

GASB Statement 96 – Subscription-Based IT Arrangements



COLORADO
Department of Education

Considerations:

- Take a complete inventory of all Subscription-Based Information Technology Arrangements (SBITA)
- Look for existing agreements not currently being recognized or disclosed as IT subscription agreements to ensure completeness
- Evaluate all SBITA to determine if they meet the GASB 96 definition of a SBITA
- Review the details of each lease contract/arrangement, looking for the interest rate charged and the term of the agreement.
- Assess all SBITA greater than 12 months
- Contact legal counsel, provide a copy of the GASB 96 Pronouncement, and explain the new terms for accounting purposes
- Review debt limits and capitalization policies/thresholds for possible impacts
- Calculate the present value of the SBITA to be reported
- Prepare the details of the SBITA for disclosure, including a schedule of future payments
- Seek input from the district's external auditor

This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, **Leases**, as amended.

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

The subscription term includes the period during which a government has a noncancellable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend (if it is reasonably certain that the government or SBITA vendor will exercise that option) or to terminate (if it is reasonably certain that the government or SBITA vendor will *not* exercise that option).

Under this Statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, —which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

The subscription asset should be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement of the subscription term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. A government should recognize



amortization of the subscription asset as an outflow of resources over the subscription term.

Activities associated with a SBITA, other than making subscription payments, should be grouped into the following three stages, and their costs should be accounted for accordingly:

- Preliminary Project Stage, including activities such as evaluating alternatives, determining needed technology, and selecting a SBITA vendor. Outlays in this stage should be expensed as incurred.
- Initial Implementation Stage, including all ancillary charges necessary to place the subscription asset into service. Outlays in this stage generally should be capitalized as an addition to the subscription asset.
- Operation and Additional Implementation Stage, including activities such as subsequent implementation activities, maintenance, and other activities for a government's ongoing operations related to a SBITA. Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria.

In classifying certain outlays into the appropriate stage, the nature of the activity should be the determining factor. Training costs should be expensed as incurred, regardless of the stage in which they are incurred.

If a SBITA contract contains multiple components, a government should account for each component as a separate SBITA or nonsubscription component and allocate the contract price to the different components. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a government should account for those components as a single SBITA.

This Statement provides an exception for short-term SBITAs. Short-term SBITAs have a maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs should be recognized as outflows of resources.

This Statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information.

Effective Date and Transition

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented. Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs



and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. That definition and uniform guidance will result in greater consistency in practice. Establishing the capitalization criteria for implementation costs also will reduce diversity and improve comparability in financial reporting by governments. This Statement also will enhance the relevance and reliability of a government's financial statements by requiring a government to report a subscription asset and subscription liability for a SBITA and to disclose essential information about the arrangement. The disclosures will allow users to understand the scale and important aspects of a government's SBITA activities and evaluate a government's obligations and assets resulting from SBITAs.

How the Board Considered Costs and Benefits in the Development of This Statement

One of the principles guiding the Board's setting of standards for accounting and financial reporting is the assessment of expected benefits and perceived costs. The Board strives to determine that its standards address significant user needs and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit. The Board believes that the expected benefits that will result from the information provided through implementation of this Statement—more consistent accounting and financial reporting, and more comparable information about SBITAs—are significant and justify the perceived costs of implementation and ongoing compliance.

Certain decisions made by the Board were intended to provide cost relief. For example, the scope of this Statement excludes contracts with stand-alone tangible capital assets and contracts with a combination of a tangible capital asset and an insignificant software component. In addition, this Statement includes an exception for short-term SBITAs. This Statement also requires governments to report an entire multiple-component contract as a single SBITA when determining that a best estimate to allocate the contract price to multiple components is not practicable. Additionally, this Statement permits, but does not require, governments to include capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage in the measurement of the subscription asset recognized at transition.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 3 discusses the applicability of this Statement.

Sample Accounting for Qualifying SBITA Agreements

This section is designed to communicate guidance to Colorado school districts related to the implementation of GASB Statement #96 – Subscription-Based Information Technology Agreements (SBITA). This Statement:

- (1) defines a SBITA;
- (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability;



- (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and
- (4) requires note disclosures regarding a SBITA.

(Disclaimer – The guidance below is not intended to be a substitute for having a full understanding of all of the provisions under GASB #96 that could apply to your district. Please see GASB Statement #96 for additional support)

Prior to GASB #96, payments for the right to use SBITAs were typically handled as regular operating expenditures as a purchased service under appropriate function(s). Under this Statement and revised model of accounting for these agreements, the following excerpt now serves as the formal definition of a SBITA:

*“A **SBITA** is defined as a contract that conveys control of the right to use another party’s (a SBITA vendor’s) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.”*

It should be noted that GASB #96 applies to software used in any function of the district (finance, instruction, etc.).

Software that is not subscription-based is not subject to #96. For example, an agreement that provides the district with a perpetual license are generally subject to GASB #51.

Three primary considerations exist under this Statement that may exempt certain SBITAs from the new treatment outlined in this Section:

- First, **short-term SBITAs** (a SBITA that, at the commencement of the agreement term, has a maximum possible term of 12 months (or less), including any options to extend, regardless of their probability of being exercised) are not subject to GASB #96 changes. Short-term SBITA (as defined above) payments should continue to be recognized as outflows (purchased services) of resources based on the payment provisions of the agreement.
- Second, any contracts with stand-alone tangible capital assets or a combination of a tangible capital asset and an insignificant software component are not subject to GASB #96 changes. Note that contracts involving the lease of tangible capital assets along with a software component may be subject to GASB #87 or #96 provisions, depending on the significance of the software component. Districts will need to apply professional judgement when the contract includes both software and tangible IT property to make a determination as to which component is most significant and therefore whether to apply GASB #87 or #96. See Paragraphs B10 to B12 in GASB #96 for additional information.
- Third, any government that provides the use of their IT system to another government is exempt from potential “lessor”-related accounting implications. Note that the governmental entity utilizing



software of another governmental entity is still required to apply the provisions of GASB #96 to the arrangement.

In addition to the actual subscription payments, there may be other internal and/or external costs associated with the implementation of a SBITA that must be analyzed as to their proper accounting treatment (expense or account for as part of the SBITA asset).

SBITA activities outside of making regular subscription payments will be grouped into the following **three stages**, and costs accounted for accordingly:

- **Preliminary Project Stage** – Activities such as evaluating alternatives, determining needed technology, and selecting a SBITA vendor. All outlays in this stage should be expensed as incurred.
- **Initial Implementation Stage** – Costs necessary to place the subscription asset into service. These should typically be capitalized as an addition to the asset.
- **Operation and Additional Implementation Stage** – Activities such as subsequent implementation activities, maintenance, and other activities related to ongoing operations related to the SBITA. These should be expensed as incurred unless certain capitalization criteria are met.

Training costs should be expensed as incurred, regardless of the stage in which they are incurred as opposed to being capitalized as an addition to the asset.

For agreements in which GASB #96 will apply, the school district must calculate the net present value of the future SBITA payments to be made over the SBITA Term, discounted using the rate charged by the vendor or incremental borrowing rate, and record the amounts following the illustrative journal entries as noted in the guidance below.

- **SBITA Term** – the noncancelable right to use an underlying IT asset **plus** the option to extend the SBITA if reasonably certain the option *will* be exercised, or the option to terminate the SBITA if reasonably certain the option *will not* be exercised.

SBITA contracts containing multiple components should be accounted for as separate SBITAs and nonsubscription components, if applicable, allocating the contract price across those components. If separate component prices were not provided or if it is not practical to estimate, these components may be accounted for as a single SBITA. An example of a separate component would be a service plan for software support. If the agreement separates the cost for the service plan, this portion would not be accounted for as part of the SBITA asset and liability (expensed as incurred each month). However, if there is no separate price listed for the service plan the district must apply professional judgement to estimate the cost of the service plan or apply the expedient provided for in GASB #96 which would allow the district to account for both the right to use the software and the service plan component as a single component. See Paragraphs B51 to B53 of GASB #96 for additional information.



The journal entries below illustrate how a \$100,000, Elementary Instruction-related Subscription-Based Information Technology Arrangement (SBITA) may be recorded at the Governmental Fund level:

Governmental Fund - Initial Journal Entry – New SBITA

Debit

Credit

		Debit	Credit
10-XXX-XX-0010-0736-000-0000	Instruction-Related SBITA	\$100,000.00	
10-000-00-0000-5400-000-0000	Other Financing Sources - SBITA		\$100,000.00
	<To record the expense and other financing source of a new SBITA>		

Governmental Fund – SBITA Payment

Debit

Credit

		Debit	Credit
10-XXX-XX-0010-0913-000-0000	Principal – SBITA Payment	\$30,000.00	
10-XXX-XX-0010-0833-000-0000	Interest – SBITA Payment	\$ 1,000.00	
10-000-00-0000-81XX-000-0000	Cash		\$31,000.00
	<To record payment for right to use SBITA Asset>		

Where can I learn more?

- Visit the School Finance website at <https://www.cde.state.co.us/cdefinance>
- Contact Glenn Gustafson, School Finance Manager at gustafson_g@cde.state.co.us
- GASB Statement No. 96 (Full Text):
 - [GASB STATEMENT NO. 96, SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS](#)