State of New Mexico
GASB 96 Subscription-Based Information Technology Arrangements (SBITAs) Guidance
Fiscal Years 2026 and Subsequent Fiscal Years

GASB 96:

In May 2020, the Government Accounting Standards Board (GASB) issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs).* GASB Statement No. 96 (GASB 96) increases the usefulness of governmental financial statements by requiring recognition of SBITA assets and liabilities for all SBITAs.

What is a SBITA?

A SBITA is a contract that conveys control of the right to use another entity's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets (the underlying IT asset), as specified in the contract for a period of time in an exchange-like transaction.

SBITA Threshold and Incremental Borrowing Rate (IBR):

A SBITA asset and liability should be calculated for contracts with **$5,000** or more in total future subscription payments to the end of the term. The threshold should be counted from the date of adoption. Do not capitalize a SBITA if the total amount of future payments is less than $5,000 as of the end of the term of the arrangement.

Each year the New Mexico Department of Finance and Administration (DFA) Budget Division establishes the Incremental Borrowing Rate (IBR) to use for calculating the present value of the SBITA contract if the interest rate is not implied in the contract.

SBITA Implementation:

GASB 96 does not require agencies to go back to prior years for subscription expenditures and calculate the present value of the subscription payments. Agencies will recognize a subscription liability and a subscription asset as an addition to the financial statement footnotes.

For expenses related to a SBITA contract other than the subscription, payments should be grouped into three stages and costs should be accounted for accordingly:

- Preliminary Project Stage, including activities such as evaluating alternatives, determining the technology need, and selecting a SBITA vendor should be expensed as incurred. There is no need to go back to prior years to evaluate these costs. They remain as an expense in the year they occurred.
- Initial Implementation Stage, including ancillary charges to place the subscription asset into service should be capitalized as an addition to the subscription asset.
- Operation and Additional Implementation State, including activities after implementation activities, maintenance, and other activities for ongoing operations related to a SBITA should be expenses and incurred unless they meet capitalization criteria.

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An interagency SBITA (i.e. GSD to DoIT) does not meet GASB 96 scope and will not be included as a SBITA.

Single year subscriptions:

- Subscription contracts that are 12 months or less and/or have a clause where <u>either</u> party may cancel for convenience are out of scope.

Multi-year subscriptions:

- Subscription contracts that are multi-year are in scope.

IT Software with a Tangible Capital Asset:

- If software component is more than insignificant, the agreement falls under GASB 96 scope.
- If the vendor is unable to breakout the software component from the hardware and/or service components, then it is most likely out of scope because the software component is an insignificant part of the contract.
- If the contract breaks out the software, hardware, and service components, and the software is an insignificant component of the contract (insignificant defined as less than 10% of the total value of the contract), then it is out of scope for GASB 96. If the software is more than 10% of the value of the contract, then capitalize the software separately under GASB 96.

Footnote Disclosure:

The footnote disclosure should include the following:

1. A general description of the SBITAs.
2. The total amount of subscription assets recognized **(NEW ASSET ACCOUNT CREATED).**
3. Related accumulated amortization, disclosed separately from other capital assets **(NEW ACCUMULATED AMORTIZATION AND NEW AMORTIZATION EXPENSE ACCOUNT CREATED)**.
4. Amount of subscription assets by major classes of underlying assets, disclosed separately from other capital assets.
5. Principal and interest requirements to maturity, for the liability for each of the five subsequent fiscal years, and in five-year increments thereafter **(NEW LIABILITY ACCOUNTS CREATED)**.
6. A description of variable payments and other payments not included in the subscription liability, and the recognized in the reporting period for these payments.
7. Commitments under SBITAs before the commencement of the subscription term.
8. Impairment losses and any significant related changes in the liability.

The GASB 96 Decision Guide is available to determine whether the contract is within the scope of GASB 96 using a threshold of $5,000.

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EXAMPLE

Grant of License: Subject to the terms and conditions of this Agreement, Example, Inc. grants to Customer a personal, nonexclusive, nontransferable license solely to use, copy, and Deploy quantities of the Products listed in Table A – List of Products for the Term of Agreement for the applicable fee and in accordance with the Master Agreement.

Annual License Agreement: $150,000 per year.

Maintenance Agreement: $500 per month.

Original Agreement from 10/1/18 – 9/30/21. Renewal agreement from 10/1/21 – 9/30/25 (Currently in renewal period).

Capitalize annual payments starting 7/1/22 – 9/30/25.

Maintenance is **NOT** capitalized.

Term: This Agreement and all licenses hereunder will commence on the Effective Date and continue for the duration identified in the Term of Agreement, unless this Agreement is terminated earlier as provided herein. Customer is only authorized to use Products during the Term of Agreement. For an Agreement with a limited term, Example, Inc. does not grant Customer an indefinite or a perpetual license to Products.

No Use upon Agreement Expiration or Termination. All product licenses, all Maintenance, and User Conference registrations terminate upon expiration or termination of this Agreement.

Termination for a Material Breach. Either party may terminate this Agreement for a material breach by the other party. The breaching party will have 30 days from the date of written notice to cure any material breach.

For an Agreement with government or government-owned entities, either party may terminate this Agreement before any subsequent year if Customer is unable to secure funding through the legislative or governing body's approval process.