

TRUCKEE TAHOE AIRPORT DISTRICT

POLICY INSTRUCTION

PI NUMBER 323

Effective: May 22, 2024

Retroactive to July 1, 2022

SUBJECT: GASB 96 Subscription-Based Information Technology Arrangement Capitalization Policy

PURPOSE: To establish a District SBITA (Subscription Based Information Technology Arrangement) Capitalization Policy

Background:

In recent years, subscription-based information technology arrangements (SBITAs) have become an increasingly common method for government entities to access and use software to perform their operations. SBITAs provide a flexible and cost-effective solution for governments without the upfront costs associated with traditional software licenses. Rather than purchasing software outright, government entities can subscribe to software services from vendors for a specified period, typically one year or more, paying for the service on a recurring basis.

SBITAs often include additional benefits like automatic software updates, data backup and recovery, and technical support. Given the increasing prevalence of SBITAs, it is important for governments to understand the accounting and reporting implications for these arrangements to ensure that they are accurately reflected in the financial statements.

The Government Accounting Standards Board (GASB) has issued Statement Number 96 (GASB 96, "the standard"), which is effective for fiscal years that begin after June 15, 2022. GASB 96 provides guidance on proper accounting for SBITAs while improving the comparability and consistency of financial reporting across governments that use these arrangements.

General Provisions:

This policy states the capitalization threshold TRUCKEE TAHOE AIRPORT DISTRICT has established for SBITAs, provides guidance to TRUCKEE TAHOE AIRPORT DISTRICT staff about when it is appropriate to capitalize SBITAs, and describes the measurement and accounting treatment of SBITAs under GASB Statement No. 96.

Definitions

Subscription-based information technology arrangement (SBITA): 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.

Short-term SBITA: Subscription-based information technology arrangements that have a maximum possible term of 12 months or less, including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs are recognized as outflows of resources (e.g., expenditures).

Subscription term: The period during which TRUCKEE TAHOE AIRPORT DISTRICT has a noncancelable right to use the underlying IT assets (referred to as the non-cancelable period), plus the following periods, if applicable:

- Periods covered by TRUCKEE TAHOE AIRPORT DISTRICT's option to extend the SBITA if it is reasonably certain, based on all relevant factors, that TRUCKEE TAHOE AIRPORT DISTRICT *will* exercise that option.
- Periods covered by TRUCKEE TAHOE AIRPORT DISTRICT's option to terminate the SBITA if it is reasonably certain, based on all relevant factors, that TRUCKEE TAHOE AIRPORT DISTRICT *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.

Cancelable periods: Periods in which both TRUCKEE TAHOE AIRPORT DISTRICT and the SBITA vendor have an option to terminate the SBITA without requiring the permission of the other party (or if both parties have to agree to extend).

Noncancelable period: The period of a contract during which the contract cannot be terminated without the consent of the other party.

General Policy

TRUCKEE TAHOE AIRPORT DISTRICT has established a capitalization threshold of \$1,500,000, roughly 2.4 of Net Fixed Assets for SBITAs (SBITA capitalization threshold) that are subject to the requirements of GASB 96. SBITAs whose payments in aggregate during the subscription term are below this threshold will not be capitalized, as TRUCKEE TAHOE AIRPORT DISTRICT has determined that such IT arrangements are not material to its financial statements. The capitalization threshold will be reviewed regularly and adjusted as conditions warrant to ensure compliance with GASB 96 and any subsequent amendments. Changes to this policy shall be approved by the Chief Business Official (CBO).

Qualifying Criteria

If a contract meets all the following criteria, the contract is subject to the treatment of SBITAs described in GASB 96 and will be capitalized accordingly:

- The contract meets the definition of SBITA as defined in the standard.
- The contract is not a short-term SBITA, as defined.
- The contract is not subject to any exclusions listed in the standard.
- The payments in aggregate called for under the contract meet or exceed the TRUCKEE TAHOE AIRPORT DISTRICT SBITA capitalization threshold.

Exclusions

The provisions of GASB Statement 96 do not apply to the following:

- SBITAs that are not considered capital assets, such as short-term SBITAs with a maximum possible term of 12 months or less, including any options to extend.
- SBITAs that provide the government with ownership or indefinite use of the vendor's IT assets, arrangements for internally generated software, or commercially available software acquired through perpetual licensing agreements.
- SBITAs 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 *GASB Statement No. 87, Leases*.
- SBITAs that are not considered subscription-based, such as contracts that solely provide IT support services, which are excluded from the definition of a SBITA in paragraph 8 of the standard.
- Contracts in which TRUCKEE TAHOE AIRPORT DISTRICT provides the right to use its IT software and associated capital assets to other entities through SBITAs.
- Contracts that meet the definition of a public-private and public-public partnership in *GASB 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements*.
- SBITAs that are not material to TRUCKEE TAHOE AIRPORT DISTRICT's financial statements, as the standard allows for materiality considerations in the application of its provisions.

Recognition and Measurement for SBITAs Other Than Short-Term

Under GASB 96, TRUCKEE TAHOE AIRPORT DISTRICT will recognize a right-to-use subscription asset and a corresponding subscription liability. The subscription liability should be recognized at the start of the subscription term when the subscription asset is placed into service; this occurs when the initial implementation phase is complete and TRUCKEE TAHOE AIRPORT DISTRICT obtains control of the right to use the underlying IT assets.

Subscription Liability

The subscription liability is initially measured as the present value of subscription payments expected to be made during the subscription term. Subscription payments are discounted at the implicit rate when known; if unknown, a reasonable incremental borrowing rate will be used.

The discount on the subscription liability is amortized over subsequent accounting periods. The amortization is calculated using the effective interest method, which results in a constant periodic interest rate applied to the outstanding balance of the subscription liability. The effective interest rate is calculated at the inception of the subscription liability and is based on the discount rate used to measure the liability, adjusted for any changes in the liability's expected cash flows.

Any subscription payments made should be allocated first to the accrued interest liability and then to the subscription liability. The financial statements should include disclosure of the amount of interest expense recognized during the reporting period and the amount of the discount on the subscription liability that has been amortized to date (i.e., accumulated amortization).

Subscription Asset

The subscription asset is measured at the commencement of the subscription term, which occurs when the initial implementation stage is completed, and TRUCKEE TAHOE AIRPORT DISTRICT has obtained control of the right to use the underlying IT assets.

The subscription asset is recognized and initially measured as follows:

The initial subscription liability amount
+ Payments made to the SBITA vendor at or before commencement of the subscription term
+ Capitalizable implementation costs
- Incentives received from the SBITA vendor at or before commencement of the subscription term
= Subscription Asset amount

The 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 begins at the commencement of the subscription term and is reported as an outflow of resources (e.g., amortization expense), which may be combined with depreciation expense related to other capital assets for financial reporting purposes. The amortization of the subscription asset is calculated using the straight-line method, which results in a constant periodic amortization amount over the subscription term.

The periodic amortization amount is calculated as the initial measurement of the subscription asset, less any residual value, divided by the shorter of the subscription term or the useful life of the underlying IT assets. The amount of the subscription asset recognized during the reporting period, the amount of accumulated amortization, and the remaining useful life of the subscription asset should be disclosed in the financial statements.

Reassessment of Subscription Term

TRUCKEE TAHOE AIRPORT DISTRICT will reassess the subscription term only if one or more of the following occur:

- TRUCKEE TAHOE AIRPORT DISTRICT or the SBITA vendor elects to exercise an option even though it was previously determined that it was reasonably certain that TRUCKEE TAHOE AIRPORT DISTRICT or the SBITA vendor would not exercise that option.

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

Impairment

Impairment refers to the decline in value of an asset below its fair value. Under GASB 96, the impairment of a SBITA asset occurs when its carrying amount exceeds its recoverable amount.

TRUCKEE TAHOE AIRPORT DISTRICT will evaluate its SBITA assets at least annually for indications of impairment, such as a significant change in the fair value of SBITA assets or a change in the assets' intended use. If such indications are present, TRUCKEE TAHOE AIRPORT DISTRICT will take the following steps:

1. Identify the assets to be tested for impairment.
2. Determine, to the extent practicable, the fair value of the assets. If the fair value cannot be readily estimated, the present value of expected future cash flows may be used.
3. Determine the recoverable amount of the SBITA asset. The recoverable amount is the higher of its fair value less the costs to sell or the asset's value in use.
4. Compare the recoverable amount of the asset to its carrying value. If the carrying value exceeds its recoverable amount, the asset is considered impaired.
5. Determine if the impairment is temporary.
 - a. If the decline in value is believed to be temporary, the asset may continue to be held until the value recovers. No further action is required.
 - b. If the decline in value is not temporary, adjust the carrying amount of the asset to agree with its fair value.
6. If an impairment is identified and it is determined to be other than temporary, calculate the impairment loss, and recognize the loss as an expense on the financial statements of the year in which the impairment occurred.
 - a. Document the method used to estimate the asset's fair value to support the calculation of the impairment loss.

Other Modifications and Terminations

Modifications or terminations of SBITAs may require the re-measurement of the SBITA asset and liability. If the modification results in the addition of a new SBITA asset, as opposed to an addition to an existing asset, it will be treated as a new SBITA asset.

Account Coding

The California Department of Education has defined the following object code classifications to use in conjunction with GASB 96 accounting entries:

Subscription Assets – Debit

Proceeds from SBITAs – Credit

Other object codes used in recording the accounting entries required under GASB 96 may include, but are not necessarily limited to, the following:

Debt Service, Interest – Debit

Other Debt Service, Principal – Debit

Cash in County Treasury – Credit

Rick Stephens