



STANDARD POLICIES AND PROCEDURES

POLICY NAME GASB 87	Section: B Policy Number: 8 Effective Date: NEEDS APPROVAL Review Date:
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- I. Purpose.** The purpose of this policy is to ensure LADE will follow GASB-87 guidelines when classifying leases. The Governmental Accounting Standards Board (GASB) issued GASB-87 Leases which establishes a single reporting model for lease accounting to enhance the relevance and consistency of information about governments' leasing activity. GASB-87 changes the definition of a lease to eliminate the "capital" and "operating" differences.
- II. Lease-Definition.** 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 a period of time in an exchange or exchange-like transaction. All leases meeting GASB-87 criteria require the school to recognize a lease liability and intangible right-to-use lease asset and Vendors to recognize a lease receivable and a deferred inflow of resources as of July 1, 2021. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Additionally, essential information about the arrangement must be disclosed in the financial statements.
- III. Terminology**
- a. "Conveys Control" requires both a right to obtain present service capacity from the use of the underlying asset and the right to determine the nature and manner of use of the asset.
 - b. "Right to Use" - contract to use the asset is not limited to 100% access to the asset. A right-to-use lease also includes use for portions of time, such as certain days each week or hours each day.
 - c. "Nonfinancial Asset" - examples include copy machines, postage machines, land, buildings, vehicles, and equipment.
 - d. "Period of time" – the lease term is the period of time that the lessee has a noncancelable right to use the asset plus any periods that the lessee or Vendor have the sole option to extend the lease and it is reasonably certain that the option will be exercised.
 - i. Lease Term includes:
 1. Noncancelable period during which the school has a right to use the underlying asset
 2. Any periods in which either the School or the Vendor have the sole option to extend the lease, if reasonably certain the option will be exercised by that party.
 3. Any periods in which either the School or the Vendor have the sole option to terminate the lease, if reasonably certain the option will not be exercised by that party.
 - ii. Lease Term excludes:
 1. Cancelable periods: Periods for which either the School or the Vendor have an

option to terminate the lease without permission from the other party (OR if both parties have to agree to extend).

- e. "Exchange or exchange-like transaction" – both parties to the contract/lease receive or give up essentially equal value or not quite equal value.

IV. Exclusions

- a. \$1 Leases – GASB-87 Paragraph 4 states that this standard only applies to exchange or exchange-like transactions. When leases are entered into for de minimus amounts (\$1 per year) there is not an equal exchange of value given and received between the Vendor and the School.
- b. The value of the asset being leased (by the school) should be of essentially equal or not quite equal value to the lease payments received (by the Vendor).
- c. Service Contracts – Contracts for maintenance services or other types of "services" are not included. If a contract/lease agreement includes both a leased asset component and a service component AND the two components cannot easily be separated in the lease payment, then the service portion would have to be included because there would be no way to separate the two components.
- d. Intangible Assets - assets that lack physical substance. GASB-87 provides examples that include rights to explore for or to exploit natural resources such as oil, gas, and minerals and similar nonregenerative resources; licensing contracts for items such as motion picture films, video recordings, plays, manuscripts, patents, and copyrights; licensing contracts for computer software. Other examples are franchises, goodwill, trademarks, and trade names.
- e. Biological Assets – assets that are living. GASB-87 identifies timber, living plants and living animals. Other items would include vegetation/produce (crops).
- f. Inventory
- g. Service Concession Arrangements – Excluded because these are covered by GASB-60. Arrangements between a transferor (government) and an operator (governmental or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure in exchange for significant consideration and the operator collects and is compensated by fees from third parties.
- h. Supply Contracts – an agreement where the seller promises to supply all of the specified goods or services that a buyer needs over a certain time and at a fixed price and the buyer agrees to purchase such goods or services exclusively from the seller during that time.
- i. These contracts are generally for consumable supplies and materials that are consumed in the use of the item.
- j. Short-Term Leases – Leases that will only last for 12 months or less. The contract for these leases does not include any options to renew that extend past the 12 months.
- k. Lease Purchase Arrangements shall not be recorded in the GASB-87 LeaseCrunch LLC or other GASB-87 templates that the school uses for reporting as this is a considered a financed purchase.

V. Determination Criteria

- a. Determine if the leased item is excluded or not. See section above.
- b. Determine the contract length.
- c. Determine the beginning date of the contract after July 1, 2021.
- d. Determine the payment amounts.
 - i. Materiality test to determine if leased liability is significant and should be accounted for under GASB-87 criteria. The lease liability is the present value of payments expected to be made during the lease term.
 - 1. The State Accounting Office (SAO) has indicated that leased assets, that are clearly not material to the financial statements, will not be included for GASB-87 reporting purposes.

- e. Determine if there is an exchange of equal or not quite equal value. Exchange transactions occur when both parties receive and/or give up assets of equal or not quite equal value. Nonexchange transactions are excluded from GASB-87.
- f. Determine if the school will own the asset at the end of the lease term. If the title will transfer to the school, then this is a financed purchase not a lease. Financed purchases will be accounted for separately from leased assets and require a separately identifiable expense account code. A determination will need to be made at the beginning of the lease whether or not it is probable that this option to buy will be exercised. If it will, the lease should be considered a "financed purchase". If not, the lease should be considered as falling under GASB-87 "leased assets" considerations.
- g. Determine if the school will have the right to control the asset. The "right to control" requires both of the following:
 - i. The right to obtain the present service capacity from use of the underlying asset (the best way to describe this is to ask, "Do you currently have access to use the item?", if the answer is "YES", then you are presently using/benefiting from the item's service capacity.)
 - ii. The right to determine the nature and manner of use of the underlying asset. Do the Vendor place limitations on what you can do with the leased asset while in your use? If the answer is "NO", then the school has the right to determine the nature and manner of use. If the answer to these questions is "YES", then the school has the right to control the asset during the timeframe that they are leasing.
- h. Determine the Discount Rate.

VI. GASB-87 Leases Recording

- a. If the contract is determined to be a GASB-87 Lease, then the school will record the lease immediately in LeaseCrunch LLC or other GASB-87 templates that the school uses for reporting following the guidelines below. Lease Purchase Arrangements shall not be recorded in the GASB-87 LeaseCrunch LLC or other GASB-87 templates that the school uses for reporting as this is considered a financed purchase.
 - i. Components

(GASB-87: Paragraphs 63-67, B92-B87): Elect to account for individual components as a single combined lease component if it is not practicable to determine the best estimate for price allocation for some or all components in the contract.

 1. Components of a contract include only those items or activities that transfer a good or service to the lessee. Examples of non-lease components include common area maintenance, parking expense or annual maintenance on a lease asset.
 2. Allocation of the consideration in the contract (i.e., payments) should occur on a relative standalone price basis to the separate lease and non-lease components of the contract. If observable standalone prices are not readily available, estimate the standalone prices, maximizing the use of observable information.
 - ii. Lease Recording Terms
 - a. The school will record the asset type that is determined by GASB-87, such as Copy Machine, Postage Machine, etc.
 - b. The school will use the effective date of the lease as the start date for GASB-87 recording, which must be after July 1, 2021.
 - i. Initial Application Date
 - c. (GASB-87: Paragraphs 92-93, B127): Application of the Lease

Standard is required for all reporting periods presented, unless it is deemed not practicable. Reasonable efforts should be employed before a government determines that restatement of all prior periods presented is not practicable. In other words, inconvenient should be considered equivalent to not practicable.

- d. The school will record the payment amounts and the end date/terms in full months to reflect the lease asset life that must be after July 1, 2021.
 - i. Taxes will not be recorded for payments in future fiscal years as tax rates are entirely variable.
- e. The 'Discount Rate' for the lease will be determined at 6% for a standard Financing Arrangement rate.
 - i. This rate is only determined once the lease is initially recorded.
- f. The school will not record GASB-87 Leases as Prepaid Expenses on auditing templates to avoid duplicate information for financial statements, as that information will be recorded and provided through GASB-87 reports with LeaseCrunch LLC or other GASB- 87 templates that the school uses.
- g. All GASB-87 financial information is reporting to the Auditors annually to be disclosed in the financial statements.