

RESOLUTION 2023-47

RIGHT-TO-USE LEASE ASSET POLICY

GASB Statement No. 87, "Leases", is effective beginning July 1, 2021. (FY2022). GASB 87 requires a lessee to recognize a lease liability and an intangible right-to-use lease asset.

For counties reporting on the accrual basis of accounting, the cumulative effect, if any, may require a restatement of beginning net position, fund balance, or fund net position (as applicable). **This means leases in existence on June 30, 2021 will need to be reported as the beginning balance (July 1, 2021) for leases of FY2022.**

A right-to-use lease asset is an intangible capital asset. The asset represents the right to use an underlying asset identified in a lease contract, as specified for a period of time. The County will recognize the intangible right-to-use lease asset when:

- a. The contract 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. (GASB 87, paragraph 4)
- b. The minimum noncancelable contract term is greater than twelve months.
- c. The contract does not transfer ownership of the underlying asset.
- d. The underlying asset is used to conduct county business. (This will not apply to custodial funds.)

The following leases are not GASB 87 leases and are excluded from this policy:
(GASB 87, paragraph 8)

- a. Leases of intangible assets, including 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; and licensing contracts for computer software.
- b. Leases of biological assets, including timber, living plants, and living animals.
- c. Leases of inventory.
- d. Contracts that meet the definition of a service concession arrangements (as specified in GASB 60, paragraph 4).
- e. Leases of assets financed with outstanding conduit debt, unless both the underlying asset and the conduit debt are reported by the lessor.
- f. Supply contracts, such as power purchase agreements.

Threshold for Capitalization of Right-To-Use Lease Assets

The establishment of a right-to-use lease asset capitalization threshold policy has been recommended. The policy should be approved by the Board of Supervisors. The threshold is to

be consistently applied by all departments and offices of the County for financial reporting purposes and should overall capture most right-to-use lease contracts. All right-to-use lease assets at or about \$5,000 must be reported.

As a general rule, the threshold should be applied to individual lease contracts.

Right-to-use lease asset classifications:

The lease is required to disclose the amount of lease assets (and the related amortization) by major classes of underlying assets, separately from other capital assets. (GASB 87, paragraph 37)

At a minimum, the following major classes of underlying lease assets will be disclosed by the County.

- Right-to-use leased land.
- Right-to-use leased buildings.
- Right-to-use leased equipment.
- Right-to-use leased improvements other than buildings.

Measurement and amortization:

Measurement: A lessee should initially measure the lease asset as the sum of the following:

- a. The amount of the initial measurement of the lease right-to-use asset. (A lessee should measure the lease liability and right-to-use asset at the present value of payments expected to be made during the lease term. (GASB 87, paragraph 21)) (For the year of implementation, the lease liability and right-to-use asset should be measured as of July 1, 2021.)
- b. Lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term
- c. Initial direct costs that are ancillary charges necessary to place the lease asset into service.

Amortization: A lease asset should be amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset (except if the lessee is reasonably certain a purchase option will be exercised). The amortization of the lease asset should be reported as amortization expense. (GASB 87, paragraph 31).

At a minimum, amortization should be calculated monthly.

ADOPTED AND APPROVED THIS 30 DAY OF MARCH 2023



Jason Roudabush, Chairman

Attest: 

Melissa Eilander, Poweshiek County Auditor

