3. ACCOUNTING

3.4 **Liabilities**
3.4.1 **SBITA**

3.4.X.10 **Definition**

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.

3.4.X.20 **Exclusions**

The following items should not follow SBITA accounting and reporting guidance:

- Short-term SBITAs – One that, at the beginning of the SBITA, has a maximum possible term of 12 months or less, including any options to extend – e.g. rolling month-to-month contracts
- Contracts that convey control of both IT software and tangible capital assets if the software component is insignificant – e.g., a smart copier
- Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs
- Contracts that meet the definition of a public-private and public-public partnership (see **LINK TO NEW BARS PAGE)**
- Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software

3.4.X.30 **Perpetual License versus Subscription**

Perpetual license arrangements are indefinite, whereas SBITAs are for a finite period of time. With a perpetual license, the software is directly downloaded onto your governments computer or servers. After you pay for the software, you will never lose access to the software (you can access it perpetually).

A subscription contract requires a monthly or annual fee to continue to access the software. If you do not pay the subscription fee, you will lose access to the software. A subscription contract with indefinite renewal periods, is not the same as a perpetual license.

One way to determine whether it is a perpetual license or a subscription bases contract is to ask yourself: "Can I still log in and access the IT software after the engagement term ends?" If the answer is "no," it is not a perpetual license, and the contract should be further evaluated to determine if it meets the definition of a SBITA.

3.4.X.40 **Accounting and Reporting**

At the start of the subscription, governments will not report any inflows or outflows on the Schedule 01. Governments will record actual subscription payments made to the SBITA on the Schedule 01 using BARS Code 591.PP.70.

The "P" stands for prescribed numbers that are related to the function of government the SBITA is supporting. Review your chart of accounts to identify the applicable function and determine the full BARS

Code. For example, if a government has a water utility fund and has a SBITA for software that calculates the customer water bills, the principal payment would be coded to BARS 591.34.70.

If the SBITA includes additional fees or taxes, only include the portion of the payments related to the right to use the IT assets in the liability calculation. For example if a SBITA contract has a separate maintenance or IT service fee, do not include those in the SBITA liability calculation. When paying the maintenance and IT service fees do not use BARS Code 591, instead use the regular BARS functional expense codes.

Short-term subscription payments should be coded to normal, functional BARS expenditure codes. For example, if a government has a short-term SBITA for software used by the water utility fund, the subscription expense would be coded to BARS 534.00.40.

Governments are also required to include a note disclosure about their SBITA activity in the Notes to the Financial Statements. See template note at Note X – SBITA.

3.4.X.50 **Schedule of Liabilities (Schedule 09) Reporting**

Governments will report a subscription liability on the Schedule 09 measured at the total amount of future subscription payments. See Schedule 09 reporting instructions.

In the year of implementation, any existing subscriptions should report a beginning balance on the Schedule 09. The beginning balance reported should be the total amount of subscription payments that were remaining as of the beginning of the year. In subsequent years, the beginning balance should match the prior year ending balance.

Any new SBITA contracts that are entered into during the year will be reported as an addition on the Schedule 09. The addition will be the total amount of future subscription payments.

Reductions are the amount the subscription liability is reduced during the year, which is typically the amount of subscription payments made.

If the subscription liability is remeasured for any of the items listed in Section 3.4.X.70, the change in the subscription liability should be reported as either an addition or reduction on the Schedule 09.

3.4.X.60 **Subscription Term**

To calculate the total amount of future subscription payments for the Schedule 09, you need to know how many payments you are expecting to make which depends on the subscription term. Here is what should be included in the subscription term:

- The period during which a government has a non-cancelable right to use the underlying IT assets
  - plus periods covered by the government's **or** SBITA vendor's option to extend the SBITA (if reasonably certain the option will be exercised)
  - and periods covered by the government's **or** SBITA vendor's option to terminate the SBITA (if reasonably certain the option will not be exercised)
- Subscription term **excludes** periods for which both the government and SBITA vendor each have the option to terminate or both parties must agree to extend.

Determining whether an extension or termination option is reasonably certain of being exercised requires professional judgement and should take into consideration the specific facts and circumstances at your government. Examples of items to consider in this analysis:

- A significant economic incentive, such as contractual terms and conditions for the optional periods that are favorable compared with current market rates
- A potential change in technological development that significantly affects the technology used by the underlying IT assets
- A potential significant change in the government's demand for the SBITA vendor's IT assets
- 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)
- The history of exercising options to extend or terminate
- The extent to which the underlying IT assets in the SBITA are essential to the provision of government services

3.4.X.XX **Short-Term SBITA**

A short-term SBITA is one that has a maximum possible term of less than 12 months. The maximum possible term includes all options to extend regardless of whether those options will be exercised or not.

Example: A SBITA contract has an initial noncancelable term of 6 months with an option for the government to extend for another year. The government will most likely not exercise that option.

This is **not** a short-term SBITA because the maximum possible term is 18 months. The extension option is included in the maximum possible term even if it will not be exercised. The subscription term for accounting purposes would only be 6 months.

For a short-term SBITA, a government should recognize an expense/expenditure when subscription payments are due based on the payment provisions of the SBITA contract.

3.4.X.XX **Renewals**

Many SBITA contracts have automatic annual renewals. In most cases at each renewal date, the SBITA vendor and the government can cancel the contract. If both parties can cancel the contract, any periods covered by the renewal terms are considered cancellable periods. Cancelable periods are always excluded from the maximum possible subscription term.

For example, if a government has a one-year SBITA contract for their online teleconferencing and the contract automatically renews each year, and both the SBITA vendor and government can cancel at each renewal, then the maximum possible term is only 1 year because the renewal periods are cancelable periods and excluded from the maximum possible term. This would be considered a short-term SBITA.

3.4.X.70 **Remeasuring the Subscription Liability**

The subscription liability reported on the Schedule 09 must be remeasured (recalculated) if any of the following happen:

- Change in subscription term
- Change in estimated amounts for payments already included in the subscription liability
- Change in the interest rate the SBITA vendor charges (if used as the discount rate)

- Contingency for variable payments is resolved.

The subscription term might change if you were previously **not** going to exercise an extension option, but then determine you will extend the SBITA (or vice versa). In that case you should recalculate the subscription liability to include the additional payments related to extending the subscription term. If you used estimated amounts to calculate your subscription liability and those amounts become known, you should recalculate the liability using the known amounts. If your subscription payments were variable and later on all of your remaining subscription payments become known (no longer variable), then you should recalculate the liability using the known amounts.