

GASB 96 – Subscription-Based Information Technology Arrangements (SBITA)

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Posted on June 6, 2023

With the fiscal year winding down, school finance professionals are focused on closing their books, preparing the AFR, and getting ready for the audit. It's also the time of year that new accounting standards are evaluated for their impact. This year [GASB 96 Subscription-Based Information Technology Arrangements \(SBITA\)](#) is required to be implemented and will undoubtedly impact every single state and local government due to the prevalence of subscription-based information technology. Governments will have a few agreements that will need to be evaluated, and larger governments may have hundreds. Fortunately, GASB allows materiality to be considered when implementing this standard, but the evaluation piece will still need to be performed to determine whether agreements are individually material or material in the aggregate. Beyond determining the materiality impact for financial statement reporting, all agreements will need to be evaluated to ensure the proper coding is used to record the transaction within the general ledger. The biggest challenge with this standard for districts and their auditors is ensuring completeness in the evaluation and recording of SBITAs. It's critical that this discovery process start as soon as possible to ensure sufficient time to evaluate agreements that may be SBITA.



Discovery Phase

If you are just starting the process, we recommend connecting with your IT and purchasing departments to get the ball rolling on having them identify potential technology subscriptions and pulling the associated contracts, quotes, and agreements. Keep in mind this standard is not limited to software; it also encompasses infrastructure as a service and platforms (applications) as a service. It's a broad net to capture all subscription-based technology. Also, be careful not to focus on what the agreements are called, rather they should be evaluated in substance. Here are

some elements that may indicate it's a SBITA: 1) monthly or annual fees, 2) operates through a web-browser/cloud based, and 3) software access has an expiration date.

In addition to consulting with IT and purchasing, we recommend pulling detailed expenditure reports for object codes used to record IT purchases. We also recommend searching the general ledger for recurring payments and reviewing the board meeting minutes for keywords that may indicate a SBITA.

Once the population of potential SBITA is determined, the district must methodically go through each agreement to determine whether it meets the definition of SBITA and whether it's material. The district should consider revising existing policies or adopting a new policy for determining materiality of SBITA. It's recommended the auditors are consulted at this point to ensure the district's determination of materiality is reasonable.

We will be sending our school district audit clients a workbook to assist in compiling the agreements, making a determination of SBITA, and tools to assist in calculating the present value of future subscription payments and amortization schedules for the subscription asset and liability.

Client Questions

Over the last few months, we have received questions from our clients and deliberated internally on implementation of this standard. Here are the areas that have generated the most interest and sometimes confusion.

Term

One of the more difficult tasks of evaluating SBITAs is determining the term. The first step is determining whether the SBITA qualifies for the short-term exemption. A SBITA is considered short term if the maximum possible term is 12 months or less. The maximum possible term is the noncancellable term, plus any options to extend regardless of whether those extensions are reasonably certain to be exercised. If the SBITA is determined to be short term, the accounting is simple – account for the payments as current expenditures (see coding section below).

If the subscription does not meet the short-term exemption, the district must further evaluate the agreement to determine the term. The term may be a specified finite term or may include options to extend. The district would determine whether it is reasonably certain extension options will be exercised, and in the case of termination options reasonably certain not to be exercised. The term includes the non-cancelable period (which neither party has the right to terminate) and option periods in which either the government or the vendor have the option to extend or terminate. If both the government and the vendor must agree to extend or either can terminate, those are considered cancellable periods and are excluded from the term. A rolling month-to-month SBITA is an example of a cancellable period.

When evaluating extension options, GASB requires the district to be reasonably certain that the option will be exercised, which is a high bar. There is no concrete definition of reasonably

certain, but some suggest it equates to 75-90% certainty. GASB provides some factors to consider when evaluating the term such as past experiences with exercising options, economic incentives and disincentives, and technological obsolescence.

Discount Rate

The first step in identifying the discount rate is to review the district's contract for an explicit interest rate charged. In most cases, there will not be a stated interest rate in the contract. If there is not an explicit rate, the district has the option of determining the implicit rate using the guidance in GASB 62. A likely easier option is using the district's incremental borrowing rate, which is the interest rate the district would be expected to pay to finance the purchase. The district should consider adopting a policy on determining the incremental borrowing rate and apply it consistently. If you need guidance, please get in touch with your financial advisor and auditor who can assist you in this process. Also, to make this process easier in the future, the district should require SBITA vendors to breakout principal and interest payments in the agreement. Finally, a process should be implemented to make sure these agreements are provided to finance during the contracting process so they can be appropriately reviewed, budgeted, and set aside for year-end financial reporting.

Coding

The USFR was updated in fiscal year 2023 to appropriately account for SBITAs. After the SBITA term is evaluated, it will either be classified as short-term (12 months or less) or long-term (more than 12 months). Both short-term and long-term SBITA's are considered capital expenditures per the USFR.

For short-term SBITAs, the district will code those expenditures to the appropriate object code based on the type of software: Library Books (6641), Textbooks (6642), Instructional Aids (6643), and Noninstructional Software (6655).

Long-term SBITAs are recorded to function 5000 (debt service) and to object codes 6832 (Principal) and 6842 (Interest) for non-instructional software or 6833 (Principal) and 6843 (Interest) for instructional software. If principal and interest is not broken out in the agreement, all expenditures should be coded to 6832 or 6833 initially. Once the incremental borrowing rate is determined and an amortization schedule is created, the district can reclassify the expenditures from principal to interest. For future years, the amortization schedule can be used to apportion the payment between principal and interest during the year or after year end if that is more practicable.

If the SBITA has a separately identifiable support component such as maintenance fees, they should be coded to the object 6430 series. If the support fees are not itemized in the agreement and not easily discernable, all SBITA expenditures would be recorded to the appropriate function-object codes above. Purchased technology service expenditures would be recorded in the purchased professional object code 6340.

Prepayments on SBITA agreements are recorded to the 6832 and 6833 object codes. The prepayment is recorded as a prepaid expenditure before the start of the term and subsequently added to the Subscription Asset along with the present value of future SBITA payments once the term has started.

Amortization of Subscription Asset

The subscription asset resulting from the SBITA is amortized much like leases and capital assets. The subscription asset which is an intangible right to use asset is amortized over the shorter of the SBITA term or the life of the asset. The district can choose to place these assets in the capital asset module segregated from other asset types such as equipment or keep them on a subsidiary ledger. Accounting for the assets in the capital asset module will likely reduce the chance for clerical error and will make it easier to tie out capital asset footnotes during review of the financial statements.

Start Early and Collaborate

Hopefully this article has identified that the implementation of this standard will require some preparation and involvement of various departments of the government. The biggest lift is the first year with unearthing these agreements and assessing them. This standard cannot be successfully implemented in a silo. It will require collaboration across departments and especially with the IT department and consultation with your vendors, consultants, and auditors. If you have any questions or need additional guidance with implementing this standard, please reach out to your audit team. We will be presenting a session on SBITA at our client conference next week. Please come prepared with questions, and we will do our best to provide answers.

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