



# STATE OF NEW JERSEY DEPARTMENT OF EDUCATION

A Memo from the New Jersey Department of Education

Date: June 21, 2023  
To: Local Educational Agency Leads  
Route To: School Business Administrators/Board Secretaries, Independent Public School Auditors  
From: Allen Dupree, Acting Executive Director  
Division of Finance and Business Services

## Implementation of Governmental Accounting Standards Board (GASB) Statement No. 96, Subscription-Based Information Technology Arrangement

The Governmental Accounting Standards Board (GASB) is an independent, nonprofit organization that establishes financial accounting and reporting standards for state and local governments, including school districts, charter schools and renaissance school projects. New Jersey state law and administrative code, N.J.S.A.18A:4-14 and N.J.A.C. 6A:23A-16.1 *et seq.*, require local educational agencies (LEAs) to follow generally accepted governmental accounting principles in accordance with statements issued by GASB. The Annual Comprehensive Financial Report as prepared by each LEA is the basis for the annual independent audit. Implementation of GASB Statement No. 96, Subscription-Based Information Technology Arrangement (SBITA), is required for fiscal year ending June 30, 2023.

[GASB Statement No. 96](#) provides guidance on the accounting and financial reporting for SBITAs. This statement defines an SBITA; establishes that an SBITA results in a right-to-use subscription asset (intangible asset) and corresponding subscription liability; provides capitalization criteria for outlays other than subscription payments, including SBITA implementation costs; and requires note disclosures. Short-term SBITAs, with a maximum possible term of 12 months, including extension options regardless of reasonable certainty of extending, are excluded from the GASB Statement No. 96 requirements.

### Key steps/actions

LEAs must determine whether a contract is an SBITA, which is defined as a contract that conveys control of the right to use another party's information technology (IT) software, alone or with a tangible capital asset, as specified in the contract for a period of time in an exchange or exchange-like transaction. LEAs must assess each contract to determine whether the contract grants them control over the underlying IT assets. Some examples of SBITAs include Remote Learning Platforms; Student Information Systems; Records Management Systems; Email Services; eBooks; Emergency Notification Systems; Cloud Storage; Data Backup; and Teacher Evaluation Systems.

### I. Identify Components and Costs of SBITAs

**1. Identify Project Costs** – Costs incurred in the initial implementation stage, such as coding, testing and installation are capitalizable. The following costs should be expensed:

- Costs incurred in the preliminary project stage, such as determination of specific project objective, determination of expected service capacity, determination of needed technology, demonstrations of technical/technological feasibility and demonstration of current intention.
- Costs incurred in the operation stage and additional implementation stage, such as troubleshooting and maintenance.

**2. Review subscription agreements** and identify lease term, payments and initial indirect costs, incentives, and prepayments.

- **Lease Term** – Identify extension or termination options, fiscal funding or cancelation clauses, and cancelable periods. During the cancelable period, both the lessee and lessor can terminate without permission from the other parties or both parties must agree to extend.
- **Payments** – Identify fixed payments and variable payments (fixed in substance, based on an index or rate and residual value guarantees), exercise price of purchase option and termination penalties. Exclude variable payment based on future performance.
- **Indirect Costs, Incentives & Prepayments**
  - Identify initial direct costs, which include fees to prepare and process lease documents, negotiation, and closing costs.
  - Identify incentives, which are paid/received at or before commencement or after commencement.
  - Identify prepayments, which are paid/received at or before commencement or after commencement.

**3. Identify Subscription & Non-Subscription Components**

- Multiple underlying IT assets, which may have different subscription terms.
- Non-subscription components, such as separate perpetual licensing agreements, or maintenance are treated separately from subscription component.
- Allocate contract price included in the contract using best estimate, if possible. Otherwise, LEAs may treat as one component.

## **II. Accounting and Reporting Requirements**

If an SBITA is identified, LEAs recognize a subscription asset and subscription liability at the commencement of the subscription term.

### **1. Prepare the initial schedules**

- Discount the lease payments using the appropriate interest rate (stated rate, implicit rate, or incremental borrowing rate) to determine the lease liability/receivable beginning balance.
- Use initial direct costs, incentives, and prepayments to adjust the lease asset/deferred inflow of resources.
- LEAs recognize a subscription asset and subscription liability at the commencement of the subscription term of the SBITA.
- The subscription asset is measured as the initial value of the subscription liability plus payments made to the vendor at the commencement of the subscription term and capitalizable initial implementation costs reduced by any vendor incentives received at the commencement of the subscription term.
- The initial subscription liability is measured as the present value of the total subscription payments expected to be made to the vendor during the subscription term.
- The total future payments are discounted using the interest rate the vendor charges, which may be the interest rate implicit in the SBITA. If the implicit interest rate is not readily determinable, the estimated incremental borrowing rate for the present value calculation may be used.
- Subscription payments are allocated between a reduction of the subscription liability and any accrued interest.
- The amortization of the subscription asset is reported as an outflow of resources.

### **2. Disclosure requirements**

- Statement of Net Position will report assets and liabilities.
  - The total subscription asset is reported as a noncurrent intangible asset, on a separate line item from other capital assets.

- The long-term portion of the subscription liability is reported as a long-term liability, separate from debt.
- The short-term portion of the subscription liability is recorded as a current liability on the statement of net position.
- Detail SBITA information is required to be included in the notes to the financial pursuant to GASB No. 96, paragraph 60-61.

This notice serves as a reminder that responsibility for the preparation of the Annual Comprehensive Finance Report (ACFR) along with posting of all original and closing entries and schedules rests with the management of the LEA. Accordingly, preparation of all SBITA-related entries and schedules is the responsibility of the LEA. The auditor's responsibility is to perform an audit for rendering an opinion on the fairness of the basic financial statements.

LEAs are advised to assess each IT subscription contract to determine whether the contract grants them control over the underlying IT asset to ensure full compliance with [GASB Statement No. 96](#) for fiscal year ending June 30, 2023. As the end of the fiscal year is fast approaching, LEAs are strongly encouraged, if they have not already done so, to immediately review current systems to determine if they are adequate for compliance or if it is necessary to seek the services of a vendor.

**Contact information**

Please submit questions regarding this memo to [doe.acfr@doe.nj.gov](mailto:doe.acfr@doe.nj.gov).

c: Members, State Board of Education  
NJDOE Staff  
Statewide Parent Advocacy Network  
Garden State Coalition of Schools  
NJ LEE Group