

SULLIVAN COUNTY'S LEASE POLICY IN ACCORDANCE WITH GASB 87

POLICY: Accounting for Lease

Effective: For Fiscal Year Ended December 31, 2022

PURPOSE: Establishes the County's policy for leases in accordance with Governmental Accounting Standards Board (GASB) Statement No. 87 concerning leases. The Statement defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Any contract meeting this definition should be accounted for under the guidance contained in this statement.

Qualifying leases:

For the purposes of this policy, the following assets are examples of qualifying leases:

- a) Office Space/Buildings/Facilities
- b) Land/Easements
- c) Equipment/Machinery
- d) Vehicles

Excluded leases:

For the purposes of this policy, the following assets are examples of non-qualifying leases:

- a) Short-term leases – less than 12 months.
- b) 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. In sublease transactions, however, this Statement does apply to the intangible right-to-use assets that are created by the original leases of tangible underlying assets.
- c) Leases of biological assets, including timber, living plants, and living animals.
- d) Leases of inventory.
- e) Contracts that meet the definition of a service concession arrangement in paragraph 4 of Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements.
- f) Leases in which the underlying asset is financed with outstanding conduit debt, unless both the underlying asset and the conduit debt are reported by the lessor.
- g) Supply contracts, such as power purchase agreements.

THRESHOLD AMOUNT: \$100,000. The County is utilizing a lease dollar value of \$100,000 for compliance with Statement No. 87. This amount is calculated using the present value of all future lease payments including all optional extensions.

COUNTY POLICY:

If the County is the "Lessee":

- a) The lease liability is measured as the present value of future lease payments under the expected term of the lease (including any expected renewals).
- b) The lease asset (an intangible asset) should initially equal the lease liability plus any payments made to the lessor at or before the commencement of the term; amortized over the shorter of the lease term and the asset's useful life.

- c) The lease liability is reduced over time as lease payments are made with a portion of the payments comprised of a current interest expense and the remainder is a reduction of the liability.
- d) The lease liability and payments will be accounted for in the Debt Service Fund.

If the County is the “Lessor”:

- a) The County recognizes a lease receivable and an offsetting deferred inflow of resources representing the future lease payments.
- b) The lease receivable is measured at the present value of lease payments expected to be received.
- c) The deferred inflow of resources will equal the value of the lease receivable plus any payment received at or before the lease term commences.
- d) The County should recognize interest revenue on the lease receivable and an inflow of resources from the deferred inflows of resources.

If a lease involves multiple underlying assets, lessees and lessors should account for each underlying asset as a separate lease contract.

Leases should be recognized and measured using the facts and circumstance that exist at the beginning of the period of implementation.

DEPARTMENTS’ RESPONSIBILITIES: The Office of Audit & Control **must be notified immediately by the contracting department** when any lease is entered into or modified by the County, whether the County is the lessor or lessee. The department shall provide the Office of Audit & Control with a copy of the lease and the legislative resolution authorizing the lease as approved by the County Legislature.

DISCLOSURES/ NOTES TO THE FINANCIAL STATEMENTS:

To comply with Statement 87, a department, in coordination with its lessor, should provide adequate information to the Office of Audit & Control in order to facilitate the disclosure of the following information in the County’s annual audited/published financial statements:

- a) A general description of its leasing arrangements, including (1) the basis, terms, and conditions on which variable payments not included in the measurement of the lease liability are determined; and (2) the existence, terms, and conditions of residual value guarantees provided by the lessee not included in the measurement of the lease liability.
- b) The total amount of lease assets, and the related accumulated amortization, disclosed separately from other capital assets.
- c) The amount of lease assets by major classes of underlying assets, disclosed separately from other capital assets.
- d) The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the lease liability.
- e) The amount of outflows of resources recognized in the reporting period for other payments, such as residual value guarantees or termination penalties, not previously included in the measurement of the lease liability.
- f) Principal and interest requirements to maturity, presented separately, for the lease liability for each of the five subsequent fiscal years and in five-year increments thereafter.
- g) Commitments under leases before the commencement of the lease term.
- h) The components of any loss associated with an impairment (the impairment loss and any related change in the lease liability, as discussed in paragraph 34 of Statement 87).