Procedure 710 Leases and Subscription-Based Information Technology Arrangements (SBITAs)

Local educational agencies (LEAs) can enter into agreements to use other entities' assets for a specific period of time. LEAs can also enter into agreements that permits other entities the right to use LEA's assets, for which the LEA receives compensation.

This procedure addresses two kinds of arrangements by which LEAs obtain right-to-use assets: (1) leases, and (2) subscription-based information technology arrangements (SBITAs).

Leases

Governmental Accounting and Financial Reporting Standards (GASB Codification) Section L20.102 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for the length of time covered by the lease, that is, lease term, in an exchange or exchange-like transaction. Examples of nonfinancial assets include land, buildings, vehicles, and equipment. Further, *GASB Codification* Section L20.103 lists the following two criteria that must be met in order to determine whether a contract conveys control of the right to use the underlying asset:

1. The LEA must have the right to obtain the present service capacity from use of the underlying asset as specified in the contract; and

2. The LEA must have the right to determine the nature and manner of use of the underlying asset as specified in the contract.

Leases exclude contracts for services, except those contracts that contain both a lease component and a service component. In addition, the following do not meet the definition of leases:

- Leases of intangible assets, including licensing contracts for items such as video recordings, plays, manuscripts, patents, and copyrights; and licensing contracts for computer software.
- Leases of biological assets, including timber, living plants, and living animals.
- Leases of inventory.
- Contracts that are in the scope of the SBITAs (see later in this procedure).
- Supply contracts, such as power purchase agreements that do not convey control of the right to use the underlying power generating facility.

Lease Payments in Advance

For lease payments received in advance prior to the commencement of the lease contract, the lessee should record the advance payment as an asset, for example, using Object 9330, Prepaid Expenditures, and the lessor should record the advance payment received as a liability, for example, using Object 9650, Unearned Revenue.

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Short-Term Leases

If the lease term is for 12 months or less with no option to extend the lease beyond 12 months, the lessee should record the lease payments as expenditures, for example, using Object 5600, Rentals, Leases, Repairs, and Noncapitalized Improvements. The lessor should record the lease payments received as revenues, for example, using Object 8650, Leases and Rentals.

Contracts That Transfer Ownership

A contract that transfers ownership of the underlying asset to the lessee at the end of the contract term and does not contain termination options is reported as a financed purchase of a capital asset (the underlying asset) for the lessee and as a sale of capital asset (the underlying asset) for the lessor.

Leases Other Than Short-Term Leases or Contracts That Transfer Ownership

I. Lessee Accounting

When a lessee LEA's lease agreement meets the definition of a lease pursuant to *GASB Codification* Section L20.102, except for a short-term lease or contract that transfers ownership, the following accounting guidance applies in the governmental funds:

1. At the inception of the lease, record the lease asset in the fund acquiring the underlying asset as a debit to Object 6600, Lease Assets, for the amount of the entire principal that is due. The credit is to Object 8972, Proceeds from Leases.
2. As lease payments are made, record the payments in the fund acquiring the underlying asset as a debit to Objects 7438, Debt Service—Interest, and 7439, Other Debt Service—Principal.

As an example of accounting for a lease, assume that a photocopy machine used in the accounting department is leased for a five-year period, which is the economic life of the equipment. The lease is signed on June 30, 2024, and beginning on this date, five annual payments of $50,000 will be made.

The lease agreement contains the following amortization schedule, which shows the breakdown of the annual payments into the principal and interest components:

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Amortization Schedule

Date	Lease Payment	Interest Expenditure @ 10%	Principal Expenditure	Principal Balance of Leases Payable*
6-30-24	$0	$0	$0	$208,493
6-30-24	50,000	0	50,000	158,493
6-30-25	50,000	15,849	34,151	124,342
6-30-26	50,000	12,434	37,566	86,776
6-30-27	50,000	8,678	41,322	45,454
6-30-28	50,000	4,546	45,454	-0-
Total	$250,000	$41,507	$208,493	

**This column was computed from the amortization schedule provided in the lease agreement. To compute this column, subtract the amount of principal paid each year from the total principal due at the beginning of the lease.*

This amortization schedule is necessary for the lessee to make the entries that are needed to record the lease.

The entries for the photocopy machine lease would be recorded as follows:

General Fund

Date	Object Title	SACS Account String	Debit	Credit
6-30-24	Lease Assets	01-0000-0-0000-7200-6600	$208,493	
	Proceeds from Leases	01-0000-0-0000-0000-8972		$208,493
	To record the lease of equipment.			

General Fund

Date	Object Title	SACS Account String	Debit	Credit
6-30-24	Other Debt Service—Principal	01-0000-0-0000-9100-7439*	$50,000	
	Cash in County Treasury	01-0000-0-0000-0000-9110		$50,000
	To record the first lease payment.			

**If a restricted resource will be used to make the lease payments, the appropriate resource and goal would be used.*

The second lease payment (6-30-25) would be recorded in the following manner:

General Fund

Date	Object Title	SACS Account String	Debit	Credit
6-30-25	Debt Service—Interest	01-0000-0-0000-9100-7438*	$15,849	
	Other Debt Service—Principal	01-0000-0-0000-9100-7439*	34,151	
	Cash in County Treasury	01-0000-0-0000-0000-9110		$50,000
	To record the second lease payment.			

**If a restricted resource will be used to make the lease payments, the appropriate resource and goal would be used.*

Repayments of debt such as leases, which normally do not involve the advance accumulation of resources for repayment of amounts maturing in future years, are normally made from the general fund or a special revenue fund. If the lease payments were to be paid from a debt service fund, the above entry would be recorded in the debt service fund. Any transfers from the general fund to the debt service fund would be treated as operating transfers, not as general fund expenditures.

The assets acquired under the lease are reported by the lessee in the government-wide statement of net position.

II. Lessor Accounting

When a lessor LEA's lease agreement meets the definition of leases pursuant to *GASB Codification* Section L20.102, except for a short-term lease or contract that transfers ownership, the following accounting guidance applies for the governmental funds:

1. At the inception of the lease, record the lease receivable in the fund where the underlying asset is recorded as a debit to Object 9380, Lease Receivable, for the amount of the entire principal that is due. The credit is to Object 9690, Deferred Inflows of Resources.

2. As lease payments are received, record the payments in the fund where the underlying asset is recorded as a credit to Objects 9380, Lease Receivable, and 8660, Interest. In addition, recognize the related revenues as a debit to Object 9690, Deferred Inflows of Resources, and a credit to Object 8650, Leases and Rentals.

As an example of accounting for a lease, use the same photocopy machine example, including amortization schedule, as above.

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Amortization Schedule

Date	Lease Payment	Interest Revenue @ 10%	Principal Amount	Principal Balance of Lease Receivable*
6-30-24	$0	$0	$0	$208,493
6-30-24	50,000	0	50,000	158,493
6-30-25	50,000	15,849	34,151	124,342
6-30-26	50,000	12,434	37,566	86,776
6-30-27	50,000	8,678	41,322	45,454
6-30-28	50,000	4,546	45,454	-0-
Total	$250,000	$41,507	$208,493	

**This column was computed from the amortization schedule provided in the lease agreement. To compute this column, subtract the amount of principal received each year from the total principal balance at the beginning of the lease.*

The entries for the photocopy machine lease would be recorded as follows:

General Fund

Date	Object Title	SACS Account String	Debit	Credit
6-30-24	Lease Receivable	01-0000-0-0000-0000-9380	$208,493	
	Deferred Inflows of Resources	01-0000-0-0000-0000-9690		$208,493
	To record the lease receivable at the inception of a lease.			

General Fund

Date	Object Title	SACS Account String	Debit	Credit
6-30-24	Cash in County Treasury	01-0000-0-0000-0000-9110	$50,000	
	Lease Receivable	01-0000-0-0000-0000-9380		$50,000
	To record the first lease payment received.			

The second lease payment (6-30-25) would be recorded in the following manner:

General Fund

Date	Object Title	SACS Account String	Debit	Credit
6-30-25	Cash in County Treasury	01-0000-0-0000-0000-9110	$50,000	
	Lease Receivable	01-0000-0-0000-0000-9380		$34,151
	Interest	01-0000-0-0000-0000-8660		15,849
	To record the second lease payment received and recognize the interest revenue.			

Date	Object Title	SACS Account String	Debit	Credit
6-30-25	Deferred Inflows of Resources	01-0000-0-0000-0000-9690*	$41,699	
	Leases and Rentals	01-0000-0-0000-0000-8650*		$41,699
	To recognize lease revenue over the term of the lease.			

**The deferred inflows of resources should be amortized and recognized as revenue over the lease term in a systematic and rational manner. In this example, the LEA management believes that a straight-line recognition over the five-year lease term is the most appropriate method (i.e., $208,493 divided by five years).*

The underlying lease assets continue to be reported in the lessor's government-wide statement of net position.

Subscription-Based Information Technology Arrangements (SBITAs)

GASB Codification Section S80.103 defines a subscription-based information technology arrangement (SBITA) as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for the length of time covered by the SBITA, that is, subscription term, in an exchange or exchange-like transaction. Further, *GASB Codification* Section S80.104 lists the following two criteria that must be met in order to determine whether a contract conveys control of the right to use the underlying IT asset:

1. The LEA has the right to obtain the present service capacity from use of the underlying IT assets as specified in the contract; and
2. The LEA has the right to determine the nature and manner of use of the underlying IT assets as specified in the contract.

SBITAs exclude contracts that solely provide IT support services, but include contracts that contain both a right-to-use IT asset component and an IT support services component. In addition, the following do not meet the definition of SBITAs:

- Contracts that convey control of the right of use another party's combination of IT software and tangible capital assets that meets the definition of a lease (as defined in the Leases section), in which the software component is insignificant when compared to the cost of the underlying tangible capital asset. Examples are a computer with operating software and a smart copier that is connected to an IT system. The LEAs should treat the contracts as leases and follow the guidance provided in this procedure.
- Governments that provide the right to use their IT software and the associated tangible capital assets to other entities through SBITAs (i.e., governments are software vendors).
- Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software.

Short-Term SBITAs

If the subscription term is for 12 months or less with no option to extend the SBITA beyond 12 months, the LEA should record the subscription payments as expenditures, for example, using Object 4100, Approved Textbooks and Core Curricula Materials, for internet-based or computer-based state-adopted core curriculum, and using Object 5800, Professional/Consulting Services and Operating Expenditures, for internet-based publications and materials.

SBITAs Other Than Short-Term SBITAs

When an LEA's agreement meets the definition of a SBITA defined in *GASB Codification* Section S80.103, except for short-term SBITAs, the following rules apply to accounting for SBITAs in the governmental funds:

1. At the inception of a SBITA, record the subscription asset in the fund acquiring the underlying IT asset as a debit to Object 6700, Subscription Assets, for the amount of the entire principal that is due. The credit is to Object 8974, Proceeds from SBITAs.
2. As subscription payments are made, record the payments in the fund acquiring the underlying IT asset as a debit to Objects 7438, Debt Service—Interest, and 7439, Other Debt Service—Principal.

As an example of accounting for a SBITA in a governmental fund, assume that a subscription agreement is signed on July 1, 2022; the subscription term starts on July 1, 2022, and ends on June 30, 2027. Beginning on this date, five annual payments of $15,000 will be made. The discount rate is 5 percent.

The SBITA agreement contains the following amortization schedule, which shows the breakdown of the annual payments into the principal and interest components:

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Amortization Schedule

Date	Subscription Payment	Interest Expenditure @ 5%	Principal Expenditure	Principal Balance of Subscription Liability*
7-01-22	$0	$0	$0	$68,189
7-01-22	15,000	0	15,000	53,189
7-01-23	15,000	2,659	12,341	40,848
7-01-24	15,000	2,042	12,958	27,890
7-01-25	15,000	1,395	13,605	14,285
7-01-26	15,000	715	14,285	-0-
Total	$75,000	$6,811	$68,189	

**This column was computed from the amortization schedule provided in the SBITA agreement. To compute this column, subtract the amount of principal paid each year from the total principal due at the beginning of the SBITA agreement.*

This amortization schedule is necessary to make the entries that are needed to record the SBITA agreement.

The entries for the SBITA agreement would be recorded as follows:

General Fund

Date	Object Title	SACS Account String	Debit	Credit
7-01-22	Subscription Assets	01-0000-0-0000-7200-6700	$68,189	
	Proceeds from SBITAs	01-0000-0-0000-0000-8974		$68,189
	To record inception of the IT asset subscription.			

General Fund

Date	Object Title	SACS Account String	Debit	Credit
7-01-22	Other Debt Service—Principal	01-0000-0-0000-9100-7439*	$15,000	
	Cash in County Treasury	01-0000-0-0000-0000-9110		$15,000
	To record the first subscription payment.			

**If a restricted resource will be used to make the payments on the SBITA agreement, the appropriate resource and goal would be used.*

The second subscription payment (07-01-23) would be recorded in the following manner:

General Fund

Date	Object Title	SACS Account String	Debit	Credit
7-01-23	Debt Service—Interest	01-0000-0-0000-9100-7438*	$2,659	
	Other Debt Service—Principal	01-0000-0-0000-9100-7439*	12,341	
	Cash in County Treasury	01-0000-0-0000-0000-9110		$15,000
	To record the second subscription payment.			

**If a restricted resource will be used to make the payments on the SBITA agreement, the appropriate resource and goal would be used.*

Repayments of debt such as SBITAs, which typically do not involve the advance accumulation of resources for repayment of amounts maturing in future years, are normally made from the general fund or a special revenue fund. If the subscription payments were to be paid from a debt service fund, the above entry would be recorded in that fund. Any transfers from the general fund to the debt service fund would be treated as operating transfers, not as general fund expenditures.

The subscription assets acquired under the SBITAs are reported in the government-wide statement of net position.

SBITA Development Stages and Categorization of Associated Costs

SBITAs have three development stages. The costs for activities associated with each stage are accounted as follows:

1. Preliminary Project Stage – Costs incurred during this stage are not capitalized. These costs include the following activities:
   - Conceptual formulation of alternatives
   - Evaluation of alternatives
   - Determination of the existence of needed technology
   - Final selection of alternatives for the SBITA

2. Initial Implementation Stage – Costs incurred during this stage involve both internal and external costs incurred to develop the IT software and are capitalized as part of the subscription asset. These costs include the following:
   - Design of the chosen path, including configuration
   - Coding
   - Installation associated with the LEA's access to the underlying SBITA assets
   - Minimum data conversion necessary to make the underlying SBITA assets operational

- Testing

3. Operation and Additional Implementation Stage – Costs incurred during this stage are not capitalized but are expensed as incurred. These costs include the following:
   - Training
   - Software maintenance
   - Data conversion beyond what is strictly necessary to make the underlying SBITA assets operational