

## Sacramento Suburban Water District

**Lease and Subscription-Based Information Technology Arrangements  
Accounting Policy**Adopted: October 17, 2022

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**100.00 Purpose**

The Governmental Accounting Standards Board (GASB) has introduced two new accounting statements: GASB Statement No. 87, *Leases* (GASB 87) and GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITA). In accordance with GASB 87 and GASB Statement No. 96, SBITAs (GASB 96), a lease and a SBITA are 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 a period of time in an exchange or exchange-like transactions (i.e., buildings, land, vehicles, equipment, and information technology resources). Any contract that meets this definition should be accounted for under the guidance of GASB 87 or GASB 96 as appropriate. Subject to certain provisions and exceptions noted in the guidance, leases and SBITAs are generally reported as follows in a District's external financial statements:

**Lessee/Contractee:** A lessee/contractee should recognize a liability and an asset at the commencement of the lease/contract term. A lessee/contractee should reduce the liability as payments are made and recognize an outflow of resources (i.e., expense) for interest on the liability. The lessee/contractee should amortize the asset in a systematic and rational manner over the shorter of the lease/contract term or the useful life of the underlying asset.

**Lessor:** A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term. A lessor should recognize interest revenue on the lease receivable and an inflow of resource (i.e., revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease.

**200.00 Scope**

This policy covers all contracts or agreements entered into between the District and another party for the use of another party's non-financial asset(s). Both statements allow application only for items material to the District's financial statements taken as a whole.

### **300.00 Policy**

Prior to issuance of GASB 87 and GASB 96, the District recorded revenues or expenditures on most of its leases and SBITAs when revenues are received, or payments are made. The new statements require the District to record an asset or liability for leases and SBITAs that are material in nature. Due to the quantity and value of lease and SBITA contracts entered into as of the implementation date of January 1, 2022, District management has decided to not record existing lease and SBITA agreements in accordance with GASB 87 and GASB 96 as they, individually and collectively, do not have a material impact on the District's financial statements taken as a whole.

In order to properly analyze and potentially record an asset or liability related to an agreement that falls under the scope of GASB 87 or GASB 96, the District will need to centrally maintain all lease and SBITA contracts. Each time a new contract is approved that is a lease or SBITA contract or is a contract with a lease or SBITA component, the contracting department must include the Finance Department on the distribution list for the contract. If there is any uncertainty as to the nature of an agreement or the applicability of GASB 87 or GASB 96, the contracting department should contact the Finance Department to obtain clarity.

The District will set a lease and SBITA capitalization threshold based on 1% of the 5-year average of annual total assets for lease or SBITA contracts to be recorded under the new pronouncements. Any lease or SBITA agreement with a present value at inception less than that amount will be deemed immaterial in relation to the financial statements as a whole and, thereby, excluded from reporting.

### **400.00 Policy Review**

This Policy shall be reviewed at least biennially.