

## SBITA Examples

### Example 1

#### Contract assumptions:

On December 15, 20X0, Sunny City, USA (City) contracts with Storm Cloud Computing Corporation (SCCC) for SCCC to host and manage a workflow and document management system for the City's business licensing operations, using SCCC's proprietary software known as the Storm System (System), beginning on 1/1/20X1. The contract specifies that SCCC will:

1. License the use of the System to the City for an initial term of three years, beginning on January 1, 20X1 and ending on December 31, 20X3. The City will have the unilateral option to terminate the contract effective at the close of business on December 31, 20X1 and again on December 31, 20X2, if notice was given to SCCC by November 1<sup>st</sup> of that year (see license types and fees, below). *After December 31, 20X3*, either party may terminate effective close of business on December 31 each year, as follows:
  - a. To terminate,
    - i. The City would need to provide SCCC at least 30 days' notice (December 1<sup>st</sup>)
    - ii. SCCC would need to provide the City at least 90 days' notice (October 2<sup>nd</sup>)
  - b. Upon termination of the initial lease term or term of last exercised extension, licenses will continue to remain active until either party gives notice of termination.
  - c. SCCC also has the right to change prices effective for January 1 each year after 20X3, with at least 120 days advance notice (September 2).
2. Configure the System to meet the City's requirements, as documented in the specifications that are referenced in the contract, on the following schedule:
  - a. Initial installation and configuration, including development of forms and public interfaces – January and February 20X1.
  - b. User acceptance testing, final configuration and standard report development, data conversion – March 20X1
  - c. Production (fully functional software on SCCC internet accessible hardware) beginning April 1, 20X1.
3. For the term of the contract (including extensions, if exercised by the City), in accordance with a service level agreement that is referenced in the contract,
  - a. Maintain and securely operate the System and store the City's System-related data on SCCC's internet-accessible hardware with required security,
  - b. Provide on-going support ("help desk").
  - c. Make periodic updates to apply security patches and make other improvements to the System.

The cost of licenses (item 1, above), payable on January 1 each year and prorated for partial years, is

- \$600 per license for full licenses
  - 5 licenses needed for configuration and testing by SCCC personnel during development.
  - 8 additional licenses needed for user acceptance testing.
  - 12 additional licenses (25 in total) needed for ongoing use by City's personnel in production.
- \$18,000 per block of 50,000 community licenses needed for licensees and prospective licensees.

Cost of initial implementation (item 2, above) charges – Flat fee of \$25,000, payable in three installments:

1. January 1, 20X1 - \$8,000

2. Upon presentation of fully functional system in test environment for user acceptance testing \$8,000 (March 1, 20X1)
3. Upon final acceptance (March 30, 20X1) \$9,000, *of which \$3,000 is for data conversion that is not necessary to place the subscription asset into service, and City employee training.*

Cost of annual system maintenance, help desk, security monitoring and patches, software updates (item 3, above, hereafter “annual maintenance”) - \$12,000/year.

The contract states that SCCC is charging the City interest on the SBITA at a rate of 6% per year.

#### Additional assumptions

1. The City:
  - a. Has a fiscal year end of December 31<sup>st</sup>,
  - b. Prepares only an ACFR and no GAAP-basis interim financial statements,
  - c. Accounts for all system costs in its general fund,
  - d. Depreciates/amortizes all capital assets on a straight-line basis,
  - e. Currently has active business licenses for 45,000 licensees,
  - f. Concluded that the stated interest rate of 6% per year is not unreasonable,
  - g. Concluded that the annual maintenance costs are not unreasonable, and
  - h. Is reasonably certain it will not exercise termination options effective upon close of business December 20X2 or 20X3.
2. The expected timeline of installation (on SCCC servers), configuration, testing, report development and beginning production outlined in the contract is met.
3. The City incurred the following costs in addition to payments to SCCC:
  - a. In 20X0:
    - i. \$6,000 of consultant costs to help staff determine the scope of this automation project, draft the request for proposals (RFP) and prepare the technical specifications for the System,
    - ii. \$3,000 in staff time and benefits to work
      1. With consultants in determining project scope and feasibility, preparation and administration of RFP process (\$1,000)
      2. With SCCC in configuration and on user acceptance testing (\$1,040)
      3. With SCCC for user training (\$960); and
  - b. In 20X1-20X3, \$6,000 annual cost (allocated based on work hours) of staff time and benefits for on-site system administration work performed by City’s information technology staff.
4. No changes in assumptions or contract modifications occur prior to the City’s 20X3 financial statements.
5. SCCC provides advanced notice of a 10% increase in all annual license and maintenance charges effective for FYE 20X4.
6. Neither party provides notice of a decision to terminate effective for FYE 20X4.

#### Objectives:

- A. Determine the subscription term,
- B. Measure the subscription asset and subscription liability and prepare their respective amortization schedules,
- C. Provide journal entries to recognize all aspects of the information detailed above, through FYE 12/31/20X3.

## Example 2

*Note that numbers and letter in brackets<sup>[I]</sup> are used to cross-reference amounts and timing of payments with the Excel file.*

### Subscription-based information contract assumptions:

On January 1, 20X1, Lively County, US County enters into a three-year contract with the Prophet ERP Corporation (PERP) for the County to use PERP's enterprise resource planning system (ERP System). The ERP System is composed of five modules, two of which the County plans to implement: (1) general ledger (GL) and (2) accounts payable (AP). The GL module will be the first independently functional module to be implemented.

PERP will:

- License the use of the ERP System to the County from January 1, 20X1 through December 31, 20X3 at a cost of \$500,000 per year (paid semiannually on January 1 and July 1), during which neither party will have the unconditional option to terminate and after which time either party can terminate the contract, or both can agree to renew; <sup>[A]</sup>
- Maintain and securely operate the ERP System and store the County's ERP-System-related data on PERP's internet-accessible hardware and infrastructure; and
- Make periodic updates to apply security patches and make other incremental improvements.

### Implementation contract assumptions:

At the same time, the County enters into a contract with the State and Local Expert ERP Production Services, LLC, (SLEEPS) to configure each module and to provide on-going support to the County. The contracts provide that:

SLEEPS will:

- Provide ERP System configuration services at a cost of \$1 million per module, payable as follows:
  - \$300,000 upon undertaking the module implementation, <sup>[B]</sup>
  - \$300,000 upon completion of configuration and making module available for user acceptance testing by the County, <sup>[C]</sup> and
  - \$400,000 upon the County's acceptance of the module, of which \$100,000 will be for converting data<sup>1</sup> and \$80,000 of which is for end user training; <sup>[D]</sup> and
- Provide all necessary on-going annual support ("help desk") for an annual fee of \$200,000/year/module in operation. <sup>[E]</sup>

The implementation of the modules takes place as follows:

- a. **The general ledger (first) module<sup>[F]</sup>** is configured and tested, and data conversion and end user training for the module ("implementation work") begins on January 1, 20X1, user acceptance testing begins on May 1, 20X1, the module configuration is accepted by the County June 30, 20X1, and the module is placed into service on July 1, 20X1 (the first day of the County's 20X2 fiscal year); and

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<sup>1</sup> Only data conversion for the payroll module is necessary to place the module into service

- b. **The accounts payable (second) module**<sup>[F-2]</sup> implementation work begins on July 1, 20X1, user acceptance testing begins on August 1<sup>st</sup>, the module configuration is accepted by the County September 30, 20X1, and the module is placed into service on October 1, 20X1.

Readiness, procurement and implementation oversight consulting contract assumptions:

Previously, the County had entered into a contract with the Government Finance Officers Association (GFOA) to provide advisory services to help governments with ERP readiness, procurement, and implementation oversight. The consulting work was performed and paid for as follows:

i. Phase 1

1. Project management initiation (\$15,000 in July 20X0) <sup>[F]</sup>
2. Assessment of current process (\$40,000 in July 20X0) <sup>[G]</sup>
3. Development of recommendations for future process (\$45,000 in August 20X0) <sup>[H]</sup>
4. Development of procurement strategy (\$10,000 in September 20X0) <sup>[I]</sup>
5. Preparation of request for proposals, including final system specifications (\$20,000 in October 20X0) <sup>[J]</sup>
6. Analysis of proposals and facilitation of selection (\$50,000 in November 20X0) <sup>[K]</sup>
7. Contract negotiations (\$16,000 in December 20X0) <sup>[L]</sup>

ii. Phase 2:

- Overall project management, assistance with implementation of new business process and oversight of implementation, assistance in development of chart of accounts
- \$60,000 paid in two, \$30,000<sup>[M, N]</sup> installments, paid upon successful implementation of each module in the month of implementation, of which \$5,000 is for data conversion assistance for each module.

Additional assumptions:

2. The County:

- a. Has a fiscal year end of June 30<sup>th</sup>,
- b. Prepares only an ACFR and no GAAP-basis interim financial statements,
- c. Accounts for its ERP system costs in its general fund,
- d. Depreciates/amortizes all capital assets on a straight-line basis,
- e. Does not know the interest rate charged by PERP, but estimates its own incremental borrowing rate as of January 1, 20X1 to be 6%
- f. Determined that the on-going maintenance portion of PERP's (but *not* SLEEP's) annual fee is insignificant, and accounts for the contract as a single subscription (once the subscription term begins)

3. The County incurred the following costs in addition to the contractual payments discussed above:

- a. County staff time and related benefits costs for:
  - i. Current process assessment, future process determination, and final system specifications (\$50,000 in 20X0), <sup>[P]</sup>
  - ii. Configuration support and user acceptance testing for the GL module, \$40,000 in January 20X1 <sup>[Q]</sup> and \$20,000 in June 20X1 (of which \$12,000 is for data conversion and training). <sup>[R]</sup>
  - iii. Configuration support and user acceptance testing for the AP module, (\$35,000 in each July, <sup>[S]</sup> August, <sup>[T]</sup> and September 20X1, of which \$8,000 of the September payment is data conversion and training <sup>[U]</sup>),

Note: Only an insignificant amount of County staff time is necessary to maintain the on-going operation of the ERP System, as PERP and SLEEPS provide all on-going support services.

Objectives:

- A. Determine the subscription term.
- B. Measure the subscription asset and subscription liability and prepare their respective amortization schedules.
- C. Provide journal entries to recognize all aspects of the information detailed above, through FYE 12/31/20X3.