

Superintendent's Policy 0440.2
Yolo County Office Of Education
GASB 87 Lease Capitalization Regulation

Status: ADOPTED

Original Adopted Date: 1/3/2024

General Regulation:

The Yolo County Office of Education (YCOE) shall not enter into a lease with a duration of more than one year (12 months), nor a lease with an option to extend beyond one year unless such a lease provides YCOE with preferred pricing or another significant business advantage.

Leases that are not classified as short-term and whose aggregate payments made or received exceed \$500,000 will be capitalized ("Capitalization Threshold") in compliance with GASB 87, except as noted below:

1. Leases that transfer ownership and do not contain termination options
2. Short-term leases (12 months or less)
3. Leases of assets that are investments
4. Intangible assets (mineral rights, patents, software, copyrights)
5. Biological assets (timber, living plants, living animals)
6. Supply contracts
7. \$1 Leases or similar, not an exchange/exchange-like transaction

This regulation shall be reviewed annually and adjusted as conditions warrant. This regulation and future changes to it will be approved by the Chief Business Official.

Definitions:

Lease: A contract that conveys control of the right to use another entity's nonfinancial asset (underlying asset) as specified by the contract for a period of time for due consideration.

Short-term lease: A lease that, at the beginning of its term, has a maximum possible term under the contract, including any option to extend, of 12 months or less.

Financed purchase: If a contract (1) transfers ownership of the underlying asset to the lessee by the end of the contract and (2) does not contain termination options other than fiscal funding or cancellation clauses, the contract is not a lease and should be reported as a financed purchase.

Finance Lease: A finance lease is a leasing arrangement in which the lessee obtains ownership of the leased asset by the end of the lease term. With the implementation of GASB 87 effective for fiscal years beginning after June 15, 2021, there is no longer an operating vs. capital classification. Instead, all leases will be referred to as financing leases.

Measurement of a Finance Lease:

As of the commencement date of a lease, the lessee measures the liability and the right-of-use asset associated with the lease. These measurements are derived as follows:

Lease Liability: The present value of the lease payments, discounted at the discount rate for the lease. This rate is the rate implicit in the lease when that rate is readily determinable. If not, the lessee instead uses its incremental borrowing rate.

Right-of-Use Asset: The initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received.

Proposed Process Steps:

1. Department determines the need to enter into a lease or is currently party to a lease agreement; determines lease meets capitalization requirements. Department contacts their accounting staff to begin the lease capitalization process.
2. YCOE will follow the agreed upon payment schedule specified in the contract. If lease agreement is amended, department revises template and submits for review and signatures.
3. Pre-approval MOU process verifies coding is appropriate, reviews the contract and approves.
 - a. For lease expenditure contracts, a copy of the approved contract will be printed and filed with Administrative Services.
 - b. For lease revenue agreements, MOUs and similar instruments, Administrative Services will retain a printed copy of the completed and approved contract, along with any future revisions.
 - c. Copies of these schedules will be retained for 4 years after the end date of the contract unless a longer retention period is required, or the contract is marked for permanent retention.
4. Coordinator reviews calculations for compliance with GASB 87 requirements.

Determining Lease Term:

Noncancelable Period
+ Period covered by option to terminate when it is NOT certain to be exercised
+ Period covered by the option to extend when it is reasonably certain to be exercised
= Total Lease Term

YCOE will reassess the lease term if one or more of the following occurs:

1. Lessee or lessor elects to exercise an option even though originally determined that the lessee or lessor would not exercise that option.
2. Lessee or lessor elects to not exercise an option even though previously determined that the lessee or lessor would exercise that option.
3. An event specified in the contract that requires an extension or termination of the lease takes place.

Account Coding:

YCOE's Role	Coding Advice
Lessee	Object code 6600 Function code 8700
Lessor	Object code 8650

Links:

<https://gasb.org/page/document?pdf=GASBS87.pdf&title=GASB%20Statement%20No.%2087,%20Leases>

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