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## What School Districts Need to Know About GASB 96 Implementation

GASB Statement No. 96, *Subscription-based Information Technology Arrangements*, is effective for fiscal years beginning after June 15, 2022, and all reporting periods after that. This Statement is based on the standards established with Statement No. 87, *Leases*, and follows the same foundation, steps, and rules.

The Statement defines subscription-based information technology arrangements (SBITAs) and when such SBITAs should be recorded as right-to-use subscription assets and corresponding subscription liabilities. The Statement also covers which costs associated with the SBITAs are to be included in capitalization, and the disclosures required.

### WHAT IS AN SBITA?

An SBITA is defined as a contract that conveys control of the right to use another party's (an 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.

**More simply, it is a subscription-based contract that provides districts access to a vendor's IT software over a specified period.** This type of contract is becoming the norm in many districts as cloud-based software becomes more available.

Examples of SBITAs include:

- Cloud-based software – DocuSign and Adobe Creative
- Cloud-based conferencing system – Zoom and Microsoft Teams
- Cloud-based data storage – Google Cloud and Microsoft OneDrive
- Other cloud-based accounting, gaming, and remote learning platforms in schools, and data backup/storage for records

Examples of items that **are not** SBITAs:

- Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets meet the definition of a lease in Statement No. 87, *Leases*, in which the software component is insignificant when compared to the cost of the underlying tangible capital asset. An example is a computer with operating software, or a smart copier connected to an IT system.
- Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software, subject to Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, as amended.





### GASB 51 OR GASB 96 - WHICH ONE APPLIES?

GASB 51 is for the **one-time** purchase of an intangible asset. The total cost, including applicable development costs, is capitalized and depreciated over the asset's useful life.

- **Perpetual license – does not apply**
- One-time fee
- Can use the software after the expiration date, but no maintenance, and no security patches and updates
- Example: Internally developed or commercially purchased, like Microsoft Office

GASB 96 is for **subscription arrangements**, which are contracts requiring periodic payments, much like a lease agreement.

- **Subscription-based – does apply**
- Yearly or monthly fee
- Right to use expires after a certain amount of time
- After expiration, the software cannot be used until it is renewed
- Example: Zoom

### COLLECT SBITA DATA NOW

We recommended that districts review their SBITAs and collect the data necessary to assess if the changes to GASB 96 will apply to such contracts. The information that will be needed includes vendor, description, building/location, account (G/L), **contract term (period of coverage)**, **costs** associated (may involve more than just subscription payments, which will be explained below), and options to extend.

**Contract term/Period of coverage:** The subscription term includes the period during which a district has a non-cancellable 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 district's SBITA vendor will exercise that option) or to terminate (if it is reasonably certain that the district or SBITA vendor will not exercise that option).

**Helpful hint: If SBITA is 12 months or less, it is not subject to the GASB 96 changes.**

**Costs:** Includes subscription payment amount, specifically fixed payments, variable payments based on an index or rate, variable payments that are fixed, residual value guarantees, purchase options, incentives or prepayments made after the commencement date, deposits, and other payments that are reasonably certain of being required.

Once the district has accumulated its SBITAs, it can assess which ones will fall under the changes in GASB 96.

### MEASUREMENT

The subscription asset should be initially measured as the sum of the initial subscription liability amount, payments made to the SBITA vendor before the start of the subscription term, and capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the start of the subscription term.





**JOURNAL ENTRIES**

- A restatement entry is required for any prior periods that are being presented.
- Journal entry examples for fund level taken from MDE’s 1022 Accounting Manual – Section II E.20:

**Helpful hint: Don’t forget your budgets.** All SBITAs that are new in the current fiscal year (2022-2023) and fall under GASB 96 rules will be recorded per the above entry; therefore, the corresponding budget line items must be adjusted.

Your auditor can assist you as a non-attest service for district-wide entries (examples are also included in the **1022 Accounting Manual** – Section II E.20).

**NOTE DISCLOSURES**

Most districts will have their auditors provide a non-attest service to assist with the preparation of

the note disclosures. However, the district should be able to provide the necessary information for the disclosures and review the disclosures to determine their accuracy before the approval of the notes related to the financial statements. Specific information for SBITA disclosures includes the following:

- terms and subscription values,
- information about contracts that include both SBITA and non-SBITA components and how the contract price was allocated between the two,
- accumulated amortization for each right-to-use subscription asset,
- principal and interest split for subscription payments, and
- payments to be made to the vendor not already reflected in the subscription liability.

<b>Governmental Fund - Initial Journal Entry – New SBITA</b>		<b>Debit</b>	<b>Credit</b>
11-1-111-6940-xxx-0000-xxxxx-xxxx	Instruction – Capital Outlay – Subscription-Based Information Technology Arrangement (SBITA)	100,000	
11-0-597-0000-000-0000-xxxxx-xxxx	Other Financing Sources – SBITAs		100,000
<i>To record the other financing sources and capital outlay expense associated with a new SBITA (note – this is only for SBITAs entered into after 7/1/22)</i>			

<b>Governmental Fund – SBITA Payment</b>		<b>Debit</b>	<b>Credit</b>
11-1-511-7170-xxx-0000-xxxxx-xxxx	Principal - SBITA Payment	30,000	
11-1-511-7270-xxx-0000-xxxxx-xxxx	Interest Expense – Interest on SBITA	1,000	
11-2-101-xxx-xxxx-xxxx-xxxxx-xxxx	Cash		31,000
<i>To record first payment on right to use SBITA asset</i>			





#### WHAT TO DO NOW?

1. Get an overall understanding of GASB 96.
2. Work with your IT/Technology Directors to obtain a list of SBITAs.
3. Complete Yeo & Yeo's SBITA spreadsheet (the template can be requested from your Yeo & Yeo auditor).
4. After the assessment of SBITAs that will be affected by the implementation of GASB 96:
  - Calculate journal entries.
  - Work with the auditor.

**Contact Yeo & Yeo if you have questions about GASB 96.**

#### AUTHOR



**Jennifer Watkins, CPA**  
Principal

Jennifer Watkins is an Audit Principal in the Flint office. She has extensive experience in providing audit services for nonprofit organizations and

school districts, and is the firm's Education Services Group leader. She is a frequent presenter at regional and statewide school and governmental accounting conferences and is a member of Michigan Department of Education Committees that provide accounting guidance for school districts. She joined the firm in 2006.

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