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Overview

Introduction

The purpose of the Lease Accounting System (LAS Plus) is to ensure that all leased asset and subscription-based information technology agreements (SBITAs) data is properly recorded and retained, and that all lease and SBITA activity is fully and appropriately disclosed in the Annual Comprehensive Financial Report (ACFR) and agency financial statements in accordance with generally accepted accounting principles (GAAP). GAAP regarding SBITAs for governmental entities is set forth in **GASB Statement No. 96**, *Subscription-Based Information Technology Agreements* (GASB 96).

GASB 96 became effective beginning with fiscal year 2023. While the SBITA Accounting CAPP topics will provide selected information of interest, LAS Plus users should review the specific requirements of the statement at www.gasb.org.


LAS Plus

The Department of Accounts (DOA) developed a new Lease Accounting System (LAS Plus) to meet the GASB requirements for recording, classifying and disclosing lease and SBITA activity. LAS 87 accommodated the reporting requirements of **GASB Statement No. 87**, *Leases* (GASB 87). Specific requirements are detailed in the CAPP Topics included in Section No. 31200—Lease Accounting. Beginning with fiscal year 2023, LAS 87 has been modified and renamed LAS Plus to accommodate the additional reporting requirements of GASB 96.

LAS Plus is the web-enabled, real time system available for statewide use. Users access LAS Plus via the internet using a user id and password. LAS Plus enables users to input and retrieve lease and SBITA information and reports directly from within the system.

Individual users are required to enter SBITA activity directly into LAS Plus for fiscal year 2023. It is critical for agencies to review all contracts for potential SBITAs and enter the applicable agreements into LAS Plus.

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Exceptions to GASBS 96 SBITAs

This Statement does not apply to:

- 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 GASB 87, in which the software component is insignificant when compared to the cost of the underlying tangible capital asset.
- 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 in paragraph 5 of **GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements***.
- Licensing arrangements that provide a perpetual license to governments to use a vendor’s computer software, which are subject to **GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets***. See CAPP Topic No. 30325, *Software and Other Intangible Assets*.

Definitions

Introduction

The purpose of this subsection is to provide basic definitions of the key terms used throughout CAPP Section 31300—SBITA Accounting. **GASB 96** provides complete definitions for common SBITA terms shown on the following pages.


Annual Comprehensive Financial Report (ACFR) Threshold

For statewide reporting, DOA has established a reporting threshold of \$5,000 for short-term SBITAs. Therefore, by default, any SBITA that has a SBITA asset value of less than \$5,000 will be classified as a short-term SBITA in LAS Plus. The SBITA asset value is used in these computations as this amount will always be equal to, or greater than, the present value of the SBITA payment stream.

Beginning SBITA Date

This is the date the SBITA contract commitment begins. This is usually the date that the agency is able to use the SBITA. LAS Plus requires users to input the beginning payment date (the date that the first payment is made) to properly calculate the SBITA’s financial information.

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Cardinal The official financial system of record for the Commonwealth.

Contracts with Multiple Components and Contract Combinations Contracts that contain both a subscription component (such as the right to use an underlying IT asset) and a non-subscription component (such as a perpetual licensing arrangement or maintenance services for the IT assets) should be accounted for separately. Generally, a government should account for the subscription and non-subscription component of a SBITA as separate contracts. In LAS Plus, the non-subscription components should not be entered.

When evaluating these contracts, it is important to consider whether it is practicable to separate the individual components. If it is practicable, they should be considered as separate contracts. If it is not practicable, the primary subscription component should be determined using professional judgment. A variety of factors should be considered, including but not limited to, the component’s fair value in relation to the other components within the contract; the SBITA term of the various components to identify the longer term; and the component’s benefit to the agency is substantial compared to other components.

End of SBITA Term The date that the right to use underlying IT asset contained in a SBITA contract is scheduled to be terminated. This date is determined using the periods included in the SBITA term calculation. This date may be based on the original SBITA terms or occur because of an early termination of the SBITA contract.

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Incremental Borrowing Rate The rate that, at the beginning of the SBITA term or renewal date of the SBITA, the subscriber would have incurred if the subscriber borrowed the subscription payment amounts. Agencies should use the interest rate charged by the SBITA vendor. If this is unknown, agencies should make an effort to calculate their own implicit borrowing rate using other similar contracts or borrowings. LAS Plus defaults to the published Prime Interest Rate at the beginning of the SBITA term. **Users should overwrite the default rate in LAS Plus with the actual rate charged by the SBITA vendor or the agency’s own implicit borrowing rate. The LAS Plus default should only be used if neither of these rates are available nor can be calculated.**

Initial Implementation Stage Ancillary costs incurred, including configuration, coding, testing, and installation for the use of the underlying IT assets once the asset is chosen. This stage ends once the asset is placed into service. Costs associated with the initial implementation stage should be capitalized as part of the subscription asset. This stage does not include the Preliminary Project Stage costs.

LAS Plus The online Lease Accounting System designed to meet the lease and SBITA reporting requirements and disclosures under GASB 87 and GASB 96.

Long-term SBITA For ACFR reporting purposes, a long-term SBITA has a contract term greater than 12 months and a calculated SBITA asset value of \$5,000 or more. Long-term SBITAs are required to be reported in the financial statements and footnotes of the governmental entity under GASB 96.

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Minimum SBITA Payments The total SBITA payments that the government is obligated to make in a noncancelable SBITA term including any 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(s).

Modification A SBITA should be modified if **both** of the following two conditions are met: 1) the modification provides the government with an additional SBITA asset and 2) the increase in subscription payments for the additional asset does not appear unreasonable based on the terms of the revised SBITA contract and professional judgement. In a modification that meets these criteria, a separate SBITA should be created for the modification.

Noncancelable SBITA Term The period in which the SBITA is not cancelable by either the government or SBITA vendor.

Operation and Additional Implementation Stage Activities that include maintenance, troubleshooting, and other costs related to the government’s continued use of the right-to-use IT asset. This stage can also include additional implementations (i.e. new modules) added to the original asset. Costs associated with this stage should be expensed as incurred unless they result in an increase in functionality of the IT asset or an increase in efficiency of the IT asset. In these cases, the costs should be capitalized. For implementations of additional modules at different times, the nature and timing of the activity should be considered when deciding whether or not to capitalize expenses.

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Preliminary Project Stage Initial activities that include the conceptual need, evaluation of all alternatives, determination if technology exists, and choosing the SBITA. These costs should not be capitalized, but should be expensed as incurred.

Present Value The present value is the equivalent value of a series of future payments, discounted back to the present date at a specific rate of interest.

Reasonably Certain to be Exercised **GASB 96** uses the phrase reasonably certain to be exercised numerous times throughout its discussion of SBITAs. However, the term is actually never defined within the statement. The statement provides that, at the commencement of the SBITA term, the government and the SBITA vendor shall assess all factors relevant to the likelihood that the government or SBITA vendor will exercise SBITA extensions or termination options.


Relevant factors include significant economic incentives and disincentives, such as the cost of exercising the renewal option and the expected condition and maintenance requirements for the underlying asset during the extension period.

For ACFR purposes, the user should also review what has typically transpired in the past for similar types of SBITA contracts when making a determination of what will likely occur in the current scenario.

Remeasurement If there are changes to the SBITA terms, discount rate or the likelihood that another factor was used in the original valuation, a remeasurement is required.

SBITA A subscription-based information technology agreement (SBITA) that conveys control of the right to use another entity’s information technology (IT) software, alone or in combination with tangible IT assets, for a period of time as specified in the contract in an exchange or exchange-like transaction.

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Short-term SBITA

A short-term SBITA is a SBITA that, at the commencement of the SBITA term, has a **maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of the probability of being exercised.** Short-term SBITAs are typically used for relatively low dollar amount SBITA assets.

For SBITA terms that exceed 12 months, the ACFR threshold for reporting purposes, is defined as less than \$5,000. A government should recognize short-term SBITA payments as outflows of resources (for example, expense) based on the payment provisions of the SBITA contract.


Subscription Asset

The intangible right-to-use the underlying IT asset. The IT asset amount is calculated using the present value of the SBITA payments plus 1) capitalizable initial implementation costs or 2) payments made to the subscription vendor prior to the commencement of the SBITA term. At the commencement of the SBITA term, a government should recognize both an intangible right-to-use subscription asset and a subscription liability. Generally, the subscription asset is amortized over the shorter of the asset useful life or SBITA term.

Subscription Liability

A government should measure the subscription liability at the present value of payments expected to be made during the subscription term. At the beginning of the subscription term, the IT asset and the subscription liability are the same amount unless there are capitalizable charges or other payments made to the subscription vendor prior to the commencement of the subscription term. In these instances, the subscription asset will be higher than the subscription liability. In subsequent financial reporting periods, the 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 the period. Any payments made should be allocated first to the accrued interest liability and then to the subscription liability.

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Subscription Payments These are payments that are expected to be made to the subscription vendor based on the terms of the SBITA. These include fixed and variable payments as well as payments associated with various options.

Subscription Term The subscription term is the period during which a government has a noncancelable right-to-use an underlying IT asset (referred to as the noncancelable period), plus any periods covered by a government’s or subscription vendor’s option to extend or terminate the SBITA if it is reasonably certain, based on all relevant factors, that the government or subscription asset will exercise that option(s).

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

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Procedures


Accounting For SBITAs To ensure consistency and accuracy in accounting for SBITA assets, follow these guidelines:

Step	Action
1	Assign a person and a backup to be the agency's LAS Plus representative, giving them specific organizational responsibility for lease and SBITA recording and accounting within the agency. <i>DOA will establish LAS Plus access only to persons who have completed the online LAS Plus training and passed the LAS Plus Certification Test. View only access may be obtained for users who demonstrate a business need.</i> Agencies using LAS Plus for leases should be familiar with this process.
2	Ensure that all SBITA documentation is filed either electronically or physically in an organized manner. Further, ensure that all SBITAs are appropriately recorded in a manner to ensure inclusion in the ACFR. This could be LAS Plus or another reporting tool selected by the agency.
3	Number and control all SBITAs in a consistent manner. Maintain a log with appropriate SBITA reference information including the SBITA Number/Description, etc. permitting the agency and its auditors to quickly locate SBITA contracts in either the electronic or physical storage locations.
4	File copies of the LAS Plus reports with the corresponding original SBITA documentation (SBITA contract, etc.) to provide an audit trail for all SBITAs recorded in the system.

Procurement Requirements SBITAs must comply with all the guidelines issued by the Virginia Information Technologies Agency.

Users must record all SBITA information and payment stream data in the Lease Accounting System (LAS Plus) within 30 days from the beginning of the SBITA term but not later than the “end of the fiscal year” closing date for LAS Plus.

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SBITA Contract

All SBITA contracts should be recorded in LAS Plus

Once a contract has been determined to be a SBITA, enter the following information to properly classify the SBITA in LAS Plus. This information should be available in the SBITA contract.

- **Incremental Borrowing Rate:** Agencies should use the rate charged by the SBITA vendor if available. If not available, agencies should determine their own incremental borrowing rate. This can be done using similar agreements or other borrowings of the agency. LAS Plus uses the current Prime Interest Rate as the default rate to calculate the subscription asset and subscription liability. **Users should only use the default rate if the Vendor’s rate nor the Agency’s own rate is available.**
- The number of required payments and the frequency of the SBITA payments (monthly, quarterly, annually, etc.).


Payments Made Prior to or at the beginning of the Commencement of the SBITA Term

Payments made to the SBITA vendor before commencement of the SBITA term should be recorded as a prepaid asset (tracked in CIP). Once the term begins, this asset should be reclassified from CIP to an addition to the initial measurement of the subscription asset. DOA will gather these payments before the commencement of the SBITA term in the Lease/SBITA Activity Confirmation. Once the SBITA is in service these payments will be recorded in LAS Plus. Payments made at commencement of the SBITA term that are not included in the payment stream, should be included in the initial measurement of the subscription asset.

Capitalization

Initial implementation costs should be capitalized as part of the initial measurement of the subscription asset. These costs would include configuring, coding, testing, and installation. Generally, preliminary project stage costs and operating costs once the asset is placed in service should be expensed.

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SBITA Classification

SBITA Classification

SBITAs may be classified as short-term or long-term. Whether the SBITA is short-term or long-term depends on the following conditions:

- Short-term SBITAs are SBITAs that have a term of 12 months or less including all extension periods regardless of whether or not the extension periods will be exercised and does not include a termination clause. Short-term SBITAs do not require financial statement reporting or disclosure.
- Long-term SBITAs are SBITAs having a term of greater than 12 months and where the subscription asset equals \$5,000 or more. Long-term SBITAs require recording an intangible right to subscription use asset and liability in the financial statements and footnote disclosure.

Internal Control


General

Each agency and institution should implement cost-beneficial internal control procedures to ensure that:

- All potential contracts to use nonfinancial assets are properly evaluated to determine if the transaction is truly a SBITA.
- All SBITAs are properly classified as short-term or long-term.

LAS Plus Online Training

DOA has an online version of LAS Plus training available in the Learning Center. Anyone completing the online LAS Plus training and passing the LAS Plus Certification Test will be eligible to obtain an “update” user id and password to LAS Plus.

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Subject Cross References

References CAPP Topic No. 31310-LAS Plus, *Reporting*
 CAPP Topic No. 70605-LAS Plus, *SBITA Reports*
