



# CIRCULAR

## STATE OF NEW JERSEY

### DEPARTMENT OF THE TREASURY

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EFFECTIVE DATE: IMMEDIATELY	EXPIRATION DATE: INDEFINITE	SUPERSEDES: N/A
SUBJECT: APPLICATION OF GOVERNMENT ACCOUNTING STANDARDS BOARD'S GUIDELINES CONCERNING SUBSCRIPTION-BASED INFORMATION TECHNOLOGY AGREEMENTS (GASB 96)		
ATTENTION: DIRECTORS OF ADMINISTRATION, FISCAL OFFICERS, FACILITIES DIRECTORS, AND CHIEF INFORMATION OFFICERS/IT DIRECTORS		
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This Circular contains important information regarding Governmental Accounting Standards Board Statement No. 96 (GASB 96), which provides guidelines on the recognition and accounting for Subscription-Based Information Technology Arrangements. Updates are in progress to the Land and Building Asset Management (LBAM) system to ensure compliance with GASB 96 requirements. As in previous years, the State will require the reporting of all Subscription-Based Information Technology Arrangements (SBITAs) that satisfy capital asset thresholds. Please refer to the Capital Assets Circular [24-19-OMB](#) for more information regarding capital asset reporting thresholds for leased assets. It is encouraged that all agencies obtain and read a copy of [GASB 96](#) by visiting the GASB website. All questions pertaining to this Circular and associated training should be directed to Chris Beitz, OMB Financial Reporting at (609) 292-3175.

**Summary of GASB 96:**

The objective of GASB 96 is to better meet the informational needs of financial statement users by improving accounting and financial reporting for SBITAs by governments. GASB 96 requires reporting agencies to recognize a right-to-use subscription IT asset (the intangible asset). GASB defines a SBITA as a contract that conveys control of the right to use another entity's (a SBITA vendor's) information technology (IT) software, alone or in conjunction with tangible capital assets. This conveyance of control is specified for a period of time in an exchange or exchange-like transaction. It establishes a single model for SBITA accounting based on the foundational principle that SBITAs, like leases, are financings of the right to use an underlying asset. As such, GASB has determined that SBITAs already meet the definition of a lease, and therefore should be accounted for in the same way. To determine if a government agency has the right to use an underlying asset, it must have the right to obtain service capacity and to determine the manner of use of the underlying IT asset. This Circular will assist agencies in being able to identify a SBITA, determine whether it qualifies for capital asset reporting, and how a qualify SBITA asset should be reported in LBAM.

**Departments must report all SBITA assets that fall within the scope of GASB 96 beginning in Fiscal Year 2023.** Failure to report all activity will affect the ability of the Office of Legislative Services, Office of the State Auditor, and OMB to complete the Annual Comprehensive Financial Report (formerly Comprehensive Annual Financial Report).

## A. SBITA Identification

Prior to the implementation of GASB 96, software license acquisitions that satisfied capital asset reporting were required by reporting agencies to be entered into LBAM through the system's software reporting module. This requirement made no distinction between whether the procured licenses, which grant access to the software, were either subscription-based or perpetual in nature. A perpetual license for a software product is the traditional method used for software procurement by government agencies and private entities alike. However, GASB noted that it has become commonplace for the public and private sector to enter into subscription-based IT arrangements. As such, GASB determined financial reporting guidance specifically related to SBITA accounting was appropriate. GASB's conclusion was that SBITAs, to the extent relevant, should be accounted for in the same manner established by [GASB 87](#) for lease arrangements. Please review Circular [22-02-OMB](#) for the reporting requirements associated with GASB 87. The simplest way to determine if an agency's IT arrangement qualifies as a SBITA is to answer whether users can still log into the software or access the IT services after the agreement term ends. If the answer to that question is no, then that arrangement would qualify as a SBITA. A commonplace example for the distinction between subscription licenses and perpetual licenses is found comparing Microsoft's Office 365 software license (subscription-based) and Office 2021 software license (perpetual license). SBITAs break down into four basic models of delivery, which are:

- SaaS (Software as a Service): software license is accessed online.
- PaaS (Platform as a Service): license to access software development tools remotely.
- IaaS (Infrastructure as a Service) license to access data servers remotely.
- DaaS (Data-warehouse as a Service) license for remote managing services involving data collection and storage.

Regardless of the delivery model, an agency must also have the right to obtain service capacity and to determine the manner of use of the underlying IT asset when concerning SBITAs. There also must be a finite, non-cancelable subscription term in order to qualify as a SBITA. Agencies should confer with their IT staff to determine what contracts they are currently engaged in that could qualify as a SBITA.

Types of agreements that are excluded from GASB 96 reporting are those that would already qualify as lease arrangements under the purview of GASB 87. As noted above, some subscriptions for IT software (intangible asset) also include an equipment component (tangible asset) used in conjunction with the software. Some GASB 87 leases for a piece of equipment also may contain a software component. As an example, security surveillance equipment often contains a software component that supports the equipment's function. GASB 96 instructs reporting agencies that when an equipment lease arrangement contains a software component in which the cost of the software is subordinate in proportion to the overall cost of the lease, such arrangements should be reported under the requirements of GASB 87. Likewise, arrangements in which the tangible asset portion of a subscription IT asset, in which the cost of the tangible asset is subordinate to the overall cost of the software, should be reported as a SBITA.

## B. SBITA Classification

Per GASB 96, a SBITA can fall into two categories. SBITAs occurring during a period of time that is a maximum of 12 months or less are considered short-term SBITAs. Such arrangements are to be reported as expensed during a given fiscal year. SBITAs with a term that is longer than twelve months are categorized as long term, and are to be reported in a manner similar to leases subject to GASB 87 requirements.

### C. SBITA Terms

Per GASB 96, the term is the period during which a subscriber has a non-cancelable right to use an underlying asset plus the period an option to extend the arrangement has been deemed reasonably certain to be executed. "Reasonably certain" is defined as the likelihood the State executes a term in the contract based on precedence set during similar situations. For example, if the State would normally exercise an extension for a SBITA, it is reasonable to expect the extension would be executed in a similar contract. If a party has an option to terminate, but it is deemed reasonably certain the termination option will not be executed, this period should also be considered part of the lease term. If the subscriber and vendor both have the option to terminate a renewal period without permission from the other party, that renewal period is excluded from the terms of the lease regardless of probability.

- For example, the Department of the Treasury engages in a five-year SBITA to utilize a vendor's software services. Provided additionally in the SBITA are two three-year options to extend in which there is a reasonable certainty those two three-year options will be executed. Under these terms, the SBITA would be entered into LBAM as an eleven-year SBITA, which will be classified in LBAM as a long-term arrangement.
- In a separate example, the Department of the Treasury enters into a SBITA for a non-cancelable twelve-month period, along with two twelve-month optional renewal periods that are deemed reasonably certain to be executed. Under GASB 96, this would be considered a 36-month arrangement and therefore long-term. However, if the lease term had a 12-month non-cancelable period with no options to extend, it would be classified by GASB 96 as a short-term arrangement.
- As mentioned above, if it is deemed reasonably certain that any lease termination option will not be executed, this should be reflected in the SBITA term. For example, if an agency enters into a five-year SBITA with the final year of the lease containing a lease termination option that is deemed reasonably certain not to be executed, then the SBITA term should be classified as five years.

### D. SBITA Modifications and Contingencies.

GASB 96 requires the recognition of the outflows of resources for SBITA activity that agencies engage in. It also addresses how government entities should remeasure SBITAs where a significant change has occurred. There are certain components of a SBITA that cannot be included in the payment structure when a SBITA is entered into LBAM. These include fixed payments, payments based on a rate that is present at the inception of the SBITA, and other payments that are reasonably certain to be paid, and therefore should be included when a lease is initially entered into LBAM. However, performance-based payments and usage payments will not be included in the payment structure of a SBITA liability. These payments cannot be reasonably determined as to whether they will be expensed at the time a SBITA is entered. Therefore, LBAM has been modified in order for those payments to be entered and recorded in the reporting year in which they are expensed. Termination penalties and variable payments with rates not available at the inception of the lease are examples of the types of payments that will be recognized as outflows of resources in a given reporting period once entered onto the lease record.

SBITAs are measured both by the terms of the agreement as well the payment liability for the right to use an underlying asset. During the course of a lease agreement, certain factors that were deemed reasonably certain may change and thus require a remeasurement of a SBITA. Changes to initial or current SBITA terms can result in changes to the lease liability. If changes occur, please contact OMB Financial Reporting as instructed under agency reporting responsibilities.

## E. Agency Reporting Responsibilities

Each agency's LBAM unit/personnel should coordinate with their fiscal offices to obtain contract information for SBITAs that satisfy the reporting threshold, which as stated in Circular [19-11-OMB](#) is \$100,000 for software. Agencies should develop procedures to properly document all SBITAs that they enter into. This documentation process includes accounting for SBITA terms, potential renewals, and any costs incurred while implementing the subscription asset into use. Agencies' LBAM personnel are responsible for entering the software asset record and for designating the record as a SBITA under the acquisition method drop-down list. OMB Financial Reporting will then enter the SBITA information for the asset through the modified lease/SBITA module in LBAM. SBITA contracts and the associated information for the SBITA must be sent to [leases.lbam@treas.nj.gov](mailto:leases.lbam@treas.nj.gov). Agencies should include the LBAM identification number of the leased asset record in the email along with the contract and the LBAM location. Agencies should also include proof of payment for any preliminary costs that are incurred prior to the subscription period. Some examples of preliminary costs include data migration or software configuration required in order to put the asset into use. Agencies do not need to re-enter SBITA asset records already present in LBAM in prior fiscal years. OMB Financial Reporting will re-enter lease records for those assets already present in LBAM according to the new standard. If an agency enters into an arrangement that might contain components which could constitute a SBITA, please contact OMB Financial Reporting for assistance in reaching that determination.

During the course of a SBITA, agencies must contact OMB should any of the following contingencies or commitments under the SBITA trigger during a subsequent fiscal year from when a SBITA is signed:

1. A termination penalty payment is determined to be paid under the terms of the SBITA.
2. A variable payment amount is determined to be paid under the terms of the SBITA.
3. Any change in the terms of a SBITA should be reported to OMB.

Although these payments cannot be factored into the payment structure of a SBITA at its inception, it is necessary to report these payments as outflows of resources during the fiscal year in which they are incurred.



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