

Overview of GASB 96



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MISSISSIPPI
DEPARTMENT OF
EDUCATION

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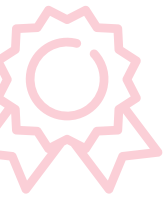
VISION

To create a world-class educational system that gives students the knowledge and skills to be successful in college and the workforce, and to flourish as parents and citizens



MISSION

To provide leadership through the development of policy and accountability systems so that all students are prepared to compete in the global community



1

ALL Students Proficient and Showing Growth in All Assessed Areas



2

EVERY Student Graduates from High School and is Ready for College and Career



3

EVERY Child Has Access to a High-Quality Early Childhood Program

EVERY School Has Effective Teachers and Leaders

4



EVERY Community Effectively Uses a World-Class Data System to Improve Student Outcomes

5



EVERY School and District is Rated “C” or Higher

6



- **What does GASB 96 do?**
 - Gives guidance on the accounting and financial reporting for ***Subscription Based Information Technology Arrangements (SBITAs)*** for government end users
- **Who does the guidance apply to?**
 - **All** public sector entities that follow Generally Accepted Accounting Principles(GAAP) when completing their financial statements; including state and local governments, school districts and public higher ed institutions
- **When does this go into effect?**
 - As soon as possible but it is **required** for any fiscal years beginning **after** July 01, 2022

- There has been a growing trend to use these subscription-based services to deliver instruction, professional services, etc. in the cloud

- Limited previous guidance on the recording/treatment of these subscription-based services

- Provides consistent and comparable treatment of these services



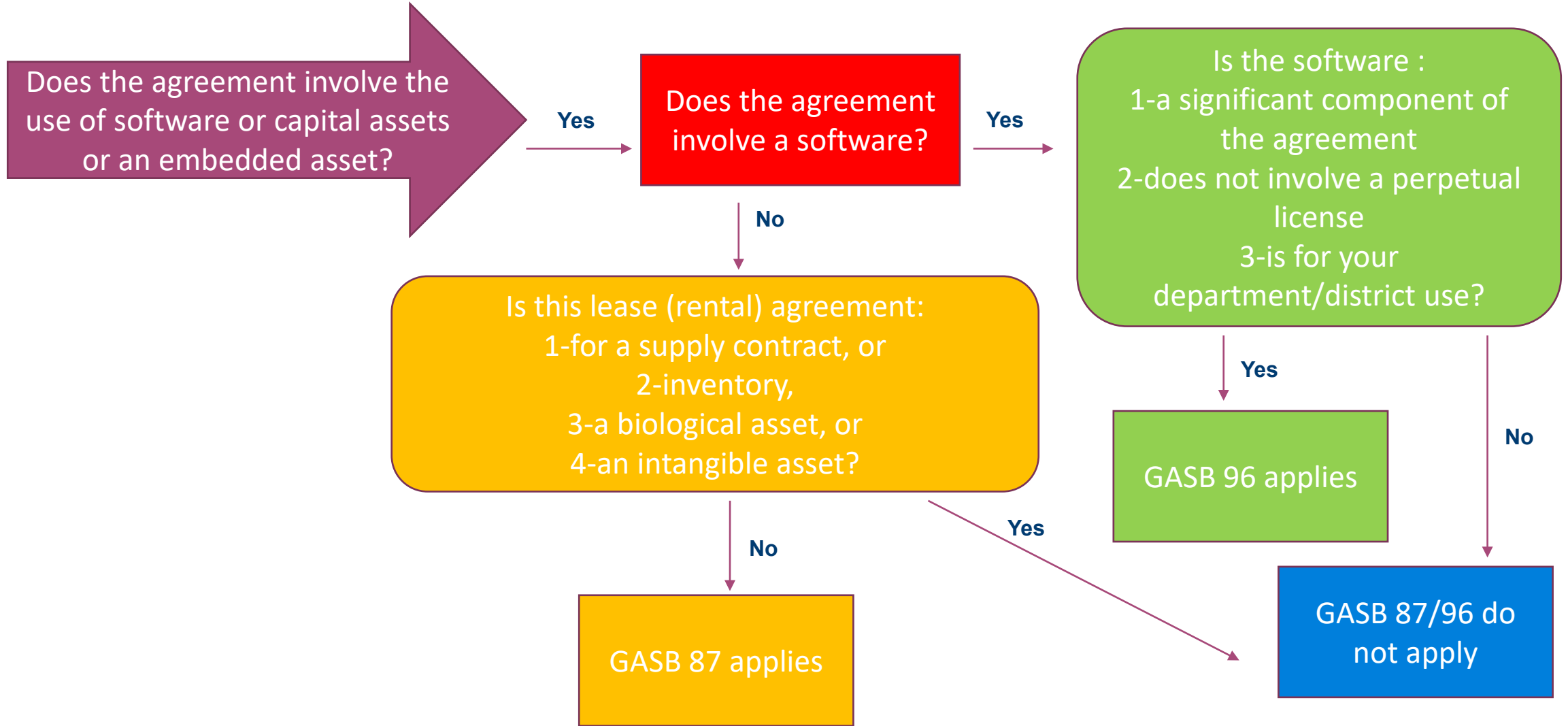
Subscription Based Information Technology Arrangement (SBITA) is defined as:

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

- can be used alone or in combination with underlying IT assets
- for any period of time that is longer than twelve(12) months*

*SBITAs for a maximum of 12 months or less (including any renewal or extension options regardless of whether the entity is reasonably certain to exercise these options) are considered short term and do not require recognition as a subscription asset or liability

When does GASB 96 apply?





Outlook





- Contracts that **solely** are for maintenance, support, or training of IT services
- Contracts that meet the definition of a lease under GASB 87
- Short term SBITAs with a maximum possible term of twelve months or less including extension options regardless of certainty
- Software that your department will own or has a perpetual license agreement

- To determine whether a contract conveys control of the right to use the underlying IT assets, a government should assess whether it has both:
 - a. The right to obtain the present service capacity from use of the underlying IT assets as specified in the contract.
 - b. The right to determine the nature and manner of use of the underlying IT assets as specified in the contract.

- Begins at the time that the entity has a noncancellable right to use the underlying IT assets
- Include periods covered by an option to extend (if it is reasonably certain that the option will be exercised by either the governmental entity or the SBITA)
- Includes periods covered by an option to terminate (if it is reasonably certain that the entity or SBITA will **not** exercise the option)

- Analyze software agreements to identify potential SBITA's
- Document the district's determination of SBITA's
- Determine the length of the subscription liability
- Calculate the subscription liability
- Calculate the subscription asset
- Capitalization of other outlays
- Amortization



Preliminary Project Stage

- Determine existence of needed technology
- Formulate and evaluate vendors, pricing, and other alternatives

Expense as incurred



Initial Implementation Stage

- Design
- Configuration
- Testing
- Data Migration
- Installation

Capitalized as part of subscription asset



Operation and Additional Implementation Stage

- Train Users
- Troubleshooting
- Maintain Software

Expensed as incurred unless they meet specific capitalizations criteria

A government entity should disclose the following information about its SBITAs (which may be grouped for purposes of disclosure) in notes to financial statements:

1. A general description of its SBITAs, including the basis, terms, and conditions on which variable payments not included in the measurement of the subscription liability are determined
2. The total amount of subscription assets, and the related accumulated amortization, disclosed separately from other capital assets
3. The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the subscription liability

4. The amount of outflows of resources recognized in the reporting period for other payments, such as termination penalties, not previously included in the measurement of the subscription liability
5. Principal and interest requirements to maturity, presented separately, for the subscription liability for each of the five subsequent fiscal years and in five-year increments thereafter
6. Commitments under SBITAs before the commencement of the subscription term
7. The components of any loss associated with an impairment

At the commencement of the subscription term, a government should recognize:

- A subscription liability and
- An intangible right to use asset

A government that incurs additional outlays related to an existing subscription but result in either of the following should be capitalized as an addition to existing asset:

- An increase in the functionality of the subscription asset
- OR
- An increase in the efficiency of the subscription asset

Founder School District uses Drops to maintains its financial accounting records. Founder recognizes its contract with Drops as a SBITA due to the following facts:

1. The agreement does not meet the definition of a lease under GASB 87
2. The agreement provides the school district the use and control of an instance of the financial accounting software in an exchange-like transaction
3. The agreement has a defined, finite, non-cancelable subscription term of three years

Preliminary project stage costs – Founder hired an outside consultant to assist with the selection and evaluation of the financial reporting software. They incurred fees of \$500 paid to the consultant during the evaluation process.

Initial implementation stage costs – During the initial implementation stage, the school district needed to migrate data from their existing financial accounting system into their new financial accounting system. The data migration cost the school district \$3,000 and was paid directly to the vendor.

Operation and additional implementation stage costs – After the school district place the new system in operation, the district experienced operational challenges, which required additional support services and cost an additional \$450. These services did not add to the functionality of the system.

Subscription Start Date: July 1, 2022

Subscription End Date: June 30, 2025

First Payment Date: July 1, 2022

Payments: \$10,000 annually, paid in advance (on July 1st)

Discount Rate: 3% (stated in contract or government estimated incremental borrowing rate should be used)

Calculation of subscription liability

- To calculate the subscription liability amount, you may use a present value calculator. You can find one in excel or google “present value calculator”.

Periodic Payment (P)	10,000.00
Rate per Period (r)	3.00%
Number of Periods (n)	3
Present Value	29,134.70

Present Value of Periodical Deposits

Number of Periods (N)

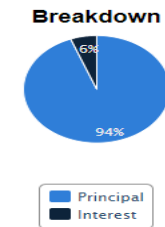
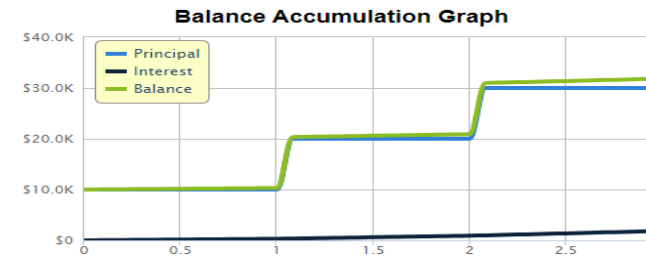
Interest Rate (I/Y) %

Periodic Deposit (PMT) /period

PMT made at the beginning end of each compound period

Calculate

Results	
Present Value: \$29,134.70	
FV (Future Value)	\$31,836.27
Total Principal	\$30,000.00
Total Interest	\$1,836.27



Schedule

	start principal	start balance	interest	end balance	end principal
1	\$10,000.00	\$10,000.00	\$300.00	\$10,300.00	\$10,000.00
2	\$20,000.00	\$20,300.00	\$609.00	\$20,909.00	\$20,000.00
3	\$30,000.00	\$30,909.00	\$927.27	\$31,836.27	\$30,000.00

$$\begin{array}{rclcl} \text{Subscription Liability} & + & \text{Initial implementation Costs} & = & \text{Subscription Asset} \\ \$ 29,134.70 & + & \$ 3,000 & = & \$ 32,134.70 \end{array}$$

Preliminary project stage – \$500 expensed as incurred (these costs are always expensed as incurred).

Initial implementation stage – \$3,000 capitalized (these costs are typically capitalized as part of the subscription asset).

Operation and additional implementation stage costs – \$450 expensed as incurred as it did not add value to the functionality or efficiency of the software.

GASB 96 SBITA Amortization Schedule

Period	Cash	Interest Expense	Liability Reduction	Cummulative		Subscription Liability	Amortization Expense	Net Subscription Asset Balance	Accumulated Amortization
				Accrued Interest Liability	Accrued Interest Liability				
Beginning Balance						\$ 29,135		\$ 32,135	
Jul-22	\$ 10,000	0	\$ 10,000	\$ -	\$ -	\$ 19,135	\$ 893	\$ 31,242	\$ 893
Aug-22		\$ 32	\$ -	\$ 32	\$ 32	\$ 19,135	\$ 893	\$ 30,349	\$ 1,786
Sep-22		\$ 32	\$ -	\$ 32	\$ 64	\$ 19,135	\$ 893	\$ 29,456	\$ 2,679
Oct-22		\$ 32	\$ -	\$ 32	\$ 96	\$ 19,135	\$ 893	\$ 28,563	\$ 3,572
Nov-22		\$ 32	\$ -	\$ 32	\$ 128	\$ 19,135	\$ 893	\$ 27,670	\$ 4,465
Dec-22		\$ 32	\$ -	\$ 32	\$ 159	\$ 19,135	\$ 893	\$ 26,777	\$ 5,358
Jan-23		\$ 32	\$ -	\$ 32	\$ 191	\$ 19,135	\$ 893	\$ 25,884	\$ 6,251
Feb-23		\$ 32	\$ -	\$ 32	\$ 223	\$ 19,135	\$ 893	\$ 24,991	\$ 7,144
Mar-23		\$ 32	\$ -	\$ 32	\$ 255	\$ 19,135	\$ 893	\$ 24,098	\$ 8,037
Apr-23		\$ 32	\$ -	\$ 32	\$ 287	\$ 19,135	\$ 893	\$ 23,205	\$ 8,930
May-23		\$ 32	\$ -	\$ 32	\$ 319	\$ 19,135	\$ 893	\$ 22,312	\$ 9,823
Jun-23		\$ 32	\$ -	\$ 32	\$ 351	\$ 19,135	\$ 893	\$ 21,419	\$ 10,716
Jul-23	\$ 10,000	\$ 32	\$ 9,615	\$ (351)	\$ -	\$ 9,520	\$ 893	\$ 20,526	\$ 11,609
Aug-23		\$ 16	\$ -	\$ 16	\$ 16	\$ 9,520	\$ 893	\$ 19,633	\$ 12,502
Sep-23		\$ 16	\$ -	\$ 16	\$ 32	\$ 9,520	\$ 893	\$ 18,740	\$ 13,395
Oct-23		\$ 16	\$ -	\$ 16	\$ 48	\$ 9,520	\$ 893	\$ 17,847	\$ 14,288
Nov-23		\$ 16	\$ -	\$ 16	\$ 64	\$ 9,520	\$ 893	\$ 16,954	\$ 15,181
Dec-23		\$ 16	\$ -	\$ 16	\$ 80	\$ 9,520	\$ 893	\$ 16,061	\$ 16,074
Jan-24		\$ 16	\$ -	\$ 16	\$ 96	\$ 9,520	\$ 893	\$ 15,168	\$ 16,967
Feb-24		\$ 16	\$ -	\$ 16	\$ 112	\$ 9,520	\$ 893	\$ 14,275	\$ 17,860
Mar-24		\$ 16	\$ -	\$ 16	\$ 128	\$ 9,520	\$ 893	\$ 13,382	\$ 18,753
Apr-24		\$ 16	\$ -	\$ 16	\$ 144	\$ 9,520	\$ 893	\$ 12,489	\$ 19,646
May-24		\$ 16	\$ -	\$ 16	\$ 160	\$ 9,520	\$ 893	\$ 11,596	\$ 20,539
Jun-24	\$ -	\$ 16	\$ -	\$ 16	\$ 176	\$ 9,520	\$ 893	\$ 10,703	\$ 21,432
Jul-24	\$ 10,000	\$ 16	\$ 9,810	\$ (176)	\$ -	\$ -	\$ 893	\$ 9,810	\$ 22,325
Aug-24	\$ -	0	\$ -	\$ -	\$ -	\$ -	\$ 893	\$ 8,917	\$ 23,218

On July 1, 2022, the journal entry is made to record the subscription asset and liability:

Account	Debit	Credit
Gross Subscription Asset	32,135	
Subscription Liability		29,135
Cash (for initial implementation costs)		3,000

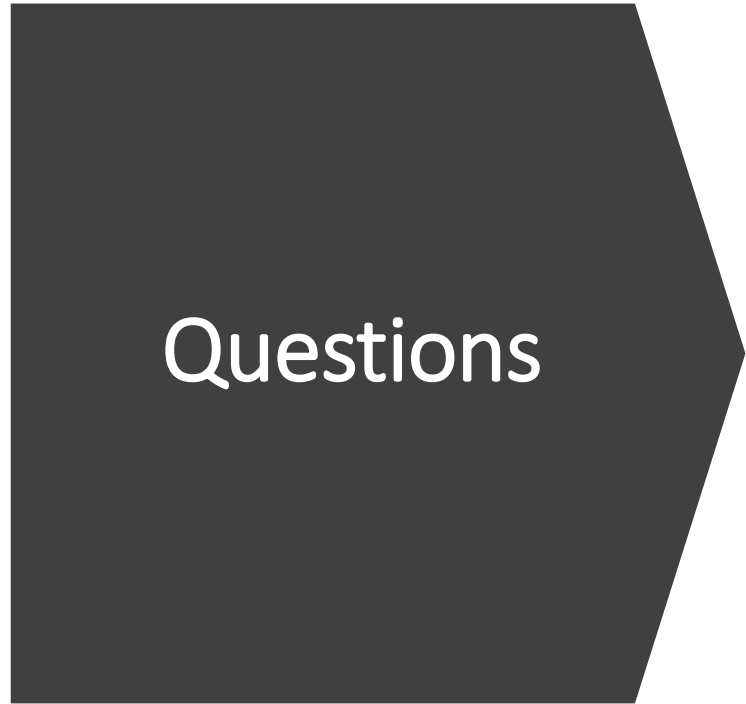
To record initial subscription asset and liability and payment of implementation cost.

Account	Debit	Credit
Amortization Expense	893	
Subscription Liability (reduction)	10,000	
Accumulated Amortization		893
Cash (for subscription payment)		10,000
To record initial subscription payment and recognize activity for the month of July.		

Account	Debit	Credit
Gross Subscription Asset	32,135	
Amortization Expense	893	
Accumulated Amortization		893
Subscription Liability		19,135
Cash		13,000
To record the combined entry for the month of July. This entry can be used to combine the previous two entries into one entry.		

Account	Debit	Credit
Amortization Expense	893	
Interest Expense	32	
Accrued Interest Liability		32
Accumulated Amortization		893
To record amortization of the subscription asset and liability monthly.		
In each of the following months, a similar entry will be made to amortize the asset and liability throughout the subscription term.		

- Identify the key parties of the subscription agreement
- Clarify any ambiguous terms of the agreement
- Document subscription term and key assumptions
- Set a capitalization threshold for right-to use subscription assets
- Develop procedures for identifying SBITA's in the future (communicate this procedure with all divisions, schools, etc.)
- Create a tracking process for SBITA's to comply going forward



QUESTIONS?

