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What Governments Need to Know About GASB 96 Implementation

If implementing the *Lease* standard was not enough fun for you, don't worry; here comes a similar one. 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. On the plus side, the standards are similar, and the learning curve should be minimal.

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 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.

More simply, it is a subscription-based contract that provides governments access to a vendor's IT software over a specified period. This type of contract

is becoming the norm in many governments as cloud-based software becomes more available.

Examples of SBITAs include:

- Cloud-based software – DocuSign
- Cloud-based conferencing system – Zoom and Microsoft Teams
- Cloud-based data storage – Google Cloud and Microsoft OneDrive
- Other cloud-based examples include accounting, gaming, 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 governments 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, fund, **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 government 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 government's 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).

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 government 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.
- If the SBITA is expected to be paid from general government resources, it should be accounted for and reported as follows on the next page.

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 that are recorded per the above entry in a governmental fund will need to adjust their corresponding budget line items.

Your auditor can assist you with the government-wide entries as a non-attest service.

NOTE DISCLOSURES

Most governments will have their auditors provide a non-attest service to assist with the preparation of the note disclosures. However, you 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.





JOURNAL ENTRY EXAMPLES FOR GOVERNMENTAL FUNDS (MODIFIED ACCRUAL):

Governmental Funds - Initial Journal Entry - New SBITA	Debit	Credit
Capital Outlay - Subscription-based Information Technology Arrangement (SBITA)	100,000	
Other Financing Sources - SBITAs		100,000

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)

Governmental Funds - SBITA Payment	Debit	Credit
Principal - SBITA Payment	30,000	
Interest expense - interest on SBITA	1,000	
Cash		31,000

To record the payment on right to use SBITA asset

JOURNAL ENTRY EXAMPLES FOR BUSINESS-TYPE FUNDS (FULL ACCRUAL):

Business-Type Funds - Initial Journal Entry - Record SBITA	Debit	Credit
Right to use - subscription asset	100,000	
Subscription liability		100,000

To record the right to use asset and related liability associated with a SBITA

Business-Type Funds - SBITA amortization and payment	Debit	Credit
Amortization expense - SBITA	2,000	
Interest expense - interest on SBITA	1,000	
Subscription liability	30,000	
Accumulated amortization		2,000
Cash		31,000

To record the amortization of the right to use - subscription asset and payment of the subscription liability





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.

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