

**Stephenville Independent School District**  
**District Policy: GASB Statement No. 87 – Leases**  
**Effective: 09/01/2021**

**Purpose**

GASB Statement No. 87, *Leases* (GASB 87), requires the District to report lessee and lessor lease activity in the District’s annual financial statements. Under GASB 87, the District is required to report a right to use asset and related lease liability for any lessee lease positions the District maintains. Similarly, the District is required to report a lease receivable and related deferred inflow of resources for any lessor lease positions maintained by the District. To implement this principal and establish guidelines, the following policy has been adopted.

**Policy**

It is the policy of the District that lease activity will be reported in the District’s financial statements and footnotes in accordance with the requirements outlined in GASB 87. All lease contracts new or existing entered-into by the District, both as a lessee and lessor, should be reported to the District’s finance department 30 days before lease execution/renewal.

Lease Threshold - Intangible right-to-use lease assets (a capital asset category) associated with leases of the District should be capitalized according to the following threshold: \$5,000 or greater in future lease payments through the lease term. If the District is a lessee in a leasing arrangement, the intangible right-to-use lease asset should be capitalized if greater than or equal to the threshold above. Assets with remaining lease payments below the threshold should be expensed as payments are made. This threshold should only be applied once upon entering into a lease agreement as defined by GASB Statement 87.

**Definitions**

Lease – GASB 87 defines a lease 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.

In considering the right to use another entity’s nonfinancial asset, the District must consider whether both of the following are true:

- Does the District have the right to obtain the present service capacity from use of the underlying asset as specified in the contract?
- Does the District have the right to determine the nature and manner of use of the underlying asset as specified in the contact?

Lessor – In a contract, a lessor is the legal owner of an asset who provides the lessee the right to use or occupy the asset for a specified period in an exchange or exchange-like transaction.

Lessee – In a contract, the lessee is the party who receives the right to use an asset for a specified period and makes periodic payments to the lessor based upon the contract requirements.

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Incremental Borrowing Rate – Interest rate the District would be offered should the District choose to borrow the funds required to make future lease payments for a term similar to the lease term.

**Procedures**

Effective fiscal year 2022 (09/01/2021), leases greater than 12 months in duration (Lease Term) that meet the dollar thresholds (Lease Thresholds) within this policy will require the recognition of a lease asset and lease liability when District is the lessee, or a lease receivable and deferred inflow of resources when District is the lessor.

Lease term

The lease term includes a non-cancelable term plus:

- 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
- 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
- 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
- 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 Leases

This policy does not apply to short-term leases which are defined as 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.

Interest Rates

For purposes of calculating the present value of future lease payments (lessee) or lease revenues (lessor), the District utilizes the following discount rates in order of priority:

- Interest rate as stated in the contract
- The District’s incremental borrowing rate, as determined by the Finance Department.
- It is highly recommended new lease agreements be negotiated in such a manner that an explicit interest rate is contained within the contract. This would require collaboration of the accounting, procurement and legal departments to ensure that contract terms meet financial reporting needs and include the most accurate measure of discounting for leasing arrangements (i.e., a stated interest rate) as establish per GASB 87 - Leases.

Excluded Leases

- **\$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 minimum amounts (\$1 per year) there is not an equal exchange of value given and received between the lessor and lessee. The value of the asset being leased (by the Lessee) should be of essentially equal as the lease payments received (by the Lessor).

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- **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. **For any future lease contracts and agreements, please ensure that these components are broken down in the wording of the contract for ease of GASB 87 determinations.**
- **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. (Paragraph 8a)
- **Biological Assets** - assets that are living. GASB 87 identifies timber, living plants and living animals. Other items would include vegetation/produce (crops) (Paragraph 8b)
- **Inventory**
- **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. (Paragraph 8d)
- **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. (Paragraph 8f)
- **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. (Paragraph 16) Note that short term leases are a maximum of 12 months in the term. A lease that conveys control for 3 months out of each year for 3 years would equate to a 9-month total term in the lease and be considered short term even though it extends across a 3-year period of time.

Embedded Leases

Contracts may include an embedded lease for a “right to use asset” which may or may not be explicitly identified in the contract. To the extent possible, “right to use assets” should be clearly identified in the contract. Embedded leases should be treated separately from the other contract requirements/deliverables with respect to this policy.

Common contracts with embedded leases:

- Advertising agreements
- Service agreements
- Transportation agreements
- Construction agreements
- Related party charges

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Lease Modifications & Terminations

Lease modifications and terminations will typically require a re-measuring of lease assets/liability for lessee, and lease receivable/deferred inflow of resources for lessor. If the modification results in the addition of a new right to use asset, as opposed to an addition to an existing asset, it should be treated as a new lease.

**Departments Responsibilities**

Departments must follow all District Purchasing, contract, and leases related policies before entering into a lease agreement with a vendor, including the following:

- Follow Department level controls in determining potential leases
- Complete GASB 87 Lessee and Lessor Checklist

To ensure that leases are properly reviewed under this policy, all departmental lease/rent requisitions must be done as a Purchasing and/or Ordinance origin requisition. Requisitions must be entered with an appropriate lease/rent item category and account codes. Requisitions for contracts that contain lease and non-lease components should contain separate requisitions lines for the lease and non-lease components.

Departments are responsible for notifying Legal, Purchasing & Controller's Office of the following:

- New lease arrangements.
- Lease modifications and terminations.
- Change in assumptions such as likelihood of exercising lease renewals or termination options.
- Complete annual lease survey.

Legal, Purchasing and Finance Department:

Legal will oversee lease contracts in accordance with applicable policies, rules and regulations. To the extent possible, lease agreements will be negotiated and crafted to help ensure compliance with reporting requirements in this policy. Additional documentation, such as likelihood of exercise of lease option, should be maintained as support for lease treatment.

All leases meeting the reporting requirements will be tracked with a unique lease contract number (provided by the Finance Department). For leases paid through a Requisition/PO, the lease contract number must be entered on the both the requisition and PO.

Finance Department

The Finance Department is responsible for reviewing applicable lease agreements and determining and recording appropriate accounting entries. Based on lease terms and additional information provided by departments and legal, calculations will be made to determine whether the lease meets the lease threshold. All leases will be tracked and appropriate adjustments will be made for modifications and changes in assumptions.