**Modern Ways to Acquire Information Technology**
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As healthcare organizations prioritize digital transformation, they purchase technology to support these initiatives. Most of these organizations have followed traditional capital and operational funding and accounting practices. On an annual basis, information technology teams submit capital requests with supporting justification, the requests are prioritized, recommendations are submitted to the board, and the teams are informed of the finalized budgetary allotments. Operational budgets are based on a combination of historical costs, new service or support contracts, and depreciation or other operating tails from capital purchases. Finalized budgets are announced at the start of each fiscal year.

Historically, projects and supporting product offerings are based on this final and approved budget and funding. The decision to use Operating Expenses (OPEX) vs Capital Expenses (CAPEX) was predetermined. This model had worked well for many years. That is, until the product offerings changed. Software subscriptions, software-as-a-service (anything-as-a-service), and consumption-based services are dramatically impacting the way that information technology is purchased. Many healthcare organizations are challenged with this financial shift, which impacts the ability to adopt modern product offerings.

**What are these newer services and what are the corresponding accounting rules?**

**Services:**

- **Software-as-a-service (SaaS)** is a software licensing and delivery model in which software is licensed on a subscription basis and is centrally hosted. Cloud services are considered subscription-based services.
- **Platform-as-a-service (PaaS)** involves a third party providing a framework for a team of software developers to create and manage customized applications.
- **Infrastructure-as-a-service (IaaS)** involves a third party providing on-demand, self-service access to highly scalable and automated computing resources, including monitoring, networking, storage, and other services.
- **Subscription**-based software relates to a monthly or annual licensing model, allowing users to pay a per user fee. Customers typically pay an initial fee and are entitled to use the software only during the subscription term, unlike a perpetual license, which allows use of the software indefinitely.
- **Consumption**-based software is a license model that allows users to pay for an application or device based on actual usage of that product. Consumption-based Licensing often implies the user pays a certain amount in advance and then draws down against the pre-payment based on their use ("consumption") of the application.

**Accounting Practices:**

- Subscription and "as a service" license agreements are generally considered as operating expenses.
- Licenses can be capitalized if the customer has the contractual right to take possession of the software at any time during the hosting period or it is feasible for the customer to run the software on its own hardware or contract with another party (unrelated to the software provider) to host the software.
- Additionally, software that is used (consumed) on-premise, on your own equipment may be capitalized.

For guidance on the software account in healthcare organizations, please see the following or work with your CFO:
https://www2.deloitte.com/content/dam/Deloitte/us/Documents/audit/us-audit-health-tech-industry.pdf

**How can I pay for these services?**

Many healthcare organizations were challenged with thin margins at the beginning of 2020. The COVID-19 pandemic placed additional financial burdens when elective procedures and wellness visits were halted. Already-aging IT infrastructures continued to age as companies focused on rolling out telehealth, providing daily COVID-19 analytics and transitioning non-clinical workers to work at home. Most IT projects, including EHR replacements and upgrades have been delayed. With declining revenue how can healthcare organizations keep up or catch up with their technology needs?

Many vendors and suppliers are offering payment options that meet the needs of each organization. They find a combination of capital and operational solutions in addition to offering deferred payments or “zero percent financing”. While many hospitals balk at the term “financing”, they embrace payment plans. When healthcare organizations ask, “Can I sign a three-year agreement and only pay for 1 year at a time?” vendor and supplier companies are consistently saying YES. They understand that revenues will realign in the future and they understand that hospitals are making decisions based on the highest priorities.

**How do I negotiate with my vendors?**

Tell your vendors and suppliers what you need. They understand healthcare organizations’ challenges and most of them have the financial strength support specific needs. They WANT the business and if they are truly a partner, they will work with you. If they don’t, consider finding new partners.

The technology landscape continues to evolve. It’s important to understand the changes in technology, licensing, and financing. Now more than ever, you need partners that understand your environment and are flexible. There are many resources available to you and the South Florida Hospital and Healthcare Association is here to help you navigate the rapidly changing information technology environment.