

Board Regulation DIB-R Lease Accounting

The district may enter into lease agreements when financing a right-to-use asset is more advantageous to the district than an outright purchase of that asset. Accounting and reporting for lease agreements is governed by GASB Statement No. 87, which developed a single model of lease accounting based on the principle that leases are financings of the right to use an underlying asset. GASB Statement No. 87 requires recognition of a lease liability and right-to-use asset for lessees and a lease receivable and deferred inflow of resources for a lessor.

The Finance Division will evaluate all lease agreements executed by the district to determine proper accounting and reporting for those leases. The lease contracts will be reviewed to determine if the agreement falls under the provisions of GASB 87.

Definitions

Lease - A lease is a contract that conveys control of the right to use another entity's nonfinancial asset for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment.

Lease Term – The period during which a lessee has a noncancelable right to use an underlying asset, plus the following periods, if applicable:

1. Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option.
2. Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option.
3. Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option.
4. Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option.

Short-Term Lease – A lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months or less, including any options to extend, regardless of their probability of being exercised.

Present Value – The current value of a future sum of money.

Bargain Purchase Option - a clause in a lease agreement that allows the lessee to purchase the leased asset for substantially less than its fair market value as of the termination date of the lease.

Recognition and Measurement

Lessee Accounting:

At the commencement of a recognized lease, a lessee should recognize a lease liability and an intangible right-to-use lease asset.

Lease Liability - A lessee initially should measure the lease liability at the present value of payments expected to be made during the lease term. Measurement of the lease liability should include the following, if required by a lease:

- a. Fixed payments
- b. Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the lease term
- c. Variable payments that are fixed in substance
- d. Amounts that are reasonably certain of being required to be paid by the lessee under residual value guarantees
- e. The exercise price of a purchase option if it is reasonably certain that the lessee will exercise that option
- f. Payments for penalties for terminating the lease, if the lease term reflects the lessee exercising (1) an option to terminate the lease or (2) a fiscal funding or cancellation clause
- g. Any lease incentives receivable from the lessor
- h. Any other payments that are reasonably certain of being required based on an assessment of all relevant factors.

Interest Rate - To calculate the incremental borrowing rate the district will take the risk-free rate of return as of the lease effective date (or as close to the date as possible) plus an average additional risk premium based upon three different banks and the credit rating of the district at the time of the agreement.

Lease Asset- A lessee initially should measure the lease asset as the sum of the following:

- a. The amount of the initial measurement of the lease liability
- 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.

A lease asset will be amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset, unless there is a purchase option that the district is reasonably certain to exercise. Then the leased asset will be amortized over the useful life of the underlying asset. Furthermore, in the event the district enters into a significant agreement as a lessor the district will apply relevant GASB 87 lessor accounting criteria.