

# RICHARDSON BAY REGIONAL AGENCY

## **Lease Capitalization Policy Richardson Bay Regional Agency**

### **Purpose**

The purpose of this policy is to establish the criteria and procedures for recognizing lease assets and liabilities on the balance sheet, as required by the Governmental Accounting Standards Board (GASB) Statement No. 87, Leases.

### **Scope**

This policy applies to all lease agreements and agreements that contain lease components entered by Richardson Bay Regional Agency, both as a lessee and as a lessor.

### **Definition**

A lease is a contract, or part of a contract, that conveys the right to control the use of an identified asset (property, plant, or equipment) for a period in exchange for consideration. The lessee is the party that obtains the right to use the asset. The lessor is the party that owns the asset and makes it available for use by the lessee.

### **Policy**

Richardson Bay Regional Agency will adopt a capitalization threshold of \$20,000 for leases with a term greater than 12 months. This means that leases with an initial value of lease payments below \$20,000 and terms less than twelve months will not be recognized on the balance sheet. This threshold was determined based on the one recommendation made at the conclusion of the Richardson Bay Regional Agency Board of Directors and Management Report for the years ended June 30, 2023 and June 30, 2022.

If a lease is capitalized, Richardson Bay Regional Agency will recognize a right-of-use asset and a lease liability on the balance sheet at the commencement date of the lease. The right-of-use asset will be measured as the amount of the lease liability plus any initial direct costs incurred by Richardson Bay Regional Agency and any lease payments made to the lessor before or at the commencement date, less any lease incentives received from the lessor. The lease liability will be measured as the present value of the lease payments that are not paid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Richardson Bay Regional Agency's incremental borrowing rate.

Richardson Bay Regional Agency will amortize the right-of-use asset over the lease term on a straight-line basis unless another systematic basis is more representative of the pattern of benefit. Richardson Bay Regional Agency will also recognize associated interest expense and reduce it as corresponding payments are made.

Richardson Bay Regional Agency will present right-of-use assets and lease

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liabilities separately from other assets and liabilities on the balance sheet. Finance leases will be presented within property, plant and equipment and debt. Operating leases will be presented as separate line items. Richardson Bay Regional Agency will disclose information about its leases in the notes to the financial statements.

## **Procedure**

Richardson Bay Regional Agency will follow these steps to implement this policy:

- Identify all existing and new contracts that contain leases or potential leases.
- Evaluate whether each contract meets the definition of a lease under GASB 87 and whether it contains any embedded leases.
- Apply the criteria for capitalizing leases to each identified lease and determine whether it should be recognized on the balance sheet or not based on the capitalization threshold.
- Measure and record right-of-use assets and lease liabilities at inception and subsequent periods for capitalized leases.
- Present and disclose leases in the financial statements according to GASB 87 requirements.

This policy will be reviewed periodically for changes in facts and circumstances that may affect its appropriateness. This policy will be communicated to all relevant personnel involved in leasing transactions and accounting.