

Applies to: College administration and staff

Responsible Office

Business and Finance

POLICY STATEMENT

It is the policy of the college that lease and information technology agreement activity will be reported in the college's financial statements and footnotes in accordance with the requirements outlined in Governmental Accounting Standards Board (GASB) Statement No. 87 and Statement No. 96

Purpose of the Policy

To establish the principal and guidelines for handling lease activity for Central Ohio Technical College as required by normal operations. GASB Statement No. 87, *Leases* (GASB 87), requires the college to report lessee and lessor lease activity in the college's annual financial statements. Under GASB 87, the college is required to report a right to use asset and related lease liability for any lessee lease positions the college maintains. Similarly, the college is required to report a lease receivable and related deferred inflow of resources for any lessor lease positions maintained by the college. The college may enter into technology agreements as required by normal operations. GASB Statement No. 96, *Subscription-Based Information Technology Agreements (SBITA)* (GASB 96), requires the college to report SBITA activity in the college's annual financial statements. Under GASB 96, the college is required to report 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. To implement this principal and establish guidelines, the following policy has been adopted.

Definitions

Term	Definition
Lease	<p>GASB 87 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 a period of time in an exchange or exchange-like transaction.</p> <p>In considering the right to use another entity's nonfinancial asset, the college must consider whether <u>both</u> of the following are true:</p> <ul style="list-style-type: none"> • Does the college have the right to obtain the present service capacity from use of the underlying asset as specified in the contract? • Does the college have the right to determine the nature and manner of use of the underlying asset as specified in the contract?
Lessor	In a contract, a lessor is the legal owner of an asset who provides the lessee the right to use or occupy the asset for a specified period in an exchange or exchange-like transaction.
Lessee	In a contract, the lessee is the party who receives the right to use an asset for a specified period and makes periodic payments to the lessor based upon the contract requirements.
Subscription-Based Information Technology Agreement (SBITA)	GASB 96 defines SBITA 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.
Incremental Borrowing Rate	Interest rate the college would be offered should the college choose to borrow the funds required to make future lease payments for a term similar to the lease term.

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Policy Details

I. Lease Accounting

A. Lessee Lease Position

1. At the lease commencement date, the college recognizes a lease liability at the present value of the remaining lease payments and a right to use leased asset based on the lease liability. Over the lease term, the college recognizes interest expense and depreciation expense relating to amortization of the lease liability and asset.

Lessor Lease Position

2. At the lease commencement date, the college recognizes a lease receivable and a deferred inflow of resources. Over the lease term, the college recognizes revenue related to interest earned on the receivable and amortization of the deferred inflow of resources.

II. SBITA Accounting

At the SBITA commencement date, the college recognizes a subscription asset and a subscription liability at the present value of the payments expected to be made over the subscription term. Commencement of the subscription term is when the subscription asset is placed into service.

A. At commencement, the subscription asset is equal to the sum of:

1. The initial subscription liability
2. Any payments made to the SBITA vendor before commencement of the subscription term
3. Capitalizable initial implementation costs

III. Lease or SBITA Term

- A. As defined by GASB 87 and GASB 96, the lease and SBITA term is the noncancelable period and the lessee or the customer has the right to use an underlying asset, plus periods covered by the following:
 1. Option to extend the lease if it is reasonably certain that the lessee and/or lessor will exercise that option.
 2. Option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee and/or lessor will not exercise that option.
 3. Periods for which both the lessee (customer) and the lessor (vendor) have an option to terminate the lease or SBITA without permission from the other party (or if both parties have to agree to extend) are cancelable periods and are excluded from the lease or SBITA term.
- B. Under GASB 87 and GASB 96, a short-term lease or SBITA has with a maximum possible term of 12 months or less, including any options to renew, regardless of whether renewal options have been exercised. Short-term leases or SBITAs are not reported in the college's financial statements.

IV. Exchange or Exchange-like Transaction

Leases or SBITAs reported by the college must be exchange or exchange-like transactions. An exchange transaction is a transaction in which each party to the transaction provides or receives essentially equal value. Leases or SBITAs of \$0 or \$1 are not be considered an exchange of essentially equal value and would not be reported as a college lease. All other lease or SBITA agreements, including all agreements which include an exchange of resources regardless of whether the rent payment under the agreement is an exchange or exchange-like transaction, will be considered whether the lease qualifies as an exchange or exchange-like transaction.

V. Other Lease or SBITA Related Expenses

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The college may incur expenses in addition to lease or SBITA rent payments under the terms of lease or SBITA agreements. Expenses such as utilities, operating costs, security costs, and repairs are expensed by the college, as incurred, in instances where the college can separate the costs from the rent payments outlined in the lease or SBITA agreement. In instances where the college is not able to separate the lease related costs from the lease or SBITA rent payments, the college includes the lease or SBITA related costs in the measurement of the college's lease liability.

VI. Embedded Leases

Certain agreements entered into by the college may include a lease which is embedded within a services agreement. Examples of embedded leases may include waste management services agreements which includes the college's right to use waste receptacles such as dumpsters.

VII. Lease or SBITA Terminations

- A. Upon initial measurement of the lease or SBITA, the college determines reasonable certainty regarding whether the college intends to exercise lease or SBITA renewal options at the end of the initial lease or SBITA term. This evaluation is conducted for leases or SBITAs where both parties to the lease or SBITA do not have the option to terminate the lease or SBITA at the end of the initial term.
- B. In instances where both parties have the option to terminate the lease or SBITA at the end of the initial term, the lease or SBITA renewal options are not included in the lease or SBITA term for reporting under GASB 87 and GASB 96, respectively.
- C. When evaluating whether the college intends to exercise lease or SBITA renewal options, factors such as financial penalties for not renewing the lease or SBITA are considered.

VIII. Interest Rates

For purposes of calculating the present value of future lease payments (lessee) or lease revenues (lessor), or on future SBITA payments, the college utilizes the following discount rates in order of priority:

- A. Interest rate as stated in the contract, including prime rate if identified by the landlord or vendor.
- B. The college's incremental borrowing rate.

IX. Reconciliation

An annual reconciliation will be performed of all college leases and SBITAs.

PROCEDURE

- I. Lease and SBITA agreements must be completed either by or in consultation with the Vice President of Business and Finance or designee. The Vice President of Business and Finance or designee will determine if review is needed by the Ohio Attorney General's Office.

Responsibilities (required; number responsibilities if more than one for any position or office)

Position or Office	Responsibilities
Business and Finance	Maintain all responsibilities surrounding the capture and booking of leases under this policy.
Vice President of Business and Finance	Determine if review of lease is needed by the Ohio Attorney General's Office.

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Contacts

Subject	Office	Telephone	E-mail/URL
General policy questions	Business and Finance	740-364-9629	white.739@mail.cotc.edu

History

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