

**Ratification of and Resolution for Approval Process for
Subscription-Based Information Technology Arrangements under
Governmental Accounting Standards Board Statement No. 96**

FINANCE AND RESOURCE MANAGEMENT COMMITTEE

October 10, 2023

Background

The university's accounting and financial reporting practices follow and are consistent with the Governmental Accounting Standards Board (GASB). In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, implementing a reporting framework for Subscription-Based Information Technology Arrangements (SBITAs) similar to the reporting framework for GASB No. 87, *Leases*.

Under this framework, SBITAs that exceed 12 months and have a present value exceeding an institution's materiality threshold are recognized as intangible right-to-use assets with a corresponding right-to-use liability. The university completed a materiality analysis during implementation and determined that a \$50,000 threshold was appropriate. The new reporting framework is effective for fiscal year 2023.

Impact on Statement of Net Position

As of June 30, 2023, the university has recognized an unaudited total of \$18.2 million in long-term debt liabilities and corresponding right-to-use assets formerly recognized as operating expenditures. This amount reflects the discounted value of future subscription payments and increases the total unaudited long-term debt liabilities on the balance sheet to \$831.9 million from \$813.7 million, or a 2.2 percent increase.

Impact on Expenditures

GASB 96 changes the classification of expenditures from software expenses to amortization and interest expenses. However, over the life of the SBITAs, the total amortization expense on the subscription asset and interest expense on the subscription liability will equal the operating expenditures that would have been recognized prior to GASB No. 96. The new standard alters the timing of expenditure recognition.

Impact on Debt Ratio

The State's Institutional Performance Standards and the university's debt policy require the university to maintain a debt service to operations ratio of no greater than seven percent. In addition to the seven percent limitation, the Board of Visitors has provided long-term guidance for the university to manage the debt ratio within a six percent benchmark. The new accounting standard results in an estimated increase in debt service of \$6.0 million annually, increasing the debt ratio by 33 basis points.

Ratification of SBITA Activity Up to June 30, 2023

Prior to implementing GASB No. 96, the university administered all SBITA activity through its internal budget and information technology procurement processes. Given that these activities now affect the university's long-term debt and debt ratio, the university seeks to

implement a process to provide proper review of committed resources under GASB 96. Additionally, the university seeks ratification from the board for all SBITA-activity administered under its internal processes that governed agreements now recognized as SBITAs under GASB No. 96 through June 30, 2023.

The chart below outlines the long-term debt effects on implementing GASB No. 96, which includes recognizing \$11.5 million of SBITAs payable as of July 1, 2022 (restated and unaudited), adding \$10.2 million of new SBITAs payable during fiscal year 2023, and adding \$2.5 million of SBITAs payable as a result of modifications.

Subscription-Based Information Technology Arrangements Activity for the fiscal year ended June 30, 2023 <i>all dollars in thousands</i>						
	Beginning Balance (restated) (unaudited)	Additions: New SBITAs	Additions: Modifications	Retirements: Terminations	Retirements: SBITA Payments	Ending Balance (unaudited)
Value						
Zoom Phones	\$ -	\$ 4,187	\$ -	\$ -	\$ -	\$ 4,187
Jaggaer (HokieMart)	3,265	-	-	-	(435)	2,830
Other University SBITA activity for board ratification	8,280	5,982	2,452	-	(5,524)	11,190
Total value of SBITA activities	\$ 11,545	\$ 10,169	\$ 2,452	\$ -	\$ (5,959)	\$ 18,207
Number						
Zoom Phones	-	1	-	-		
Jaggaer (HokieMart)	1	-	-	-		
Other University SBITA activity for board ratification						
\$1,000,000 - \$2,999,999	1	1	1	-		
\$250,000 - \$999,999	7	4	1	-		
\$249,999 or less	30	14	6	-		
Total number of SBITA activities	37	18	7	-	-	-

Proposed Approval Process for Future SBITA Activity

The university recommends a process that provides for review and approval for entering into SBITA agreements as follows:

- i) new SBITAs and modifications to existing SBITAs that obligate future resources with a present value equal to or greater than the dollar value threshold for capital projects are approved by the Board of Visitors prior to execution;
- ii) all other new SBITAs and modifications to existing SBITAs that obligate future resources with a present value less than the dollar value threshold for capital projects will continue to be administered by the university; and
- iii) new SBITAs and modifications to existing SBITAs administered by the university with a present value equal to or greater than \$50,000 are reviewed and ratified by the Board of Visitors annually.

These processes will provide a similar set of controls for entering into SBITAs compared to the processes for entering leases under GASB Statement No. 87, *Leases*.

**RESOLUTION FOR APPROVAL PROCESS FOR SUBSCRIPTION-BASED
INFORMATION TECHNOLOGY ARRANGEMENTS UNDER GOVERNMENTAL
ACCOUNTING STANDARD BOARD STATEMENT NO. 96**

WHEREAS, the Governmental Accounting Standards Board (GASB) issued Statement No. 96 in 2020 which revises governmental accounting for Subscription-Based Information Technology Arrangements (SBITAs) effective for the university's reporting period beginning July 1, 2022; and,

WHEREAS, the university expects to recognize approximately \$18.2 million of long-term SBITAs, formerly recognized as operating expenditures, as long-term debt liabilities and corresponding intangible right-to-use assets at the end of fiscal year 2023 as a result of GASB Statement No. 96; and,

WHEREAS, the State's Institutional Performance Standards and the university's debt policy as approved by the Board of Visitors require the university to maintain a debt service to operations ratio of no greater than seven percent; and,

WHEREAS, prior to GASB Statement No. 96, SBITAs were approved by university administration through its internal budgeting and information technology procurement processes; and,

WHEREAS, to ensure the continuation of appropriate reviews and approvals for SBITAs, the university will establish processes and procedures for SBITA approvals; and,

WHEREAS, the university recommends a process that continues appropriate review and approval for entering into SBITAs as follows: i) new SBITAs and modifications to existing SBITAs that obligate future resources with a present value equal to or greater than the dollar value threshold for capital projects are approved by the Board of Visitors prior to execution; ii) all other new SBITAs and modifications to existing SBITAs that obligate future resources with a present value less than the dollar value threshold for capital projects will continue to be administered by the university; and iii) new SBITAs and modifications to existing SBITAs administered by the university with a present value equal to or greater than \$50,000 are reviewed and ratified by the Board of Visitors annually.

NOW, THEREFORE BE IT RESOLVED, that the university be authorized to proceed with developing and implementing processes and procedures for executing and administering SBITAs in accordance with the conditions set forth in this resolution; and

BE IT FURTHER RESOLVED, that the Board of Visitors ratifies long-term SBITAs, and their associated activity, of \$18.2 million to be recognized as long-term debt liabilities on the balance sheet as of June 30, 2023; and

BE IT FURTHER RESOLVED, that the university be authorized to administer new SBITAs and modifications to existing SBITAs which do not exceed the current dollar value threshold for capital projects in the Management Agreement or as amended by the Appropriation Act.

RECOMMENDATION:

The Board of Visitors authorizes management to implement the proposed approval processes for SBITAs, ratifies \$18.2 million of long-term SBITAs to be recognized as of June 30, 2023, and authorizes the university to administer new SBITAs and modifications to existing SBITAs less than the current dollar value threshold for capital projects in the Management Agreement or as amended by the Appropriation Act.

November 6, 2023