STANDARD POLICIES AND PROCEDURES

| POLICY NAME<br>GASB 96 FOR SUBSCRIPTION-BASED IT ARRANGEMENTS (SBITA's) | Section: B<br>Policy Number: 9<br>Effective Date: Retroactive to 7/1/2022<br>Review Date: 7/20/2023<br>Updated: 8/17/23 |
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The La Academia de Esperanza Charter School recognizes that the Governmental Accounting Standards Board (GASB) issued Statement No. 96 in May 2020, which provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITA's) for governmental end users effective for fiscal years beginning after June 15, 2022. This Statement defines a SBITA, establishes that a SBITA results in a right-to-use intangible subscription asset, and corresponding subscription liability. Further, the statement also provides the capitalization criteria for outlays other than subscription payments (including implementation costs) and requires note disclosures regarding a SBITA.

The school recognizes the subscription term includes the period during which the school has a noncancellable right to use the underlying IT assets. The subscription term also includes periods covered by any option to extend (if it is reasonably certain that the school or the SBITA vendor *will* exercise that option), or to terminate (if it is reasonably certain that the school or the SBITA vendor *will not* exercise that option).

The subscription liability should be initially measured at the present value of the subscription payments expected to be made during the subscription term. Further subscription payments should be discounted using the interest rate the SBITA vendor charges the school, which may be implicit, or the school's (as a governmental entity) incremental borrowing rate if the interest rate is not readily determinable. The school's government wide audited financial statements should recognize amortization of the discount on the subscription liability as an outflow of resources in subsequent financial periods.

## A. Background

- State and Local Governments are required to follow GASB Statement No, 51 "Accounting and Financial Reporting for Intangible Assets" for internally generated software.
- Effective in FY23, these institutions will also be required to follow GASB Statement No. 96 "Subscription Based IT Arrangements (SBITAs). Before this statement was issued, there was no specific guidance for SBITAs.
- Capitalization costs associated with developing software for internal use is required because such expenditures have future benefits. Software is an important strategic or economic resource of the school and development, and implementation of software is not conceptually different from the process of creating a tangible or hard asset.
- The key characteristics of a lease and a SBITA are similar in that they are both financing arrangements. These contracts provide a right to use an underlying asset for a specified period.

## B. Definitions.

### Internally Generated Software for Internal Use

- Internally generated software is defined as software that is developed internally or by a third-party contractor on behalf of the institution. Commercially available software that is purchased or licensed by the institution and modified using more than incremental effort before being put into operation is also considered to be internally generated.

- Software that is acquired or created primarily for the purpose of directly obtaining income or profit is excluded from this definition.

**Subscription-Based IT Arrangements**

- An SBITA is defined as a contract that conveys control of the right to use another party's software, alone or in combination with tangible capital assets, as specified in the contract for a period of time. SBITAs commonly include provisions such as remote access to software applications or cloud data storage and differ from traditional arrangements in that they allow temporary use that ends when the software subscription expires.
- Contracts that solely provide IT support services are excluded.
- If the contract includes both tangible capital and the cost of the software component is insignificant compared to the cost of the tangible capital assets, the contract is excluded as an SBITA and will be accounted for as a lease.
- If the contract includes both a subscription component (the right to use an underlying asset) and a non-subscription component (for example, a separate perpetual licensing arrangement or maintenance services), the components should be accounted for separately.

**C. Stages of Software Development**

- <u>Preliminary Project Stage</u> (Costs should be expensed as incurred and not capitalized)
  - Conceptual formulation of alternatives
  - Evaluation of alternatives
  - Determination of existence of needed technologies to develop the software
  - Final selection of alternatives
- <u>Initial Implementation Stage</u> (Cost accumulation phase - costs should be capitalized)
  - Includes the following activities:
    a. design of chosen path including software configuration and interfaces
    b. coding
    c. installation of computer hardware
    d. testing, including parallel processing phase
    e. other activities necessary to place the software into service.
- <u>Operation and Additional Implementation Stage</u> (Costs should be expensed as incurred unless they

meet specific capitalization criteria)

- Includes the following activities:
  a. training
  b. application maintenance
  c. data conversion
  d. troubleshooting
  e. other activities that occur after the software is placed into service

- In classifying certain outlays into the appropriate stage, the nature of the activity should be the determining factor. In addition, training costs should be expensed as incurred, regardless of the stage in which they are incurred.

**D. Capitalization of Software Costs**

- When to capitalize
  - Capitalization of costs should begin when both:
    a. The Preliminary Project phase is complete, and
    b. The institution's management has authorized or committed to funding the software project with the intent that it will be completed and used to perform its planned functions.
  - For commercially developed software that will be modified to the point that it is considered to be internally generated, (a) and (b) are considered to have occurred upon the institution's commitment to purchase or license the software.
  - Capitalization should cease no later than the time at which the software is substantially complete and operational.
- Allowable costs to be capitalized
  - External direct costs from third party transaction including:
    a. Cost of obtaining software from third parties, including licensing/subscription agreement.
    b. Cost of contract services associated with the project.
    c. Cost of capital items purchased solely for the product.
  - Payroll and payroll-related costs including:
    a. Salaries and benefits of all personnel formally assigned to the project.
    b. Travel costs incurred by such employees in their duties directly associated with the software development/implementation.

- Cost of developing or obtaining bridging software that allows for access or conversion of old data by new information systems, only if there is an alternative future use to such software.

- Data conversion, only to the extent that it is determined to be necessary to make the software operational.

- <u>Depreciation/Amortization of capitalized costs - Internally Generated Software</u>

  - Useful life of capitalized costs should exceed one year, and capitalized software will be Amortized/Depreciated over 5 years.

- <u>Amortization of capitalized costs - Subscription-Based IT Arrangements</u>

  - Useful life of capitalized costs should exceed one year, and Subscription-Based IT Arrangements will be Amortized over the shorter of the subscription term or a useful life of 5 years.

**E. Upgrades to Internally Generated Modification of Software Already in Operation**

- Internally generated modification of software that is already in operation should be capitalized if the modification results in any of the following:

  - An increase in the functionality of the software, that is, the software is able to perform tasks that it was previously incapable of performing.

  - An increase in the efficiency of the software, that is, an increase in the level of service provided by the software without the ability to perform additional tasks.

  - 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 associated costs should be expensed as incurred.

The Charter School's Business Manager, in collaboration with the school's Information Technology Contractor, shall develop any Procedures necessary to implement this Policy.