



**Regulation DI-R(3): Accounting and Reporting - Subscription - Based Information Technology Arrangements (SBITA)**

Status: DRAFT

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**Subscription-Based Information Technology Arrangements (SBITA)**

The district may enter into subscription-based contracts for information technology provided by vendors when it is either the only option for the information technology needed or more advantageous to the district than an outright purchase of that information technology. Accounting and reporting for SBITAs is governed by GASB Statement No. 96, which developed uniform guidance for agreements that meet the definition of a SBITA. GASB Statement No. 96 requires recognition of a right-to-use subscription asset and a corresponding subscription liability.

The Finance Division will evaluate all agreements executed by the district that meet the definition of a SBITA to determine proper accounting and reporting for those agreements. The SBITAs will be reviewed to determine if the agreement falls under the provisions of GASB 96.

**Definitions**

**Subscription-Based Information Technology Arrangement** - A contract that conveys control of the right to use another party's IT software, alone or in combination with a tangible capital asset, for a period of time in an exchange or exchange-like transaction. Examples of SBITAs include ERP systems and Office 365.

**Subscription Term** - The period during which a government has a noncancelable right to use the underlying IT assets, plus the following periods, if applicable:

1. Periods covered by a government's option to extend the SBITA if it is reasonably certain, based on all relevant factors, that the government will exercise that option.
2. Periods covered by a government's option to terminate the SBITA if it is reasonably certain, based on all relevant factors, that the government will not exercise that option.
3. Periods covered by a SBITA vendor's option to extend the SBITA if it is reasonably certain, based on all relevant factors, that the SBITA vendor will exercise that option.
4. Periods covered by a SBITA vendor's option to terminate the SBITA if it is reasonably certain, based on all relevant factors, that the SBITA vendor will not exercise that option.

**Short-Term SBITAs** - A SBITA that, at the commencement of the subscription term, has a maximum possible term under the SBITA contract of 12 months or less, including any options to extend, regardless of their probability of being exercised. Short-Term SBITAs do not require the recognition of a right-to-use asset and corresponding liability.

**Present Value** - The current value of a future sum of money.

**Recognition and Measurement**

At the commencement of the subscription term, a government should recognize a subscription liability and an intangible right-to-use asset. The commencement of the subscription term occurs when the initial implementation stage is completed, as defined in GASB 96, at which time the government has obtained control of the right to use the underlying IT assets.

**Subscription Liability** - A government initially should measure the subscription liability at the present value of subscription payments expected to be made during the subscription term. Measurement of the subscription liability should include the following, if required by a SBITA:

- a. Fixed payments
- b. Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), measured using the index or rate as of the commencement of the subscription term
- c. Variable payments that are fixed in substance
- d. Payments for penalties for terminating the SBITA, if the subscription term reflects the government exercising
  1. an option to terminate the SBITA or

2. a fiscal funding or cancelation clause

e. Any subscription contract incentives receivable from the SBITA vendor

f. Any other payments to the SBITA vendor associated with the SBITA contract that are reasonably certain of being required based on an assessment of all relevant factors.

Interest Rate - To calculate the incremental borrowing rate, the district will take the risk-free rate of return as of the subscription commencement date (or as close to the date as possible) plus an average additional risk premium-based upon three different banks and the credit rating of the district at the time of the agreement.

Subscription Asset- A government initially should measure the subscription asset as the sum of the following, less any SBITA vendor incentives received from the SBITA vendor at the commencement of the subscription term:

a. The amount of the initial measurement of the subscription liability

b. Payments associated with the SBITA contract made to the SBITA vendor at the commencement of the subscription term, if applicable

c. Capitalizable initial implementation costs as defined in GASB 96

A subscription asset will be amortized using the straight-line method over the shorter of the subscription term or the useful life of the underlying IT assets.

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