Subscription-Based Information Technology Arrangements Accounting Policy

APPENDIX A

Accounting for Subscription-Based Information Technology Arrangements

Governmental Accounting Standards Board Statement No. 96, "Subscription-Based IT Arrangements", establishes accounting and financial reporting standards for subscription-based IT arrangements (SBITAs). For purposes of applying this standard, a SBITA is defined as a contract that conveys control of the right to use another party's IT software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction.

A contract conveys the right to use the underlying asset if it has both of the following:

- The right to obtain the present service capacity from use of the underlying asset as specified in the contract.
- The right to determine the nature and manner of use of the underlying asset as specified in the contract.

This policy does not apply to the following:

- Contracts that convey control of the right to use another party's combination of IT software and tangible assets that meet the definition of a lease per Statement No. 87, "Leases", in which the software component is insignificant compared to the cost of the underlying capital asset (for example, a computer with operating software). (See Lease Accounting Policy.)
- Contracts that meet the definition of a public-private or a public-public partnership per Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements".
- Licensing arrangements that provide a perpetual license to use a vendor's computer software which are subject to the requirements of Statement No. 51, "Accounting and Financial Reporting for Intangible Assets". (See Capitalization Policy.)
- Software that is received in a voluntary non-reciprocal transfer from another entity (for example, software donated through the WVU Foundation). (See Capitalization Policy.)
- Contracts that solely provide IT support or maintenance services.
- Software that is developed in-house or by a third-party contractor on behalf of the University, or that is purchased or licensed by the University and modified using more than incremental effort before being put into operation, which is subject to the requirements of Statement No. 51, "Accounting and Financial Reporting for Intangible Assets". (See Capitalization Policy.)
- Software purchased internally through the Software Licensing Center (SLC) of Information Technology Services (ITS).
- Contracts that transfer ownership of the software to the University by the end of the contract and do not contain termination options (financed purchases).

See GASB Statement No. 96 for additional guidance, including definitions of terms. Also see Capitalization Policy and Depreciation and Amortization Policy.

Subscription Term

The subscription term is the period during which WVU has a noncancelable right to use the underlying asset plus the following periods: periods covered by WVU's or the vendor's option to extend the subscription if it is reasonably certain that WVU or the vendor will exercise the option; and periods covered by WVU's or the vendor's option to terminate the subscription if it is reasonably certain that WVU or the vendor will not exercise the option.

Periods for which both WVU and the vendor have an option to terminate the subscription without permission from the other party (or if both of the parties have to agree to extend the subscription) are cancelable periods and are excluded from the subscription term.

The subscription term commences when the initial implementation stage is completed, at which time WVU has obtained control of the right to use the software and the software is placed into service.

Most of WVU's contracts contain a clause that states that WVU may cancel any purchase/order contract upon 30 days written notice to the vendor in addition to a clause that states that continuation of the purchase order/contract is contingent upon funds being appropriated by the Legislature or otherwise being made available. Under GASB No. 96, a fiscal funding clause that allows WVU to cancel a subscription if the government does not appropriate funds for the subscription payments should affect the subscription term only if it is reasonably certain that the clause will be exercised. Since it is considered unlikely that WVU would exercise these clauses, they will not be considered in determining the subscription term.

IARA will exercise reasonable efforts to determine whether it is reasonably certain that an option to extend or terminate the subscription will be exercised. These efforts will include consulting with the applicable department (for example, ITS). If necessary, IARA will assess other readily available information such as the history of exercising options to extend or terminate. If information is not available and IARA is unable to make this assessment, IARA will assume that any options to extend or terminate the subscription are not reasonably certain to be exercised.

Short-Term SBITAs

A short-term SBITA is a SBITA that, at the beginning of the subscription term, has a maximum possible term of 12 months or less including any options to extend, regardless of the probability of the option being exercised. For a subscription that is cancelable by either WVU or the vendor, such as a rolling month-to-month or year-to-year subscription, the maximum possible term is the noncancelable period. The expense is recognized as payments are made, based on the provisions of the contract.

Capitalization Threshold

WVU will record all SBITAs within the scope of this guidance that meet the requirements for capitalization and that exceed the capitalization threshold per WVU's capitalization policy for capital and intangible right-to-use assets (subscription assets). See Capitalization Policy.

Accounting for SBITAs

Subscription Liability – At the commencement of the subscription term, a subscription liability and a subscription asset will be recognized. The liability will be initially measured at the present value of

payments expected to be made during the subscription term. Future payments will be discounted using the interest rate the vendor charges WVU, which may be an implicit interest rate. If the interest rate cannot be readily determined, WVU's incremental borrowing rate (average cost of borrowing) will be used.

Variable payments based on future performance or usage of the underlying assets, or number of user seats, will not be included in the calculation of the subscription liability. Those payments will be recognized as an expense in the period in which the obligation for those payments is incurred.

The liability will be re-measured at subsequent reporting dates if one or more of the following changes have occurred at or before the financial reporting date:

- There is a change in the subscription term.
- There is a change in the estimated amounts for payments already included in the measurement of the subscription liability (except for a change in the index or rate used to determine variable payments).
- There is a change in the interest rate the vendor charges WVU, if used as the initial discount rate.
- A contingency, upon which some or all of the variable payments will be based, is resolved such that those payments now meet the criteria for measuring the subscription liability.

The discount rate will be updated as part of the re-measurement of the liability if there is a change in the subscription term and that change is expected to significantly affect the amount of the liability.

If the discount rate is required to be updated, the discount rate will be based on the revised interest rate charged by the vendor at the time the discount rate is updated. If this rate cannot be readily determined, the incremental borrowing rate will be used.

If the subscription payments are made by an external party (such as the WVU Foundation), capital grants and gifts revenue will be recognized.

Subscription Asset – The asset will initially be measured as the sum of the following, less any SBITA incentives received from the vendor at the commencement of the subscription term:

- The amount of the initial measurement of the subscription liability
- Payments associated with the SBITA made to the vendor at the commencement of the subscription term
- Capitalizable initial implementation costs

SBITA-related payments made to the vendor before the commencement of the subscription term, as well as payments made for the capitalizable initial implementation costs before the commencement of the subscription term, should be reported as a prepayment (asset). A prepayment should be reduced by any vendor incentives received by the same vendor before the commencement of the subscription term. 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 vendor incentives are greater than the 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.

The subscription asset will be amortized over the shorter of the subscription term or the useful life of the asset and reported as amortization expense.

If the liability is re-measured, the asset will be adjusted by the same amount. If the change reduces the carrying amount of the asset to zero, any remaining amount will be reported as a gain.

If a subscription asset is impaired, the amount reported for the subscription asset will be reduced by any change in the corresponding subscription liability. Any remaining amount will be recognized as an impairment.

Costs Other than Subscription Payments

Generally, costs associated with the initial implementation of the underlying IT assets should be capitalized and all other costs should be expensed. See Capitalization Policy for more information about the stages of implementation and what costs should be capitalized.

WVU did not capitalize initial implementation costs incurred prior to July 1, 2021.

Contracts with Multiple Components

Contracts that contain multiple components, such as a subscription component (the right to use IT software) and a non-subscription component (a perpetual licensing arrangement or maintenance services, for example) will be accounted for as separate contracts. If a subscription involves multiple underlying IT assets and the assets have different subscription terms, each asset will be accounted for as a separate subscription component. WVU's capitalization policy will determine the assets to be accounted for as part of the subscription component (assets with an individual price above the capitalization threshold) and the non-subscription component (assets with an individual price below the capitalization threshold).

If a contract does not include prices for individual components and if it is not practicable to determine a best estimate for allocation, WVU will account for those components as a single SBITA. If multiple components are accounted for as a single SBITA, accounting for the SBITA will be based on the primary subscription component within that SBITA. A SBITA with multiple modules in which the subscription term commences at the same time for all modules will be accounted for as a single SBITA. The asset will be considered to be placed into service when the initial implementation stage is completed for the first independently functional module or the first set of interdependent modules, regardless of whether all remaining modules have been completely implemented.

IARA will exercise reasonable efforts in separating the subscription components and the non-subscription components and the underlying assets. These efforts will include consulting with Procurement, Contracting and Payment Services and the applicable department (for example, ITS); reviewing similar contracts and any other documentation that is available.

Non-subscription components, including assets with an individual price below the capitalization threshold and other components, such as maintenance and support, will be accounted for in accordance with WVU's policies and the applicable accounting guidance for those transactions.

Licensing arrangements that provide a perpetual license to use another party's computer software are subject to the accounting requirements of GASB No. 51, "Accounting and Financial Reporting for Intangible Assets". See Capitalization Policy.

SBITA Modifications and Terminations

Modifications - Examples of SBITA amendments include changing the contract price, changing the subscription term, adding or removing assets, and changing the rate upon which variable payments depend. Exercising an existing option, such as an option to extend or terminate the subscription, may be subject to re-measurement.

Unless a modification is reported as a separate SBITA, the subscription liability is re-measured and the subscription asset is also adjusted. If the change reduces the carrying amount of the asset to zero, any remaining amount is reported as a gain.

If a SBITA is amended after the expiration of the subscription term, for accounting purposes the commencement date of the amendment will be assumed to be the last day of the current subscription term.

Terminations - If the right to use the asset decreases, the amendment is treated as a partial or full termination (for example, the number of underlying assets is reduced or the subscription term is shortened).

The carrying value of the asset and the subscription liability will be reduced and a gain or loss will be recognized for the difference.

IARA will exercise reasonable efforts to resolve any discrepancies between the SBITA and actual payments/receipts. In order to resolve any discrepancies or other issues, the provisions of the SBITA will take precedence.