



North Carolina Office of the State Controller

Financial Reporting Update

GASB 96 Effective for Fiscal Year 2023

February 8, 2022

Update: May 1, 2023 – Add Appendix A and B.

Update: June 5, 2023 – Modified Appendix A and B to remove the software series of accounts including subscription asset, accumulated depreciation, and capital outlay account. Renamed the network series of accounts to Subscription Asset, Accumulated Depreciation-SBITA, and Capital Outlay-SBITA. For implementation, there is now just one capital asset, accumulated depreciation, and capital outlay account.

In May 2020, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement provides guidance for accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments that are end users of SBITAs.

The objective of this statement is to improve the consistency of accounting and reporting for SBITAs by requiring recognition for certain SBITA assets and liabilities that do not meet the definition of a lease in GASB 87, *Leases*. GASB 96 will enhance the comparability, relevance, and reliability of information about SBITA activities of governments.

Identifying SBITAs

GASB 96 defines an SBITA as a contract that conveys control of the right to use an SBITA vendor's information technology (IT) software, alone or in combination with tangible capital assets, as specified in a contract for a period of time in an exchange or exchange-like transaction. A contract conveys control of the right to use the underlying IT asset if it has both of the following:

- a. The right to obtain the present service capacity from use of the underlying IT asset as specified in the contract.
- b. The right to determine the nature and manner of use of the underlying IT asset specified in the contract.

An example of an SBITA for the State of North Carolina is the contract for the right to use cloud software for the new North Carolina Financial System (NCFS) and any other cloud system contracted by a reporting entity of the State of North Carolina and a vendor providing software as a service.

GASB 96 does not apply to the following:



- Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets that meets the definition of a lease in GASB 87, *Leases*, in which the software component is insignificant when compared to the cost of the underlying tangible capital asset.
- Governments that provide the right to use the government's IT software and associated tangible capital assets to other entities through SBITAs.
- Contracts that meet the definition of a public-private, public-public partnership in GASB 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*.
- Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software.

Determining the Subscription Term

The subscription term includes the period during which the 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 the SBITA vendor will exercise the option or to terminate if it is reasonably certain the government or the SBITA vendor will not exercise that option. A fiscal funding or cancellation clause should affect the subscription term only if it is reasonably certain the clause will be exercised.

Periods for which both the government and SBITA vendor have an option to terminate the SBITA without permission from the other party are cancellable periods and are excluded from the subscription term.

At the commencement of the subscription term, a government should assess all factors relevant to the likelihood that the government or the SBITA vendor will exercise the options stated above whether the factors are contract based, underlying IT asset based, market based, or government specific.

Examples of these factors include significant economic incentive or disincentive, potential change in technological development that significantly affects the technology of the underlying IT asset, potential significant change in the government's demand for the SBITA vendor's IT asset, history of exercising options to extend or terminate, as well as the extent to which the IT asset in the SBITA is essential to the provision of the government services.

The subscription term should be reassessed if certain circumstances arise. For example, if the government or SBITA vendor elects to exercise an option that it was previously uncertain about or an event specified in the contract that requires an extension or termination of the SBITA takes place.

GASB 96 specifically exempts short-term SBITAs from the provisions of the standard. A short-term SBITA has a maximum possible term of 12 months or less including any options to extend regardless of the probability of being exercised. Governments should recognize short-term



subscription payments as expenses based on the payment provisions of the contract. The government should recognize an asset if the subscription payments are made in advance or a liability if the subscription payments are to be made in the subsequent reporting period.

General Financial Reporting Requirements for SBITAs

Proprietary Funds (Enterprise Funds, Internal Service Funds, and Component Units, such as Universities and Community Colleges)

The government should recognize the right-to-use subscription asset, which is an intangible capital asset, and a corresponding subscription liability at the commencement of the subscription term. The commencement of the subscription term occurs when the initial implementation stage is completed and thus the asset is placed into service.

Subscription Liability

Similar to GASB 87, *Leases*, the subscription liability should be measured at the present value of the subscription payments made during the subscription term. The following should be included in the calculation of the SBITA liability:

- Fixed payments
- Variable payments that depend on an index or rate
- Variable payments fixed in substance
- Payments for penalties for terminating the SBITA, if the subscription term reflects exercising the option to terminate or exercising a fiscal funding/cancellation clause
- Subscription contract incentives receivable from the SBITA vendor
- Other payments to the SBITA vendor associated with the contract that are reasonably certain of being required based on assessment of all relevant factors.

Variable payments based on future performance of a government, usage of the IT assets, or number of user seats should not be included in the measurement of the subscription liability. Those variable payments should be recognized as an expense when incurred. However, if any component of these variable payments is fixed in substance, then include in the subscription liability.

Future subscription payments should be discounted using the interest rate charged by the SBITA vendor. This may be the implicit rate if not specifically stated in the contract. If neither the explicit rate nor the implicit rate is determinable, the government should discount the payments using the incremental borrowing rate. Please refer to the [GASB 87 Discount Rate Procedural Guidance](#) document for information on determining an appropriate discount rate.

In subsequent years, the government should recognize amortization of the discount on the subscription liability as an outflow of resources (e.g., interest expense). Payments should be allocated first to the accrued interest liability and then to the subscription liability. The government should amortize the subscription liability using the determined discount rate and report that amount as an expense in subsequent financial reporting periods.



Remeasurement

SBITAs should be remeasured in subsequent financial reporting periods if any of the following changes are expected to significantly affect the subscription liability: a change in the subscription term, a change in the estimated amounts for subscription payments included in the measurement of the liability, a change in the interest rate charged by the SBITA vendor, and/or a contingency upon which some of the variable payments that will be made over the remainder of the subscription term.

If the liability is remeasured, the liability should be adjusted for any change in an index or rate used to determine variable payments if that index or rate change significantly affects the liability. The liability is not required to be remeasured solely for an index or rate change.

The discount rate should be updated as part of remeasurement if there is a significant change in the subscription term and that change is expected to significantly affect the amount of the subscription liability. A subscription liability is not required to be remeasured solely for a change in the government's incremental borrowing rate.

Subscription Asset

The subscription asset should be measured by the government as the sum of the subscription liability along with any payments associated with the contract to the SBITA vendor at the commencement of the subscription term and capitalizable initial implementation costs. Any SBITA vendor incentives received at the commencement of the subscription term should be excluded from the calculation of the subscription asset.

Payments made to the SBITA vendor as well as payments made for the capitalizable initial implementation costs before the commencement of the subscription term associated with the SBITA contract should be reported as a prepayment (an asset) and reclassified as an addition to the subscription asset at the commencement of the subscription term. If the SBITA vendor incentives exceed the SBITA vendor prepayments made to the same vendor, the difference should be reported as a liability and reclassified as a reduction to the initial measurement of the subscription asset at the commencement of the subscription term.

The subscription asset should be amortized in a systematic and rational manner over the shorter of the subscription term or the life of the underlying IT asset. The amortization of the subscription asset is reported as an outflow of resources (e.g., amortization expense).

A subscription asset should be adjusted by the same amount as the subscription liability when the liability is remeasured; however, if the carrying value of the subscription asset is reduced to zero, any remaining amount should be reported as a gain.

Governmental Funds (General Fund, Special Revenue Funds, Capital Projects Funds, and Permanent Funds)



If an SBITA is expected to be paid from general government resources, an expenditure and other financing source should be reported in the period the subscription asset is initially recognized.

The expenditure and other financing source should be measured just as the subscription liability is measured using the economic resources measurement focus (refer to Subscription Liability section above). Subsequent governmental fund subscription payments should be accounted for consistent with the principles for debt service payments on long-term debt.

Outlays Other Than Subscription Payments

Activities associated with SBITAs include the following three stages of implementation and costs should be accounted for in the appropriate stage:

- Preliminary Project Stage includes the conceptual formulation and evaluation of alternatives, the determination of needed technology, and final selection. Outlays associated with these activities should be expensed as incurred.
- Initial Implementation Stage includes ancillary charges related to designing the chosen path, such as configuration, coding, testing, and installation associated with the government's access to the underlying IT asset. The initial implementation stage is completed when a subscription asset is placed into service. Outlays associated with these activities should be capitalized as part of the subscription asset. If no subscription asset is recognized, activities in this stage should be expensed. An example would be outlays for a short-term SBITA.
- Operation and Additional Implementation Stage includes maintenance, troubleshooting, and other activities associated with the government's ongoing access to the underlying IT assets. Activities include additional implementation activities related to additional modules that occur after the subscription asset is placed into service. Outlays in this stage should be expensed as incurred, except for those that meet one of the capitalization criteria, such as an increase in the functionality and/or an increase in the efficiency of the subscription assets.

If an SBITA has multiple modules and the modules are implemented at different times, the initial implementation stage for the SBITA is completed and, therefore, the subscription asset is considered to be placed into service when the initial implementation is completed for the first independently functional module for the set of interdependent modules, regardless of whether all remaining modules have been completed or implemented. The remaining modules of the SBITA should be considered subsequent implementation outlays.



Data conversion that is determined to be necessary to place the subscription asset into service should be considered an activity of the initial implementation stage and capitalized as part of the subscription asset. Otherwise, data conversion should be expensed as incurred.

Generally, outlays associated with an SBITA already in operation that are incurred in addition to subscription payments should be expensed as incurred. However, additional outlays not resulting from SBITA modifications that increase the functionality of the asset or increase the efficiency of the subscription asset should be capitalized as an addition to the existing subscription asset. Training costs should be expensed as incurred regardless of the stage in which these are incurred.

Incentives Provided by SBITA Vendor

SBITA vendor incentives are payments made to or on behalf of a government for which the government has a right of offset with its obligation to the SBITA vendor or other concessions granted to the government. These include an agreement to pay a government's preexisting subscription obligations to a third-party, other reimbursements of end user costs, free subscription periods and reductions of interest or principal charges by the SBITA vendor.

SBITA vendor incentives that are provided before the commencement of the subscription term should be included in the initial measurement by directly reducing the amount of the subscription asset. SBITA vendor incentive payments provided after commencement of the subscription should be accounted for in calculation of the present value of the subscription payments for the periods the incentive payments will be provided.

Contracts with Multiple Components

Governments that enter into a contract that contains both a subscription component and a non-subscription component should account for the subscription component separate from the non-subscription component unless the contract does not include prices for the individual components and the government is not able to reasonably estimate the price allocation for some or all components. If the components cannot be reasonably estimated, the government should account for the components as a single SBITA.

SBITA Modifications and Terminations

Governments should account for any amendments to the provisions of the SBITA contract during the reporting period that result in a modification to the SBITA as a separate SBITA if both conditions are present:

- The SBITA modification gives the government an additional subscription asset by adding access to more underlying IT assets that were not included in the original contract.



- The increase in the subscription payments for the additional subscription asset does not appear to be unreasonable based on the terms of the amended SBITA contract and professional judgement, maximizing the use of observable information.

Unless the modification is reported as a separate SBITA, governments should account for the modification by remeasuring the subscription liability and adjusting the asset. If the changes reduce the carrying value of the subscription asset to zero, any remaining amount should be reported as a gain.

A government should account for a partial or full SBITA termination by reducing the carrying value of the subscription asset and subscription liability and recognize a gain or loss for the difference.

If variable payments of an SBITA contract depend on an interbank offered rate (IBOR), an amendment of the contract to replace the IBOR with another rate that essentially equates the replacement rate and the original rate, is not a modification to the SBITA contract.

Notes to the Financial Statements

GASB 96 requires governments to make the following disclosures about SBITAs, other than short-term, in the note to the financial statements:

- General description of the SBITA, including the basis, terms, and conditions on which variable payments not included in the measurement of the subscription liability are determined.
- Total amount of subscription assets and the related accumulated amortization, disclosed separately from other capital assets.
- Amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the subscription liability.
- 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.
- 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.
- Commitments under SBITAs before the commencement of the subscription term.
- Components of any loss associated with an impairment.

Effective Date

Statement 96 is required to be implemented for fiscal year end June 30, 2023. This statement should be applied retroactively by restating the July 1, 2022, beginning net position. 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 for the year of implementation.



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.

To gain additional understanding of GASB 96, please refer to the GASB webpage from which you can access a PDF file of GASB 96 as well as other GASB pronouncements – [GASB Pronouncements](#).

Thank you for your time and attention to this important change. OSC will continue to provide updates as the standard is implemented. Questions regarding this specific update should be directed to Yelena Zaytseva at 919-707-0555 or by email at Yelena.Zaytseva@osc.nc.gov.

NC Office of the State Controller - APPENDIX A

**New Accounts Added to Implement GASB Statement 96, Subscription-Based Information Technology Agreements
Effective for fiscal year 2023**

	New NCAS Account #	Full Account Title Account Classification Definition	NCAS Account Title (25 Char) Financial Statement Caption DSS Financial Statement Rollup
1	127540	Subscription (SBITA) Asset Capital Assets Definition: This account represents the value of the intangible asset for subscription-based IT arrangements for services accounted for under GASB Statement 96. The value in this account should include all capitalizable costs applicable under GASB Statement 96.	SBITA ASSET Subscription Asset *new caption* rolls to new caption under "Capital Assets" on the DSS 11P/11G.
2	127974	Accumulated Depreciation-Subscription (SBITA) Asset Capital Assets, Depreciable	ACCUM DEPR-SBITA ASSET rolls to "Accumulated Depreciation" within the Depreciable Capital Assets parent category on DSS 11P/11G.
3	214200	Subscription (SBITA) Liability Current Liabilities Definition: This account represents the current portion of subscription-based IT arrangements obligations due within the current year or within one year of the reporting date. This account is not for use by governmental funds.	SBITA LIABILITY Subscription Liability *new caption* Not for use by governmental funds-invalid on 11G/rolls to the new caption within the current liabilities section of the 11P.
4	224200	Subscription (SBITA) Liability - Noncurrent Noncurrent Liabilities Definition: This account represents the portion of subscription-based IT arrangements obligations that will be payable in more than one year subsequent to the balance sheet date. This is for use by both governmental and proprietary funds.	SBITA LIABILITY-NONCURRE Subscription Liability *new caption* 11G - rolls to new caption within the Liabilities section on the DSS 11G-activity posts to GASB 5200/11P - rolls to a new caption within the Non-Current Liabilities section.
5	534716	Subscription Arrangements (SBITA) Outlay Property, Plant & Equipment Expense/Expenditure Definition: This account represents capitalizable costs during the fiscal year related to subscription-based IT arrangements accounted for under GASB Statement 96. This account is for use by governmental and proprietary funds, including component units of the State of North Carolina. These costs must be capitalized as part of the 127540 SBITA capital asset at year-end.	SBITA OUTLAY 52G -rolls to it's own caption under Expenditures. 53P - This 534XXX account can be used by proprietary funds during the fiscal year and will roll to a Capital Outlay caption under Supplies and Materials but should have a zero balance at year end.*

Appendix B:

Fixed Asset System Guidance (for Primary Government Agencies) Journal Entries Examples (for Primary Government Agencies/Component Units)

The concepts of GASB 96 are similar to that of GASB 87 therefore, the guidance in this appendix will resemble Appendix E in the Financial Reporting Update for GASB 87. Account numbers and terminology were changed to reflect subscription-based information technology agreements (SBITAs).

In the examples below it has been determined that the criteria in GASB Statement 96 and the OSC [capitalization threshold](#) have been met so a subscription asset and subscription liability will be reported in FY 2023 based on the GASB 96 requirements. *(Primary Government agencies with standalone financial statements/audits and/or Component units may have a different capitalization threshold.)*

1) Agreements Already Underway

Date	Lease Liability Opening Balance	Payments	Interest Expense	Principal	Lease Liability Closing Balance
7/1/2022	\$ 831,893	\$ 15,000		\$ 15,000	\$ 816,893
8/1/2022	7/1/2022 Balance 831,893	\$ 15,000	2,212	\$ 12,788	804,105
9/1/2022	804,105	\$ 15,000	2,178	\$ 12,822	791,283
10/1/2022	791,283	\$ 15,000	2,143	\$ 12,857	778,426
11/1/2022	778,426	\$ 15,000	2,108	\$ 12,892	765,534
12/1/2022	765,534	\$ 15,000	2,073	\$ 12,927	752,608
1/1/2023	752,608	\$ 15,000	2,038	\$ 12,962	2023 principal pmts \$ 157,584
2/1/2023	739,646	\$ 15,000	2,003	\$ 12,997	726,649
3/1/2023	726,649	2023 interest pmts \$ 22,416	1,968	\$ 13,032	713,617
4/1/2023	713,617	\$ 15,000	1,933	\$ 13,067	700,550
5/1/2023	700,550	\$ 15,000	1,897	\$ 13,103	687,447
6/1/2023	687,447	\$ 15,000	1,862	\$ 13,138	674,309
7/1/2023	674,309	\$ 15,000	1,826	\$ 13,174	6/30/2023 Balance
8/1/2023	661,135	\$ 15,000	1,791	\$ 13,209	647,926
9/1/2023	647,926	\$ 15,000	1,755	\$ 13,245	634,681
10/1/2023	634,681	\$ 15,000	1,719	\$ 13,281	621,400
11/1/2023	621,400	\$ 15,000	1,683	\$ 13,317	608,083
12/1/2023	608,083	2024 interest pmts \$ 19,539	1,647	\$ 13,353	2024 principal pmts \$ 160,461
1/1/2024	594,729	\$ 15,000	1,611	\$ 13,389	581,340
2/1/2024	581,340	\$ 15,000	1,574	\$ 13,426	567,915
3/1/2024	567,915	\$ 15,000	1,538	\$ 13,462	554,453
4/1/2024	554,453	\$ 15,000	1,502	\$ 13,498	540,954
5/1/2024	540,954	\$ 15,000	1,465	\$ 13,535	527,420
6/1/2024	527,420	\$ 15,000	1,428	\$ 13,572	513,848

Remaining agreement term: 5 years

Subscription Liability measured per GASB 96 \$831,893

Subscription Asset - \$831,893

Principal payment: \$15,000 Monthly, \$157,584 total in FY 23; \$160,461 total in FY 24

Interest payment: Varies Monthly, \$22,416 total in FY 23; \$19,539 total in FY 24

Fixed Asset System State Agency:

- Add the subscription asset to the fixed asset system manually with a June 2022 acquisition date. (There will be no 534xxx accounts recorded in NCAS for this transaction). The asset will be added in FAS using the 534xxx account that maps to the 127xxx account. This account will be entered as the object code using the last four digits of the expenditure account beginning with 4xxx and not the asset account. See the subscription expenditure and asset accounts in the NCAS Accounts chart below for applicable accounts. The subscription asset is equal to the subscription liability since this is an existing agreement.

Add Subscription Asset by entering the following:

- New FAS Asset number
 - Enter object code: 4716
 - Acquisition date: 202212
 - Cost of asset: \$831,893
 - Depreciable asset
 - Input the shorter the subscription agreement term or useful life as of July 1, 2022, for amortization/depreciation to begin in FY 2023. A full year's depreciation will be taken beginning in FY 2023 based on the number of years input by the agency.
- The FAS should not catch-up depreciation; no depreciation prior to July 1, 2022. Depreciation will be calculated by the OSC technical team based on the information input by the agency. OSC will know not to catch-up depreciation based on the object code and the term Subscription asset in the title. No restatement will need to be done for accumulated depreciation. Just a full year depreciation taken in the current year.

Note: The OSC Statewide Accounting Financial Reporting team emailed a spreadsheet to agency contacts during the GASB 96 implementation. It should be completed and submitted to OSC by June 30, 2023. This spreadsheet should only include the information for agreements that existed as of July 1, 2022, and met the requirements to be reported as a SBITA. If this spreadsheet is submitted to OSC, the agency should not manually enter these subscription assets in FAS. The OSC technical team will programmatically load this information in the Fixed Asset System.

SBITA Expenditure/Expense Accounts to be keyed in FAS	Intangible Subscription Asset Accounts (mapped based on the related 534xxx account)
534716 SBITA Outlay	127540 Subscription (SBITA) Asset

Primary Government - Governmental Funds (General, Special Revenue, Permanent, and Capital Projects Funds):

Journal Entries:

The entries below were prepared using OSC-generated data from sample entries in the amortization template spreadsheet (this was used for the GASB 87 implementation and has been modified for GASB 96).

- 1) To book the subscription liability as of July 1, beginning balance of the subscription liability. This liability should be measured at the present value of future payments.

Entry in NCAS in GASB 5200, July 1, 2022 balance (Post with a June 30th date if the budget code is certified on a monthly basis so recertification is not required):

Debit 128100 Amount available and to be provided	\$831,893	
Credit 224200 Subscription liability – Noncurrent		\$831,893

- 2) Cash basis entries:

To record periodic payments. Make this entry for the frequency of payments required to be made based on your contractual obligation (i.e., monthly, quarterly, annually, etc.). In this example payments will be made monthly.

July 1, 2022 principal payment (no interest component for the first month's payment in the fiscal year):

Debit 535315 SBITA Principal Payments expenditure	\$15,000	
Credit Cash		\$15,000

August 1, 2022 principal and interest payments:

Debit 535315 SBITA Principal Payments expenditure	\$12,788	
Debit 535327 SBITA Interest Payments expenditure	\$ 2,212	
Credit Cash		\$15,000

Total Principal Payments recorded to account 535315 SBITA Principal Payments expenditure at June 30, 2023: \$157,584

Total interest payments recorded to account 535327 SBITA Interest expenditure at June 30, 2023: \$22,416

If any payments on the agreement were recorded as an expenditure other than SBITA principal/interest during the 2023 fiscal year, these expenditures will need to be reclassified to SBITA principal and interest payments.

Debit 535315 SBITA Principal Payments expenditure		
Debit 535327 SBITA Interest Payments expenditure		
Credit 53XXXX expenditure account previously charged		

- 3) To reduce the subscription liability by the principal payments made during the year in GASB 5200. Entries can be made each month as principal payments are made or they can be done at year-end.

- If choose to reduce subscription liability as principal payments are made:

Entry in NCAS in GASB 5200, July 2022:

Debit 224200 Subscription liability – Noncurrent	\$15,000
Credit 128100 Amount available and to be provided	\$15,000

Entry in NCAS in GASB 5200, August 2022:

Debit 224200 Subscription liability – Noncurrent	\$12,788
Credit 128100 Amount available and to be provided	\$12,788

Entries continue in NCAS in GASB 5200 for each month as payments are made.

- If choose to reduce subscription liability for total principal payments made during year:

Entry in NCAS in GASB 5200, June 30, 2023:

Debit 224200 Subscription liability – Noncurrent	\$157,584
Credit 128100 Amount available and to be provided	\$157,584

Primary Government - Proprietary Funds (Enterprise and Internal Service Funds):

Component Units - Universities/Community Colleges/Other Component Units:

Journal Entries:

The entries below were prepared using OSC-generated data from sample entries in the amortization template spreadsheet (this was used for the GASB 87 implementation and has been modified for GASB 96).

- 1) To book the subscription liability and subscription asset as of July 1, beginning balance. This liability should be measured at the present value of future payments. Since this is an existing agreement, the subscription asset is equal to the subscription liability.

Entry in NCAS as of July 1, 2022, beginning balance, to be posted with a June 30th date/13th period entry:

Debit 127540 Subscription (SBITA) Asset	\$891,893
Credit 214200 Subscription liability – Current	\$157,584
Credit 224200 Subscription liability – Noncurrent	\$674,309

- 2) Cash basis entries:

To record periodic payments. Make this entry for the frequency of payments required to be made based on your contractual obligation (i.e., monthly, quarterly, annually, etc.). In this example payments will be made monthly. Enterprise and Internal Service Funds must zero out the SBITA Principal Payments at 6/30 by reducing the SBITA Liability for the principal payments made during the year.

July 1, 2022 principal payment (no interest component for the first month's payment in the fiscal year):

Debit 535315 SBITA Principal Payments expense	\$15,000
Credit Cash	\$15,000

August 1, 2022 principal and interest payments:

Debit 535315 SBITA Principal Payments expense	\$12,788
Debit 535327 SBITA Interest Payments expense	\$ 2,212
Credit Cash	\$15,000

Total Principal Payments recorded to account 535315 SBITA Principal Payments expense at June 30, 2023: \$157,584

Total interest payments recorded to account 535327 SBITA Interest expense at June 30, 2023: \$22,416

If any payments on the agreement were recorded as an expenditure other than SBITA principal/interest during the 2023 fiscal year, these expenditures will need to be reclassified to SBITA principal and interest payments.

Debit 535315 SBITA Principal Payments expense	
Debit 535327 SBITA Interest Payments expense	
Credit 53XXXX expenditure account previously charged	

- 3) To reduce the SBITA liability by the principal payments made during the year and reduce SBITA principal payments expense to zero.

13th period, June 30, 2023 entry:

Debit 214200 SBITA liability – current	\$157,584
Credit 535315 SBITA Principal Payments expense	\$157,584

- 4) Establish the current/noncurrent portions of SBITA liability for next fiscal year. 13th period, June 30, 2023 entry:

Debit 224200 SBITA liability – Noncurrent	\$160,461
Credit 214200 SBITA liability – current	\$160,461

- 5) Record current year depreciation expense and Accumulated Depreciation:
13th period, June 30, 2023 entry:

Debit 535430 Depreciation expense

\$Straight-line over shorter useful life or agmt term

Credit 127974 Accumulated Depr SBITA Asset

\$Straight-line over shorter useful life or agmt term

2) New Agreements

Date	Lease Liability Opening Balance	Payments	Interest Expense	Principal	Lease Liability Closing Balance
2/1/2023	\$ 752,430	\$ 10,000		\$ 10,000	\$ 742,430
3/1/2023	742,430	\$ 10,000	2,011	\$ 7,989	734,440
4/1/2023	734,440	\$ 10,000	1,989	\$ 8,011	724,429
5/1/2023	726,429	2023 interest pmts \$ 7,913	1,967	\$ 8,033	718,397
6/1/2023	718,397		1,946	\$ 8,054	710,343
7/1/2023	710,343	\$ 10,000	1,924	\$ 8,076	694,168
8/1/2023	702,266	\$ 10,000	1,902	\$ 8,098	686,048
9/1/2023	694,168	\$ 10,000	1,880	\$ 8,120	677,906
10/1/2023	686,048	\$ 10,000	1,858	\$ 8,142	669,742
11/1/2023	677,906	\$ 10,000	1,836	\$ 8,164	661,556
12/1/2023	669,742	2024 interest pmts \$ 21,629	1,814	\$ 8,186	645,118
1/1/2024	661,556		1,792	\$ 8,208	636,865
2/1/2024	653,348	\$ 10,000	1,769	\$ 8,231	628,590
3/1/2024	645,118	\$ 10,000	1,747	\$ 8,253	620,292
4/1/2024	636,865	\$ 10,000	1,725	\$ 8,275	611,972
5/1/2024	628,590	\$ 10,000	1,702	\$ 8,298	603,629
6/1/2024	620,292	\$ 10,000	1,680	\$ 8,320	595,264
7/1/2024	611,972	\$ 10,000	1,657	\$ 8,343	586,876
8/1/2024	603,629	\$ 10,000	1,635	\$ 8,365	578,466
9/1/2024	595,264	\$ 10,000	1,612	\$ 8,388	570,033
10/1/2024	586,876	\$ 10,000	1,589	\$ 8,411	561,576
11/1/2024	578,466	\$ 10,000	1,567	\$ 8,433	553,097
12/1/2024	570,033	\$ 10,000	1,544	\$ 8,456	
1/1/2025	561,576	\$ 10,000	1,521	\$ 8,479	

Agreement term: 7 years, starting 2/1/2023

Subscription Liability measured per GASB 96 \$752,430

Subscription Asset \$752,430*

* Capitalizable initial implementation costs including ancillary charges necessary to place the subscription asset into service should be capitalized and added to the value of the subscription asset. See OSC policy [102.1 Statewide Accounting Policy – Capitalization/Classification](#) for examples of ancillary charges.

* Payments associated with the SBITA contract made to the SBITA vendor at the commencement of the subscription term, less any SBITA vendor incentives should be capitalized and added to the value of the asset.

Principal payment: \$10,000 Monthly, \$42,087 total in FY 23; \$98,371 total in FY 24; continues through December 2029 or FY 2030

Interest payment: Varies Monthly, \$7,913 total in FY 23; \$21,629 total in FY 24; continues through December 2029 or FY 2030

Fixed Asset System State Agency:

- Add the subscription asset to the fixed asset system manually with the date the agreement began as the acquisition date, February 1, 2023, in this example. The asset will be added in FAS using the 534xxx account that maps to the 127xxx account. This account will be entered as the object code using the last four digits of the expense account beginning with 4xxx and not the asset account. See the subscription expenditure and asset accounts in the chart in the governmental fund section for applicable accounts. The subscription asset cost may not equal the subscription liability. If payments are made at the commencement of the agreement or capitalizable implementation costs are incurred, these will be recorded in NCAS in the 534xxx expenditure accounts and should be capitalized as part of the cost of the subscription asset. These costs will interface with FAS from Accounts Payable. If the asset is added without including these costs, a cost adjustment can be done in FAS to capitalize these costs.

Add subscription asset - software by entering the following:

- New FAS Asset number
 - Enter object code: 4716
 - Acquisition date: 202308 (this is the current year's month, year of agreement start)
 - Cost of asset: \$752,430
 - Depreciable asset
- Input the shorter of the subscription agreement term or useful life for amortization/depreciation to begin in the FY the lease began. A half year depreciation will be taken in the first and last year and a full year's depreciation will be taken in all other years based on the number of years input by the agency.
 - Depreciation will be calculated by the OSC technical team based on the information input by the agency. OSC will know to use the useful life input by the agency based on the object code and subscription asset in the title.

Primary Government - Governmental Funds (General, Special Revenue, Permanent, and Capital Projects Funds):

Journal Entries:

The entries below were prepared using OSC-generated data from sample entries in the amortization template spreadsheet (this was used for the GASB 87 implementation and has been modified for GASB 96).

- 1) If any payments associated with the SBITA are made before the commencement of the subscription term or if capitalizable implementation costs are paid at the commencement of the subscription term that are necessary to place the asset in service, the following entry will be made on a cash basis:

Debit 534716 SBITA Outlay
Credit Cash

If vendor incentives are received at or before the commencement of the agreement, contact OSC for assistance, if needed.

- 2) To book the subscription liability at the commencement of the agreement term, February 1, 2023. This liability should be measured at the present value of future payments. Entry in NCAS in GASB 5200, February 1, 2023:

Debit 128100 Amount available and to be provided \$752,430
Credit 224200 Subscription liability – Noncurrent \$752,430

- 3) Cash basis entries:

To record periodic payments. Make this entry for the frequency of payments required to be made based on your contractual obligation (i.e., monthly, quarterly, annually, etc.). In this example payments will be made monthly.

February 1, 2023 principal payment (no interest component for the first month's payment in the fiscal year):

Debit 535315 SBITA Principal Payments expenditure \$10,000
Credit Cash \$10,000

March 1, 2023 principal and interest payments:

Debit 535315 SBITA Principal Payments expenditure \$7,989
Debit 535327 SBITA Interest Payments expenditure \$ 2,011
Credit Cash \$10,000

Total Principal Payments recorded to account 535314 SBITA Principal Payments expenditure at June 30, 2023: \$42,087

Total interest payments recorded to account 535327 SBITA Interest expenditure at June 30, 2023: \$7,913

4) To reduce the SBITA liability by the principal payments made during the year in GASB 5200. Entries can be made each month as principal payments are made or they can be done at year-end.

- If choose to reduce liability as principal payments are made:
Entry in NCAS in GASB 5200, February 2023:

Debit 224200 SBITA liability – Noncurrent	\$10,000
Credit 128100 Amount available and to be provided	\$10,000

Entry in NCAS in GASB 5200, March 2023:

Debit 224200 SBITA liability – Noncurrent	\$7,989
Credit 128100 Amount available and to be provided	\$7,989

Entries continue in NCAS in GASB 5200 for each month as payments are made.

- If choose to reduce liability for total principal payments made during year:
Entry in NCAS in GASB 5200, June 30, 2023:

Debit 224200 SBITA liability – Noncurrent	\$42,087
Credit 128100 Amount available and to be provided	\$42,087

5) To record the new agreement in the period the agreement is initially recognized as an expenditure and other financing source. The expenditure and other financing source should be measured in accordance with the SBITA liability guidance, i.e., the other financing source should equal the SBITA liability at the commencement of the lease.

Entry in NCAS, June 30, 2023 (13th period entry):

Debit 534716 SBITA Outlay	\$752,430
Credit 437221 Proceeds – SBITAs (OFS)	\$752,430

New Agreements, continued

Primary Government - Proprietary Funds (Enterprise and Internal Service Funds):

Component Units - Universities/Community Colleges/Other Component Units:

Journal Entries:

- 1) If any payments associated with the SBITA are made before the commencement of the subscription term or if capitalizable implementation costs are paid at the commencement of the subscription term that are necessary to place the asset in service, the following entry will be made on a cash basis:

Debit 534716 SBITA Outlay
Credit Cash

If vendor incentives are received at or before the commencement of the agreement, contact OSC for assistance, if needed.

- 2) To book the subscription liability at the commencement of the lease term, February 1, 2023. This liability should be measured at the present value of future payments. Entry in NCAS as of February 1, 2023 to be posted with a June 30th date/13th period entry:

Debit 127540 SBITA Asset	\$752,430*
Credit 214200 SBITA liability – current	\$42,087
Credit 224200 SBITA liability – Noncurrent	\$710,343
Credit 534716 SBITA Outlay expense*	

*If payments are made before the commencement of the subscription term or if capitalizable implementation costs are paid at the commencement of the subscription term as noted in entry 1, the subscription asset will be increased by that amount and the SBITA Outlay expense will be credited for that amount.

- 3) Cash basis entries:

To record periodic payments. Make this entry for the frequency of payments required to be made based on your contractual obligation (i.e., monthly, quarterly, annually, etc.). In this example payments will be made monthly. Enterprise and Internal Service Funds must zero out the SBITA Principal Payments at 6/30 by reducing the Subscription Liability for the principal payments made during the year.

February 1, 2023 principal payment (no interest component for the first month's payment in the fiscal year):

Debit 535315 SBITA Principal Payments expense	\$10,000
Credit Cash	\$10,000

March 1, 2023 principal and interest payments:

Debit 535315 SBITA Principal Payments expense	\$7,989
Debit 535327 SBITA Interest Payments expense	\$2,011
Credit Cash	\$10,000

Total Principal Payments recorded to account 535315 SBITA Principal Payments expense at June 30, 2023: \$42,087

Total interest payments recorded to account 535327 SBITA Interest expense at June 30, 2023: \$7,913

- 4) To reduce the SBITA liability by the principal payments made during the year and reduce SBITA principal payments expense to zero.

13th period, June 30, 2023 entry:

Debit 214200 SBITA liability – current	\$42,087
Credit 535315 SBITA Principal Payments expense	\$42,087

- 5) Establish the current/noncurrent portions of SBITA liability for next fiscal year.

13th period, June 30, 2023 entry:

Debit 224200 SBITA liability – noncurrent	\$98,371
Credit 214200 SBITA liability – current	\$98,371

- 6) Record current year depreciation expense (1/2 year) and Accumulated Depreciation:

13th period, June 30, 2023 entry:

Debit 535430 Depreciation expense	\$Straight-line over shorter useful life or agmt term/2
Credit 127974 Accumulated Depr SBITA Asset	\$Straight-line over shorter useful life or agmt term/2

An accrued interest liability, account 216220, may need to be recorded in the financial statements depending on the timing and frequency of payments. In this example, payments are due monthly at the beginning of the month, so most likely there will be no accrued interest liability at year-end.