time during which the government cannot use the underlying IT assets, or is limited to using them in a different manner, should be compared to their previously expected manner and duration of use to determine whether there is a significant decline in the service utility of the subscription asset. If a subscription asset is impaired, the amount reported for the subscription asset should be reduced first for any change in the corresponding subscription liability. Any remaining amount should be recognized as an impairment.

**Incentives Provided by a SBITA Vendor**

1. As used in this Statement, incentives provided by a SBITA vendor (SBITA vendor incentives) are (a) payments made to, or on behalf of, a government for which the government has a right of offset with its obligation to the SBITA vendor or (b) other concessions granted to the government. A SBITA vendor incentive is equivalent to a rebate or discount and includes an agreement to pay a government’s preexisting subscription obligations to a third party, other reimbursements of end user costs, free subscription periods, and reductions of interest or principal charges by the SBITA vendor.
2. SBITA vendor incentives reduce the amount that a government is required to pay for a SBITA. SBITA vendor incentives that provide payments to, or on behalf of, a government at or before the commencement of a subscription term should be included in initial measurement by directly reducing the amount of the subscription asset. (See paragraphs 25 and 26.) SBITA vendor incentives that provide payments after the commencement of the subscription term should be factored into the present value of the subscription payments for the periods in which the incentive payments will be provided, when initially measuring the subscription liability, as described in paragraph 16e. Accordingly, SBITA vendor incentive payments to be provided after the commencement of the subscription term are included in the initial measurement and any remeasurement of the subscription liability if the incentive payments are fixed or fixed in substance, whereas variable or contingent incentive payments are not included.

**Contracts with Multiple Components**

1. A government may enter into contracts that contain multiple components, such as (a) a contract that contains both a subscription component (that is, the right to use the underlying IT assets) and a nonsubscription component or (b) a contract that contains multiple underlying IT asset components. Examples of nonsubscription components include a separate perpetual licensing arrangement (which is excluded from this Statement as described in paragraph 4d) and maintenance services for the IT assets.
2. If a government enters into a contract that contains both a subscription component and a nonsubscription component, the government should account for the subscription and nonsubscription components as separate contracts unless the contract meets the exception in paragraph 48.
3. 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. The provisions of this paragraph should be applied unless the contract meets the exception in paragraph 48.
4. To allocate the contract price to the different components, a government first should use any prices for individual components that are included in the contract, as long as the price allocation does not appear to be unreasonable based on the terms of the contract and professional judgment, maximizing the use of observable information (for example, using readily available observable stand-alone prices). Stand-alone prices are those that would be paid if the right to use the same or similar IT asset components were contracted individually or if the right to use the same or similar nonsubscription components were contracted individually. Some contracts provide discounts for bundling multiple subscription components or bundling subscription and nonsubscription components together in one contract. Those discounts may be taken into account when determining whether individual component prices do not appear to be unreasonable. For example, if the individual component prices each are dis- counted by the same percentage from normal market prices, the discount included in those component prices would not appear to be unreasonable.
5. If a contract does not include prices for individual components, or if any of those prices appear to be unreasonable as provided in paragraph 47, a government should use professional judgment to determine its best estimate for allocating the contract price to those components, maximizing the use of observable information. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a government should account for those components as a single SBITA. In addition, a government should account for a SBITA with multiple modules in which the subscription term commences at the same time for all modules (as described in paragraph 30) as a single SBITA.
6. If multiple components are accounted for as a single SBITA as provided in paragraph 48, the accounting for that SBITA should be based on the primary subscription component within that SBITA. For example, the primary subscription component’s term should be used for the SBITA if those components have different terms.

**Contract Combinations**

1. 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 criteria is met:
   1. The contracts are negotiated as a package with a single objective.
   2. The amount of consideration to be paid in one contract depends on the price or performance of the other contract.
2. If multiple contracts are determined to be part of the same contract, that contract should be evaluated in accordance with the guidance for contracts with multiple components in paragraphs 44–49.

**SBITA Modifications and Terminations**

1. The provisions of a SBITA contract may be amended while the contract is in effect. Amendments change the provisions of the SBITA contract. Examples of amendments to SBITA contracts include changing the contract price of the arrangement, lengthening or shortening the subscription term, adding or re- moving underlying IT assets, and changing the index or rate upon which variable payments depend. An amendment should be considered a SBITA modification unless the government’s right to use the underlying IT assets decreases, in which case the amendment should be considered a partial or full SBITA termination. By contrast, exercising an existing option, such as an option to extend or terminate the SBITA as discussed in paragraphs 12a and 12b, is subject to the guidance for remeasurement.
2. If variable payments of a SBITA contract depend on an interbank offered rate (IBOR), an amendment of the contract solely to replace the IBOR with another rate (that is adjusted, if necessary, to essentially equate the replacement rate and the original rate) by either changing the rate or adding or changing fallback provisions related to the rate, is not a modification to the SBITA contract.

**SBITA Modifications**

1. A government should account for an amendment during the reporting period resulting in a modification to a SBITA contract as a separate SBITA (that is, separate from the most recent SBITA contract before the modification) if both of the following conditions are present:
   1. The SBITA modification gives the government an additional subscription asset by adding access to more underlying IT assets that were not included in the original SBITA contract.
   2. The increase in subscription payments for the additional subscription asset does not appear to be unreasonable based on (1) the terms of the amended SBITA contract and (2) professional judgment, maximizing the use of observable information (for example, using readily available observable stand- alone prices)
2. Unless a modification is reported as a separate SBITA as provided in paragraph 54, a government should account for a SBITA modification by remeasuring the subscription liability. The subscription asset should be adjusted by the difference between the remeasured liability and the liability immediately before the SBITA modification. However, if the change reduces the carrying value of the subscription asset to zero, any remaining amount should be reported in the resource flows statement (for example, a gain).

**SBITA Terminations**

1. A government should account for an amendment during the reporting period resulting in a decrease in the government’s right to use the underlying IT assets (for example, the subscription term is shortened or the underlying IT assets are reduced) as a partial or full SBITA termination.
2. A government generally should account for the partial or full SBITA termination by reducing the carrying values of the subscription asset and subscription liability and recognizing a gain or loss for the difference.

**Financial Statements Prepared Using the Current Financial Resources Measurement Focus**

1. If a SBITA is expected to be paid from general government resources, the SBITA should be accounted for and reported on a basis consistent with governmental fund accounting principles.
2. An expenditure and other financing source should be reported in the period the subscription asset is initially recognized. The expenditure and other financing source should be measured as provided in paragraphs 16–18. Subsequent governmental fund subscription payments should be accounted for consistent with principles for debt service payments on long-term debt.

**Notes to Financial Statements**

1. 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:
   1. 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
   2. The total amount of subscription assets, and the related accumulated amortization, disclosed separately from other capital assets
   3. The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the sub- scription liability
   4. 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
   5. 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
   6. Commitments under SBITAs before the commencement of the subscription term
   7. The components of any loss associated with an impairment (the impairment loss and any related change in the subscription liability, as discussed in paragraph 41).
2. For disclosure purposes, subscription liabilities are not considered debt that is subject to the disclosure requirements in Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.*

# GASB 51 – Intangible Assets (software development)

(Relevant paragraphs only)

1. Intangible assets are considered internally generated if they are created or produced by the government or an entity contracted by the government, or if they are acquired from a third party but require more than minimal incremental effort on the part of the government to begin to achieve their expected level of service capacity.
2. Outlays incurred related to the development of an internally generated intangible asset that is identifiable should be capitalized only upon the occurrence of all of the following:
   1. Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the intangible asset upon the completion of the project
   2. Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity
   3. Demonstration of the current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of the intangible asset. Only outlays incurred subsequent to meeting the above criteria should be capitalized.

Only outlays incurred subsequent to meeting the above criteria should be capitalized.

Outlays incurred prior to meeting those criteria should be expensed as incurred.

**INTERNALLY GENERATED COMPUTER SOFTWARE**

1. Computer software is a common type of intangible asset that is often internally generated. Computer software should be considered internally generated if it is developed in-house by the government's personnel or by a third-party contractor on behalf of the government. Commercially available software that is purchased or licensed by the government and modified using more than minimal incremental effort before being put into operation also should be considered internally generated for purposes of this Statement. For example, licensed financial accounting software that the government modifies to add special reporting capabilities would be considered internally generated.
2. The activities involved in developing and installing internally generated computer software can be grouped into the following stages:
   1. ***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 alternatives for the development of the software.
   2. ***Application Development Stage***. Activities in this stage include the design of the chosen path, including software configuration and software interfaces, coding, installation to hardware, and testing, including the parallel processing phase.
   3. ***Post-Implementation/Operation Stage***. Activities in this stage include application training and software maintenance.

Data conversion should be considered an activity of the application development stage only to the extent it is determined to be necessary to make the computer software operational, that is, in condition for use. Otherwise, data conversion should be considered an activity of the post-implementation/operation stage.

1. For internally generated computer software, the criteria in paragraph 8 should be considered to be met only when both of the following occur:
   1. The activities noted in the preliminary project stage are completed
   2. Management implicitly or explicitly authorizes and commits to funding, at least currently in the case of a multiyear project, the software project.

Accordingly, outlays associated with activities in the preliminary project stage should be expensed as incurred. For commercially available software that will be modified to the point that it is considered internally generated, (a) and (b) above generally could be considered to have occurred upon the government's commitment to purchase or license the computer software.

1. Once the criteria in paragraph 8 have been met, as described in the preceding paragraph, outlays related to activities in the application development stage should be capitalized. Capitalization of such outlays should cease no later than the point at which the computer software is substantially complete and operational.
2. Outlays associated with activities in the post-implementation/operation stage should be expensed as incurred.
3. The activities within the stages of development described in paragraph 10 may occur in a sequence different from that shown in that paragraph. The recognition guidance for outlays associated with the development of internally generated computer software set forth above should be applied based on the nature of the activity, not the timing of its occurrence. For example, outlays associated with application training activities that occur during the application development stage should be expensed as incurred.
4. Outlays associated with an internally generated modification of computer software that is already in operation should be capitalized in accordance with paragraphs 11 and 12 if the modification results in any of the following:
   1. An increase in the functionality of the computer software, that is, the computer software is able to perform tasks that it was previously incapable of performing
   2. An increase in the efficiency of the computer software, that is, an increase in the level of service provided by the computer software without the ability to perform additional tasks
   3. An extension of the estimated useful life of the software.

If the modification does not result in any of the above outcomes, the modification should be considered maintenance, and the associated outlays should be expensed as incurred.