



County of Riverside
OFFICE OF THE AUDITOR-CONTROLLER
 STANDARD PRACTICE MANUAL

		SUBJECT: Financed Purchases, Leases, and Subscription-Based Information Technology Arrangements (SBITAs)
SECTION:	5	CATEGORY: CAPITAL ASSET POLICIES
POLICY NUMBER:	511	
REVISED DATE:	3/13/2023	APPROVED BY: <i>Ben J. Bnait</i>

PURPOSE: To establish standard guidelines for the proper accounting of short-term leases, contracts that transfer ownership of the underlying asset at the end of the lease contract, leases, and SBITAs.

SCOPE: Applies to County departments, agencies, special districts, and authorities that are governed by Riverside County Board of Supervisors.

POLICY: Financed purchases, leases, and SBITA must be recorded in compliance with GAAP, Governmental Accounting Standards Board (GASB) Statement No. 87 – *Leases*, and Governmental Accounting Standards Board (GASB) Statement No. 96 – *Subscription-Based Information Technology Arrangements (SBITAs)*.

PROCEDURES: This policy includes information on the process and documentation needed to account and record short-term leases, contracts that transfer ownership of the underlying asset at the end of the lease contract, leases, and SBITAs in the PeopleSoft financial system.

BACKGROUND:

GASB Statement No. 87 uses a single model approach and provides for three accounting treatments of leases: short-term leases, contracts that transfer ownership (financed purchases, formerly known as capital leases), and contracts that do not transfer ownership.

Lessees and lessors should recognize short-term lease payments as outflows of resources (expenditure/expense) or inflows of resources (revenue), respectively, based on the payment provisions of the lease contract. Contracts that transfer ownership should be reported as a financed purchase of the underlying asset by the lessee or sale of the asset by the lessor. A contract that does not transfer ownership will be recorded as a lease under GASB 87. For such contracts, a lessee will recognize a lease liability and a corresponding intangible asset representing the lessee’s controlling “right to use” the asset.

In conjunction with reporting the asset and liability, the lessee will also report amortization expense of the intangible asset over the shorter of the life of the asset or the lease term. They will also report interest expense on the lease liability and provide footnote disclosures about the lease. The standard does not apply to:

- Intangible assets, including mineral rights, patents, software, etc.
- Biological assets
- Inventory
- Service concession arrangements as addressed in GASB Statement 60
- Assets financed with conduit debt
- Supply contracts such as power purchase agreements

- Transfer of an asset to the lessee at the end of the agreement (this is considered a finance purchase and is reported as a long-term liability)

GASB Statement No. 96 establishes standards of accounting and financial reporting for SBITAs by a government end user (a government). The requirements of this Statement apply to financial statements of all state and local governments.

A government should recognize short-term subscription payments as outflows of resources (for example, expense) based on the payment provisions of the SBITA contract. A government should recognize an asset if subscription payments are made in advance or a liability if subscription payments are to be made subsequent to the reporting period. A government should recognize a subscription liability and an intangible right-to-use asset at the commencement of the subscription term. The commencement of the subscription term occurs when the initial implementation stage is completed at which time the government has obtained control of the right to use the underlying Information Technology (IT) assets, and, therefore, the subscription asset is placed into service.

In conjunction with reporting the subscription asset and liability, the government will also report amortization expense of the subscription asset over the shorter of the life of the asset or the subscription term. They will also report interest expense on the subscription liability and provide footnote disclosures about the subscription. The standard does not apply to:

- 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, *Leases*, in which the software component is insignificant when compared to the cost of the underlying tangible capital asset
- Governments 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 a perpetual license to governments to use a vendor's computer software, which are subject to Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, as amended.
- Contracts that provide solely IT support services.

SHORT-TERM LEASES:

Short-term leases hold a maximum possible term of 12 months or less, including any options to extend, regardless of their probability of being exercised. Leases that are month-to-month are considered short-term. Payments for short-term leases should be recognized as outflows of resources (expenditure/expense) or inflows of resources (revenues) by the lessee or lessor.

CONTRACTS THAT TRANSFER OWNERSHIP:

If the contract transfers ownership of the underlying asset to the lessee by the end of the contract, then the contract is a **financed purchase**. The lessee records the purchased asset and the related debt (a financed purchase liability). The lessor records the sale of the asset.

LEASES

Under GASB 87, a lease is defined 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 period of time in an exchange or exchange-like transaction. The lease term is the period during which a lessee has a noncancelable right to use an underlying asset, plus the subsequent periods (if applicable). To determine whether a contract conveys control of the right to use the underlying asset, a government should determine whether the contract has **both** of the following per GASB 87:

1. The right to obtain the present service capacity from use of the underlying asset as specified in the contract
2. The right to determine the nature and manner of use of the underlying asset as specified in the contract.

SBITAs

Under GASB 96, a SBITA is defined as a contract that conveys control of the right to use another party's IT software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. The subscription term is the period during which a government has a noncancelable right to use an underlying asset, plus the subsequent periods (if applicable). To determine whether a contract conveys control of the right to use the underlying asset, a government should determine whether the contract has ***both*** of the following per GASB 96:

1. The right to obtain the present service capacity from use of the underlying asset as specified in the contract
2. The right to determine the nature and manner of use of the underlying asset as specified in the contract.

LESSEE ACCOUNTING

Short-term leases: Lessee should recognize short-term lease payments as outflows of resources (expenditure/expense) based on the payment provisions of the contract.

Financed purchase: Lessee will record the purchased asset in the Asset Management module and the related debt (a financed purchase liability), if the value of the asset is at a minimum \$5,000.

GASB 87 Leases: Lessee will record a lease asset in the Asset Management module and a lease liability at the beginning of the lease term, if the present value of the lease payments expected to be made during the lease term (less any lease incentives) is at a minimum \$10,000.

LESSOR ACCOUNTING

Short-term leases: Lessor will recognize short-term lease payments as inflows of resources (revenues) based on the payment provisions of the contract.

Financed purchase: Lessor will record the sale of the asset.

GASB 87 Leases: Lessor will recognize a lease receivable and a deferred inflow of resources at the beginning of the lease term, if the present value of the lease payments expected to be received during the lease term is at a minimum \$10,000.

SBITA ACCOUNTING

A government will record an intangible asset in the Asset Management module and a subscription liability at the beginning of the subscription term, if the present value of the subscription payments expected to be made during the subscription term (less any incentives) is at a minimum \$10,000. The short-term subscription payments will be recorded as outflows of resources (expenditure/expense) based on the payment provisions of the contract.

RECORDING A FINANCED PURCHASE (LESSEE)

Financed Purchase: The present value of the minimum lease payments at the inception of the financed purchase must be recorded as an asset and a financed purchase (liability) in PeopleSoft. When determining the present value of the lease payments, the lessee should use its incremental borrowing rate. However, the lessee should use the lessor's implicit interest rate to determine the present value of the lease payments if:

- 1) The lessee can determine the lessor's implicit rate and
- 2) The lessor's implicit interest rate is less than the lessee's incremental borrowing rate

The lessee's incremental borrowing rate is the estimated interest rate the lessee would have had to pay if the leased asset had been purchased by the lessee and financed over the period covered by the lease.

RECORDING A GASB 87 LEASE (LESSEE)

GASB 87 Leases: The lessee initially should measure the lease liability at the present value of the payments expected to be made during the lease term. Measurement of the lease liability should include the following, if required by a lease:

1. Fixed payments
2. Variable payments that depend on an index or rate
3. Variable payments that are fixed in substance
4. Amounts that are reasonably certain of being required to be paid by the lessee under residual value guarantees
5. The exercise price of a purchase option if it is reasonably certain that the lessee will exercise that option
6. Payments for penalties for terminating the lease
7. Any lease incentives receivable from the lessor
8. Any other payments that are reasonably certain of being required based on an assessment of all relevant factors.

The future lease payments should be discounted using the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease. If the interest rate cannot be readily determined by the lessee, the lessee's estimated incremental borrowing rate (an estimate of the interest rate that would be charged for borrowing the lease payment amounts during the lease term) should be used.

RECORDING A LEASE (LESSOR)

GASB 87 Leases: The lessor initially should measure the lease receivable at the present value of lease payments expected to be received during the lease term, reduced by any provision for estimated uncollectible amounts. Measurement of the lease receivable should include the following, if required by a lease:

1. Fixed payments
2. Variable payments that depend on an index or a rate
3. Variable payments that are fixed in substance
4. Residual value guarantee payments that are fixed in substance
5. Any lease incentives payable to the lessee

The future lease payments to be received should be discounted using the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease.

RECORDING A SUBSCRIPTION LIABILITY

The subscription liability should be initially measured 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:

1. Fixed payments
2. Variable payments that depend on an index or a rate
3. Variable payments that are fixed in substance
4. Payments for penalties for terminating the SBITA
5. Any subscription contract incentives receivable from the SBITA vendor
6. Any other payments that are reasonably certain of being required based on an assessment of all relevant factors

The future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be the interest rate implicit in the SBITA. If the interest rate cannot be readily determined by the government, the government'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.

RECORDING A SUBSCRIPTION ASSET

The subscription asset should be initially measured as the sum of the following, less any SBITA vendor incentives received from the SBITA vendor at the commencement of the subscription term:

1. The amount of the initial measurement of the subscription liability
2. Payments associated with the SBITA contract made to the SBITA vendor at the commencement of the subscription term, if applicable
3. Capitalize initial implementation costs including all necessary charges to place the subscription asset into service, including design, configuration, coding, testing and installation

The subscription asset should be amortized in a systematic and rational manner over the shorter of the subscription term or the useful life of the underlying IT asset. Amortization of the subscription asset should be recognized as an outflow of resources—amortization expense.

DEPARTMENT ROLES:

1. Departments are responsible for recording all financed purchases, leases, and SBITAs immediately once all supporting documentation is available and has been received by the department.
2. Capital assets acquired via a financed purchase, GASB 87 Lease, or GASB 96 SBITA must be entered into the PeopleSoft Asset Management Module by selecting the appropriate “category” when entering the assets related to the financed purchase, GASB 87 Lease or GASB 96 SBITA.
 - a. For a financed purchase, a copy of the agreement and amortization payment schedule must accompany the completed *Acquisition, Betterment & Leases*, Form AM-5, and must be submitted to the ACO.
 - b. For a lease under GASB 87, a copy of the agreement and the calculation of the net present value of the payments expected to be made during the term of the lease must accompany the completed *GASB 87 Leases*, Form AM-9, and must be submitted to the ACO.
 - c. For a SBITA under GASB 96, a copy of the agreement and the calculation of the net present value of the payments expected to be made during the term of the subscription must accompany the completed *GASB 96 SBITAs*, Form AM-9, and must be submitted to the ACO.
3. At the end of the fiscal year, proprietary funds shall reclassify its year-to-date lease and/or SBITA principal expenses to the appropriate liability accounts. This method ensures budgetary control during the year, while properly reporting principal disbursements as reductions to liabilities for year-end reporting purposes.
4. During the annual asset certification, all finance purchases assets must be certified; land does not need to be certified.
5. Complete AM-5 or AM-9 Form must be submitted to the Auditor-Controller with all supporting documentation, within 1-2 business days after it has been entered in the AM module, **except** at year-end it should be submitted within 24 hours.

CAPITAL BUDGET EXPENSE CODES

The acquiring department is responsible for assigning the appropriate account number when entering a financed purchase, GASB 87 Lease, or SBITA. Individuals should be certain to use the correct account number in all circumstances as shown on next page.

**County of Riverside
Expenditure Account
as of February 1, 2023**

New Code	Description
	Retirement of Oth Long-Term Debt
532500	Finance Purchase-Bldg Princip
532510	Finance Purchase-Equip Princip
532520	Finance Purchase-Vehic Princip
532600	Finance Purchase-Principal
532620	Finance Purchase-Comp Term
532640	Finance Purchase-Facilities
532650	Finance Purchase-Land Princip
532660	Finance Purchase-Other Princip
532670	CORAL 2001 Proj- CAC Annex COP
532680	Debt Retirement
532690	Lease & SBITA Principal Pymt
532700	State Loans
532800	Finance Purchase - Contra
	Interest On Oth Long-Term Debt
533700	Interest Radio-Electrical
533720	Finance Purchase-Interest
533740	Finance Purchase-Interest
533750	Lease & SBITA Interest Pmt
533760	Interest Long Term Debt
533770	Finance Purchase-Blg Interest
533780	Finance Purchase-Equ Interest
533790	Finance Purchase-Veh Interest
533800	Finance Purchase-Land Interest

**County of Riverside
Liability Account
as of February 1, 2023**

New Code	Description
	Financed Purchase / Lease Obligation / SBITA Obligation
283100	Financed Purchase LT
283101	Financed Purchase LT-Bldgs
283102	Financed Purchase LT-Equip
283103	Financed Purchase LT-Vehic
283104	Financed Purchase LT-Land
283200	Lease & SBITA Obligation

AUDITOR-CONTROLLER'S ROLES:

- 1) Review and verify AM-5 or AM-9 Form and transactions recorded in system to ensure accuracy and adequate documentation to support the transaction.
- 2) Process transactions in PeopleSoft Financial System.

RECORDS MANAGEMENT ROLES:

Department

Retain all finance purchase, lease, and SBITA contract supporting documentation for at least 7 years as it relates to capital assets, GASB 87 and GASB 96 assets information reported and submitted to the Auditor-Controller.

Auditor-Controller

The Auditor-Controller is the official Department of Record for all AM Forms and its supporting documentation that are submitted to us. The documentation is filed in accordance with the County's General Records Retention policy which states to keep the current year plus the 7 past years.

SECURITY ROLES:

To perform the functions discussed above the following roles must be requested:

Department:

Capital Asset Processor – this role will allow you to:

- Add capital/noncapital asset information
- Update some capital asset information

Auditor Controller:

Asset Reviewer Auditor-Controller Only – this role will allow you to:

- Adjust, re-categorize, transfer, and dispose capital assets/noncapital asset information
- Review and process transactions
- Run capital and lease asset reports



CAPITAL ASSETS FORM
Acquisition, Betterment & Leases
OFFICE OF THE AUDITOR-CONTROLLER

Complete and return to the Auditor-Controller's Office, Mail Stop #1050.

**SPM FORM
AM - 5**

"*" Indicates optional field **ASSET ID:**

DEPARTMENT		BUSINESS UNIT		
FUND	DEPT ID	PROGRAM *	CLASS *	PROJ/GRANT *
CATEGORY	ACCOUNT	COST	Notes	
BOOK	FINANCING CODE	LOCATION	County Tag Issued?	
				<input type="checkbox"/> Yes <input type="checkbox"/> No
ACQUISITION DATE			IN SERVICE DATE	
VENDOR CODE:			VENDOR NAME	
MANUFACTURER		SERIAL NUMBER	MODEL	
ASSET DESCRIPTION:				
DEPRECIATION METHOD		USEFUL LIFE (in months)	SALVAGE AMOUNT	
PURCHASE AUTHORIZATION			VOUCHER	

For Betterments Only:

BETTERMENT DESCRIPTION	
TOTAL BETTERMNT VALUE	

For Financed Purchases Only:

LEASE ID#		LIABILITY AMOUNT (PRIN)	
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ATTACH THE FOLLOWING AND CHECK THE BOX FOR EACH ATTACHMENT PROVIDED:

P.O. s Property schedules Amortization schedules Financing agreements

Prepared by: _____ **Phone:** _____

Date: _____ **Dept:** _____

Distribution: Department and Capital Asset Section of the ACO

ACO Capital Asset Reviewed by: _____ **Date:** _____



CAPITAL ASSETS FORM
GASB 87 Leases / GASB 96 SBITAs
OFFICE OF THE AUDITOR-CONTROLLER

Complete and return to the Auditor-Controller's Office, Mail Stop #1050.

**SPM FORM
AM - 9**

"*" Indicates optional field **ASSET ID:**

DEPARTMENT		BUSINESS UNIT		
FUND	DEPT ID	PROGRAM *	CLASS *	PROJ/GRANT *
CATEGORY	ACCOUNT	Present Value of Minimum Lease or Subscription Payments		
BOOK	FINANCING CODE	LOCATION	Notes	
ACQUISITION DATE			IN SERVICE DATE	
VENDOR CODE:			VENDOR NAME	
MANUFACTURER	SERIAL NUMBER		MODEL	
ASSET DESCRIPTION:				
DEPRECIATION METHOD		USEFUL LIFE (in months)		
PURCHASE AUTHORIZATION			VOUCHER	

GASB 87 Lease / GASB 96 SBITA Information:

LEASE / SUBSCRIPTION ID#	
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ATTACH THE FOLLOWING AND CHECK THE BOX FOR EACH ATTACHMENT PROVIDED:

P.O.s Lease/SBITA Contract Amortization schedules Evaluation Tool Present Value Calculator

Prepared by: _____ **Phone:** _____

Date: _____ **Dept:** _____

Distribution: Department and Reporting & Capital Asset Section of the ACO

ACO Reporting Reviewed by: _____ **Date:** _____

ACO Capital Asset Reviewed by: _____ **Date:** _____