

# OFFICE OF THE NEW YORK STATE COMPTROLLER

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July 2023

**To: Chief Fiscal Officers**  
**From: Division of Local Government and School Accountability**  
**Subject: Accounting and Financial Reporting for Subscription-Based Information Technology Arrangements (SBITAs) as Required by GASB Statement No. 96**

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## **Purpose of Bulletin**

The purpose of this bulletin is to provide accounting and financial reporting guidance for subscription-based information technology arrangements (SBITAs) and illustrate how local governments and school districts will need to account for and report these SBITAs in the Annual Financial Report (AFR)<sup>1</sup> and the ST-3. More specifically, this bulletin will address the following:

- An overview of the new SBITA definition and how to determine the subscription term.
- How to measure SBITAs.
- Recognition of implementation costs and charges other than subscription payments.
- Accounting and reporting requirements for SBITAs in the AFR and ST-3, for both governmental and proprietary funds.
- SBITA contracts with multiple components and contract combinations.
- SBITA modifications and terminations.
- Necessary disclosures in the notes to the financial statements, including the notes to the AFR.

## **Background**

The Governmental Accounting Standards Board (GASB) issued [Statement No. 96, Subscription-Based Information Technology Arrangements](#) (Statement 96) to establish accounting and financial reporting guidance for governments that enter into subscription-based contracts to use vendor-provided information technology (IT). The intent of the statement is to enhance the accountability, consistency and comparability of SBITA activities reported by governments.

SBITAs, as defined by Statement 96, provide governments with access to vendors' IT software and associated tangible capital assets for subscription payments without granting governments perpetual license or title to the IT software and associated tangible assets. The accounting and

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<sup>1</sup> The AFR replaced the Annual Update Document (AUD) for local governments beginning with 2/28/23 fiscal year-end filers. More information about the AFR may be found on our [website](#).

reporting for SBITAs will be similar to the accounting and reporting for leases in accordance with [GASB Statement No. 87, Leases](#) (Statement 87).<sup>2</sup>

### **Applicability in New York State**

Statement 96 applies to all local governments, school districts and Boards of Cooperative Educational Services (BOCES) in New York State (NYS).

For local governments, school districts and BOCES that prepare annual financial statements in accordance with generally accepted accounting principles (GAAP), Statement 96 reporting requirements are effective for fiscal years beginning after June 15, 2022. Local governments that do not complete GAAP-compliant financial statements must also implement these new standards for AFR reporting purposes for fiscal years beginning after June 15, 2022.

The guidance in this document should only be applied to those SBITAs that the local government or school district deem material. Statement 96 does not explicitly establish a threshold of materiality for SBITAs. As such, determining materiality will be a managerial decision made by the governing board of each individual local government and school district.

Local officials should use professional judgment and consider any factors they deem relevant to their specific entity when determining materiality.<sup>3</sup> Such factors may include the total dollar amount of SBITAs or whether omitting the SBITA would be financially misleading to users.

Policies should be established detailing materiality thresholds for SBITAs to be accounted for using the guidance in this bulletin. Local officials may refer to our [Local Government Management Guide - Capital Assets](#), specifically the section discussing capitalization thresholds, for general guidance regarding capitalization and materiality. It's important to note, however, that SBITA materiality thresholds should be determined and established independently of any pre-existing capitalization or lease thresholds.

For the purposes of the AFR reporting, local governments with a fiscal year beginning after June 15, 2022 will be the first units required to file using the requirements set forth in this bulletin. School districts will be required to file the 2022-2023 fiscal year ST-3 using the requirements set forth in this bulletin. All other annual financial reports that are required to follow the Office of the State Comptroller's uniform system of accounts will also be required to file using the requirements of this statement for fiscal years beginning after June 15, 2022.

Statement 96 states that changes in accounting adopted to conform to this new standard should be applied retroactively by restating financial statements, if practicable, for all prior periods presented. If restating prior periods is not practicable, the cumulative effect of applying these changes should be reported as a restatement of beginning net position or fund balance.

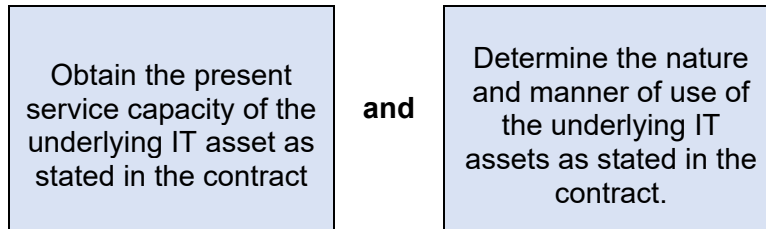
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<sup>2</sup> See our December 2020 Accounting Bulletin, [Lease Classification Changes as Required by GASB Statement No. 87](#) and our December 2022 Accounting Bulletin, [Accounting and Financial Reporting for Leases as Required by GASB Statement No. 87](#)

<sup>3</sup> Additional guidance related to materiality thresholds can be found in GASB [Implementation Guide 2015-1 QA7-QAZ](#) Questions 7.4.1 and 7.9.8.

## What is a SBITA?

Statement 96 defines a SBITA as a contract that conveys control of the right to use another party's (SBITA vendor's) 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. A contract conveys control of the right to use the underlying IT assets if the local government or school district has the right to:



It is important to note that some contracts that are not explicitly identified as SBITAs may still meet the definition under the requirements of Statement 96. Contracts that contain both a right-to-use IT asset component and an IT support services component would meet the definition of a SBITA whereas contracts that only provide IT support services would not.

Statement 96 also explicitly excludes the following arrangements:

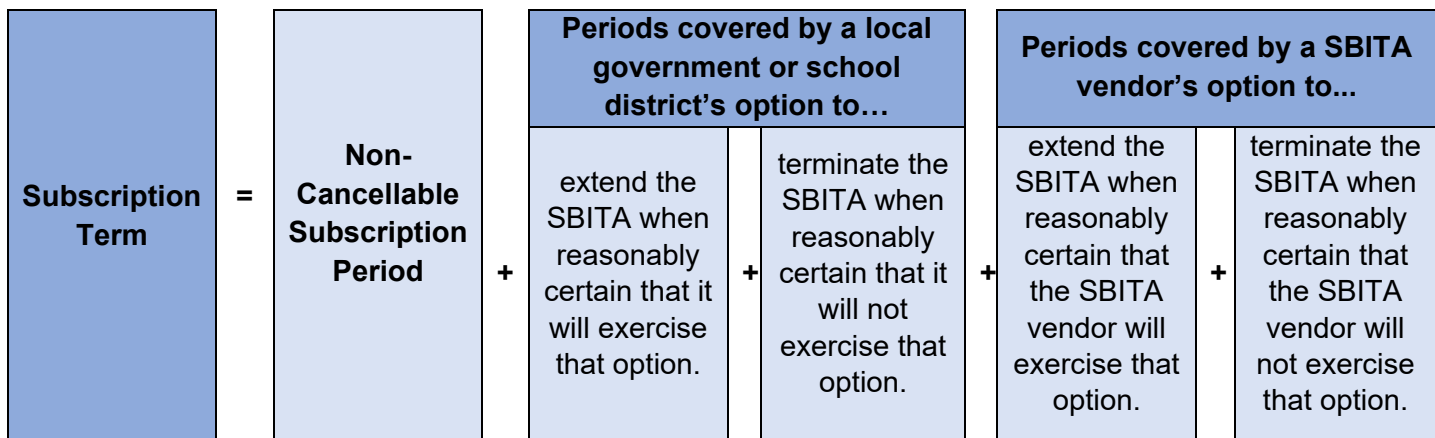
- Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets that meets the definition of a lease in [Statement No. 87](#),<sup>4</sup> in which the software component is insignificant when compared to the cost of the underlying tangible capital asset. For example, a computer with operating software or a smart copier that is connected to an IT system.
- Local governments and school districts that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs.
- Contracts that meet the definition of a public-private and public-public partnership in paragraph 5 of [Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements](#).
- Licensing arrangements that provide local governments or school districts a perpetual license to use a vendor's computer software, which are subject to [Statement No. 51, Accounting and Financial Reporting for Intangible Assets](#).

## Subscription Term

The subscription term is defined as the period during which the local government or school district has a noncancellable right to use the underlying IT assets. It also includes, if applicable, any option to extend or terminate the SBITA by the local government, school district or SBITA vendor when it is reasonably certain that the local government, school district or SBITA vendor either will or will not exercise that option as described as follows:

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<sup>4</sup> See our December 2020 Accounting Bulletin, [Lease Classification Changes as Required by GASB Statement No. 87](#) and our December 2022 Accounting Bulletin, [Accounting and Financial Reporting for Leases as Required by GASB Statement No. 87](#).



According to Statement 96, periods in which both the local government or school district and the SBITA vendor have an option to terminate without permission from the other party (or if both parties must agree to extend) are cancelable periods and are excluded from the subscription term.

Provisions that allow for the termination of a SBITA due to the payment of all sums due or the default on such payments are not considered termination options. Fiscal funding or cancellation clauses will not affect the subscription term unless it is reasonably certain the clause will be exercised.

It is the responsibility of the local government or school district to determine reasonable certainty. While the determination requires the use of professional judgement, GASB believes the threshold to meet reasonable certainty is higher and “less speculative than probable”. Statement 96 provides examples of factors to consider when determining reasonable certainty. They include, but are not limited to:

- A significant economic incentive, such as contractual terms and conditions for the optional periods that are favorable compared with current market rates.
- A potential change in technological development that significantly affects the technology used by the underlying IT assets.
- A potential significant change in the government’s demand for the SBITA vendor’s IT assets.
- A significant economic disincentive, such as costs to terminate the SBITA and sign a new SBITA (for example, negotiation costs, costs of identifying another suitable underlying IT asset or another suitable SBITA vendor, implementation costs, or a substantial cancellation penalty).
- The history of exercising options to extend or terminate.
- The extent to which the underlying IT assets in the SBITA are essential to the provision of government services.

The Office of the New York State Comptroller (OSC) has created a [Reasonably Certain Template](#) that local governments and school districts may use to document determinations of reasonable certainty relating to SBITAs. Please note that this template is different than the one published to help document decisions related to leases. This template is not an OSC accounting and financial reporting requirement and does not need to be submitted to OSC.

Local governments and school districts may encounter contracts in which the subscription term is not easily identifiable. For example, assume all other factors in the contract meet the definition of a SBITA but the subscription term is for 12 months and at the end of the term it will automatically be renewed for another 12 months. Only the local government or school district has an option to terminate the contract prior to the automatic renewal. The local government or school district will estimate the subscription term based on how long they are reasonably certain they will renew this contract. Again, it is important to remember that determining whether something is reasonably certain requires professional judgment and is a higher threshold than likely or probable.

The short-term exception (as discussed below) would not apply in the above example, even if the local government or school district does not intend to renew the contract, because there are options to extend the contract past 12 months.

Statement 96 requires the subscription term be reassessed if one or more of the following occur:

- The local government, school district or SBITA vendor elects to exercise an option even though it was previously determined that it was reasonably certain that option would not be exercised.
- The local government, school district or SBITA vendor elects **not** to exercise an option even though it was previously determined that it was reasonably certain that option **would** be exercised.
- An event specified in the SBITA contract that requires an extension or termination of the SBITA takes place.

### **Short-Term SBITAs**

A SBITA with a maximum possible subscription term of 12 months or less, including any options to extend, is considered a short-term SBITA. If a local government or school district determines a contract is a short-term SBITA, they should recognize short-term subscription payments as expenditures or expenses based on the payment provisions of the contract. These expenditures should be charged to the functional unit that the short-term SBITA is related to. For example, if a County has a one-year (maximum possible term) contract to use a vendor's IT software and associated IT assets to store data for the County Clerk's office, it would be charged to A1410.4 Clerk Contractual Expenditures. If payments are made in advance, the local government or school district should recognize an asset (prepaid expenditure). If payments are due and will be paid in a subsequent reporting period, then a liability should be reported.

### **Accounting For SBITAs (Other than Short-term SBITAs) - Initial Subscription Measurement**

A government should recognize a subscription liability and an intangible asset (subscription asset) at the beginning of the subscription term.

#### Subscription Liability

A local government or school district should measure the subscription liability as the present value of payments expected to be made during the subscription term. The figure below details the payments that should be included:

Payment Types	Definitions and Examples
Fixed Payments	Contractually fixed and not subject to any variability.
Variable payments that depend on an index or a rate	Payments based on set common rates or an index, such as the Consumer Price Index or a market interest rate. These are initially measured using the rate at the beginning of the SBITA.
Variable payments that are fixed in substance. Variable payments based on future performance or usage of the underlying IT asset, however, are not included.	If there is a component of variable payments that is fixed in substance, that amount should be included. For example, a contract to use a SBITA vendor's servers to store data states you will be charged \$.50 per gigabyte of space used or \$500 a month, whichever is greater. The minimum payment of \$500 is a fixed-in-substance payment while the \$.50 per gigabyte of space is based on usage, and therefore, not included.
Payments for penalties for termination the SBITA if it's reasonably certain that the termination option will be exercised.	If the subscription term reflects a local government or school district exercising (1) an option to terminate the SBITA or (2) a fiscal funding or cancellation clause, any penalty associated with that termination option should be included in the SBITA payments.
Subscription contract incentives <sup>5</sup> receivable from the SBITA vendor <b>after</b> the commencement of the subscription term.	<p>These are equivalent to a rebate or discount and include an agreement to pay a local government or school district's preexisting subscription liabilities, other reimbursements of end-user costs, free subscription periods, and reductions of interest or principal charges by the SBITA vendor.</p> <p>This will reduce future subscription payments made by the local government or school district for purposes of calculating the subscription liability.</p>
Other payments that are reasonably certain of being required based on an assessment of all factors.	

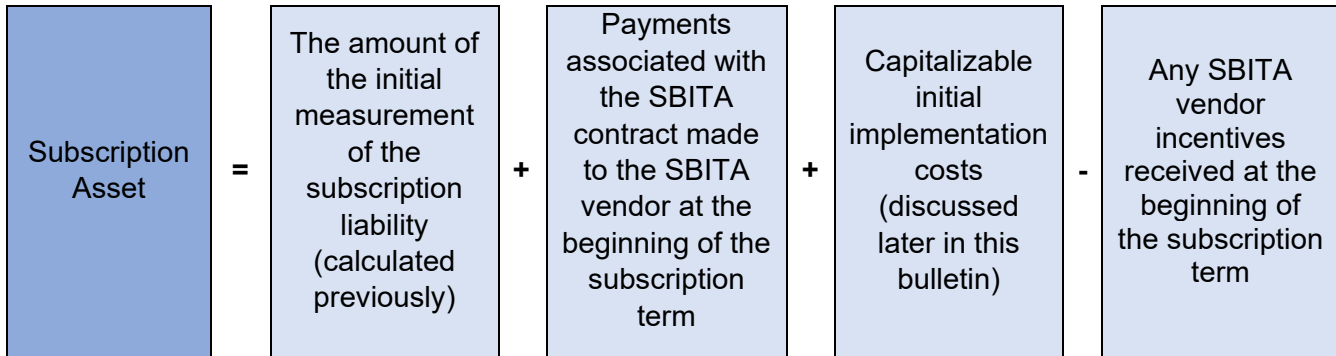
According to Statement 96, these payments should be discounted using the interest rate the SBITA vendor charges the local government or school district, which may be the rate implicit in the SBITA. If the interest rate cannot be readily determined, the local government or school district's estimated incremental borrowing rate (an estimate of the interest rate that would be charged for borrowing the subscription payment amounts during the subscription term) should be used.<sup>6</sup>

<sup>5</sup> Incentives provided by the SBITA vendor are (1) payments made to, or on behalf of, the local government/school district which offset the obligation to the SBITA vendor or (2) other concessions granted to the local government or school district.

<sup>6</sup> Local governments and school districts are **not** required to apply the guidance in [GASB Statement No. 62](#) paragraphs 173-187 to calculate of an interest rate but may do so as a means of determining the implicit interest rate.

## Subscription Asset

A local government or school district should initially measure the subscription asset as follows:



Payments made to the SBITA vendor as well as any capitalizable initial implementation costs (discussed later in the bulletin) **before** the beginning of the subscription term should be reported as a prepayment (asset). That prepayment amount should be reduced<sup>7</sup> by any incentives received from the SBITA vendor before the beginning of the subscription term. The net prepayment should be reclassified as an addition to the initial measurement of the subscription asset at the beginning of the subscription term. If incentives are greater than prepayments, the difference should be reported as a liability until the beginning of the subscription term, at which time the amount will reduce the initial measurement of the subscription asset.

## **Remeasurement**

Local governments and school districts should assess each subscription liability annually for changes that may significantly impact, individually or in the aggregate, the amount of the subscription liability since the previous measurement. Such changes may include:

- A change in the subscription term.
- A change in the estimated amounts for subscription payments already included in the measurement of the subscription liability.
- A change in the interest rate the SBITA vendor charges,<sup>8</sup> if used as the initial discount rate.
- A contingency, upon which some or all of the variable payments to be made over the remainder of the subscription term are based, is resolved and those payments now meet the criteria for measuring the subscription liability. For example, an event occurs that causes variable payments, that were contingent on performance or use of the IT asset, to become fixed for the remainder of the subscription term.

If the subscription liability is remeasured due to any of the above changes in the SBITA contract, the liability should also be adjusted for any change in an index or rate used to determine variable payments if that change is expected to significantly affect the liability. A subscription liability does not need to be remeasured solely for a change in the index or rate used to determine variable payments.

<sup>7</sup> If a right to offset exists as described [GASB Statement No. 62](#) paragraph 501.

<sup>8</sup> A change in the incremental borrowing rate alone is not enough to warrant remeasurement.

The discount rate used should also be updated as a part of the remeasurement in accordance with Statement 96 if the subscription term changes and the change is expected to significantly affect the amount of the subscription liability. This new discount rate should be based on the revised interest rate the SBITA vendor charges the local government or school district. If this is not available, the local government or school district's estimated incremental borrowing rate should be used during remeasurement.

The subscription asset will generally be adjusted by the same amount as the subscription liability. However, if that change reduces the carrying value of the subscription asset to zero, any remaining amount should be reported as a gain.

### Recognition of Implementation Costs and Charges Other than Subscription Payments

Activities associated with a SBITA, other than regular subscription payments, will be grouped into three implementation stages. The table below gives a general overview of each stage and recognition guidance for charges incurred during each stage.

Stage	Activities	Recognition
Preliminary Project Stage	Conceptual formulation and evaluation of alternatives, determination of needed technology, and the final selection of the SBITA.	Expense/expenditure as incurred.
Initial Implementation Stage <sup>(a)</sup>	Ancillary charges related to designing the chosen path, such as configuration, coding, testing, and installation associated with the local government or school district's access to the underlying IT assets, as well as placing the assets into service.	Generally capitalized as part of the subscription asset. If no subscription asset is recognized, expense/expenditure as incurred.
Operation and Additional Implementation Stage	Maintenance, troubleshooting, and other activities associated with the local government or school district's ongoing access to the IT assets. Additional implementation activities after the IT assets have been placed into service.	Generally, expense/expenditure as incurred. If charges increase the functionality <sup>(b)</sup> or efficiency <sup>(c)</sup> of the subscription asset, it should be capitalized and added to the value of the subscription asset.
<p>(a) The Initial Implementation Stage is completed when the subscription asset is placed into service. If a SBITA has multiple modules that are implemented at different times, the Initial Implementation Stage is completed and the asset is considered placed into service when initial implementation is completed for the first independently functional module or set of interdependent modules.</p> <p>(b) The GASB defines "functionality" in this context as "the subscription asset allows the government to perform tasks that it could not previously perform with the subscription asset".</p> <p>(c) The GASB defines "efficiency" in this context as "an increase in the level of service provided by the subscription asset without the ability to perform additional tasks".</p>		

The activities described above may overlap or occur in multiple cycles. Statement 96 clarifies that whether a SBITA contains one module, multiple modules implemented at the same time, or modules implemented at different times, the recognition guidance for charges other than



subscription payments should be applied based on the nature and timing of the activity. While both factors should be considered, the nature of the activity should be the determining factor.

In addition to the previous requirements, charges other than subscription payments should be recognized as an expense/expenditure if they are incurred prior to completing **all** the following:

- Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the subscription asset.
- Demonstration of the technical or technological feasibility that the subscription asset will provide its expected service capacity.
- Demonstration of the current intention, ability and presence of effort to enter into a SBITA contract.

The above requirements are considered completed when (1) the activities in the preliminary project stage described earlier are completed **and** (2) management implicitly or explicitly authorizes or commits to funding the SBITA for at least the current fiscal year.

In accordance with Statement 96, training costs should be recognized as an expense/expenditure as incurred, regardless of the stage. Data conversion should be considered an activity of the initial implementation stage only to the extent it is necessary to place the subscription asset into service. Otherwise, data conversion should be considered an activity of the operation and additional implementation stage and recognized as an expense/expenditure as incurred.

### **SBITA Accounting and Reporting for the AFR and ST-3**

#### Governmental Funds

A local government or school district will recognize an expenditure and other financing source in the amount of the subscription liability (as measured using the previous guidance) at the beginning of the subscription term when the initial implementation stage is complete, and the asset is placed into service. The expenditure will be recorded in pre-existing account codes and the other financing source will be recorded in new account code **5781 – Subscription-Based IT Arrangement**. Implementation costs and outlays other than subscription payments should be recorded as expenditures using pre-existing account codes. If these implementation costs and outlays other than subscription payments meet the capitalization criteria, they should also be added to the subscription asset.

The subscription asset should be recorded in the schedule of non-current capital assets in new account code **K128 – Subscription-Based IT Arrangement Asset**. The subscription liability should be recorded in the schedule of non-current governmental liabilities in new account code **W681 – Subscription-Based IT Arrangement Liability**.

The subscription payments should be amortized using the subscription liability and interest rate stated in the SBITA, or the estimated incremental borrowing rate used by the local government or school district. The subscription payments will be recorded in new account codes **9781.6 – Subscription-Based IT Arrangement, Principal** and **9781.7 – Subscription-Based IT Arrangement, Interest**.

Proprietary Funds

When a local government or school district accounts for a SBITA in a proprietary fund, it will record a subscription liability (**681 – Subscription-Based IT Arrangement Liability**) and subscription asset (**128 – Subscription-Based IT Arrangement Asset**) at the beginning the subscription term (when the initial implementation stage is completed, and the asset is placed into service). Implementation costs and outlays other than subscription payments that do not meet the capitalization criteria should be recorded as expenses using pre-existing account codes.

The subscription asset should be amortized in a systematic and rational manner<sup>9</sup> over the shorter of the subscription term or the useful life of the underlying IT asset. Local governments and school districts have discretion to choose an amortization method they deem acceptable. This may result in different amounts being amortized in each period. However, we expect most local governments and school districts will choose to use the straight-line method, which will result in the same amount being amortized each period of the lease term. The amortization expense will be recorded in the pre-existing expense code 1993.4 – Amortization. The accumulated amortization should be recorded in new account code **138 – Accumulated Amortization, Subscription-Based IT Arrangement Asset**.

Local governments and school districts should accrue interest throughout the subscription term and record interest expense in new account code **9781.7 – Subscription-Based IT Arrangement, Interest**.

New Account Codes

The table below is a consolidated listing of the new account codes activated for local governments and school districts by fund type:

Account Code	Account Name	Governmental Funds <sup>(a)</sup>	Proprietary Funds <sup>(b)</sup>	Non-Current Governmental Assets	Non-Current Governmental Liabilities
128	Subscription-Based IT Arrangement Asset		✓	✓	
138	Accumulated Amortization, Subscription-Based IT Arrangement Asset		✓	✓	
681	Subscription-Based IT Arrangement Liability		✓		✓
5781	Subscription-Based IT Arrangement	✓			
9781.6	Subscription-Based IT Arrangement, Principal	✓			
9781.7	Subscription-Based IT Arrangement, Interest	✓	✓		
(a) New account codes activated in all governmental funds except the debt service fund.					
(b) New account codes activated only in enterprise funds.					

<sup>9</sup> This does not necessarily mean the same amount must be amortized in each period. The amortization method must be logical, consistently applied, and objective and acceptable to another unbiased accountant.

## Sample Journal Entries

The journal entries for SBITAs are generally the same as they are for lessee accounting in accordance with Statement 87. For sample journal entries, please refer to Appendix D and E in our December 2022 accounting bulletin titled [Accounting and Financial Reporting for Leases as Required by GASB Statement No. 87](#), substituting the new account codes discussed above for any lease specific codes.

## **Contracts with Multiple Components and Contract Combinations**

Local governments and school districts may enter into contracts containing multiple components, including both a subscription component and non-subscription component or a contract containing multiple underlying IT asset components. Statement 96 includes examples of non-subscription components as separate perpetual licensing arrangements and maintenance services for the IT asset. For contracts with subscription and non-subscription components, each component should be accounted for separately. Contracts for multiple underlying IT components with different subscription terms should also be accounted for separately.

Additionally, local governments and school districts should treat contracts with the same SBITA vendor that are entered into at or near the same time as a single contract if either of the following criteria is met:

- The contracts are negotiated as a package with a single objective.
- The amount of consideration to be paid in one contract is dependent on the price or performance of the other contract.

To allocate the price to each separate component, any stated prices within the contract should be used, provided it appears reasonable based on the terms of the contract and professional judgment. If components are discounted because they are bundled, the discount may be applied, provided it appears reasonable. If the price for each component is not explicitly stated in the contract, or if the prices appear to be unreasonable, then professional judgment, along with any observable information,<sup>10</sup> should be used to estimate the allocation price of each component within the contract.

If the local government or school district is unable to practicably determine the best estimate for multiple components within the contract, the components should be accounted for as a single SBITA. If contracts are combined into a single SBITA, the accounting for that SBITA should be based on the terms of the primary subscription component. A SBITA with multiple modules in which the subscription terms commence at the same time for all modules should be accounted for as a single SBITA.

## **SBITA Modifications and Terminations**

Amendments change the provisions of the SBITA contract. Examples include changes to the contract price or the subscription term, the addition or removal of underlying IT assets, or changes to the index or rate upon which variable payments depend. According to Statement 96, amendments should be considered a SBITA modification unless the right to use the underlying IT assets decreases, in which case it should be considered a partial or full SBITA termination.

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<sup>10</sup> Observable information could include using stand-alone prices, which are the prices that would be paid if the components were contracted for individually.

A SBITA modification during the reporting period should be considered a new SBITA contract if both of the following conditions are present:

- The local government or school district receives an additional subscription asset by adding one or more underlying IT assets which were not included in the original SBITA contract,
- The increase in payments for the additional subscription asset does not appear unreasonable based on the terms of the amended contract and professional judgment.

If the SBITA contract is amended, but does not meet the above conditions, the modification will be accounted for by remeasurement. The local government or school district will remeasure the subscription liability, and the subscription asset will be adjusted by the difference between the remeasured liability and the liability immediately before remeasurement. If this change reduces the carrying value of the subscription asset to zero, any remaining amount should be reported as a gain.

If the amendment is considered a partial or full SBITA termination, the local government or school district should generally account for this by reducing the carrying value of the subscription asset and liability, recognizing a gain or loss for the difference.

### **Notes to the Financial Statements (Including the AFR)**

Local governments and school districts should disclose the following in the notes to the financial statements:

- 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.
- The total amount of subscription assets, and the related accumulated amortization, disclosed separately from other capital assets.
- The amount of outflows of resources recognized in the reporting period for variable payments and 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.
- The components of any loss associated with an impairment.

### **Additional Information**

If you have questions pertaining to the accounting guidance described in this bulletin, please contact the State Comptroller's regional office that serves your local government. Contact information can be found at [www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf](http://www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf).