# Policy for Leases & Subscriptions
# City of Foley, Alabama

Adopted __June 2, 2025___ Resolution ________

Up.

Adopted __May 2, 2022___ Resolution __22-1135____

Rescinds Resolution 22-1135 Policy for - GASB 87.

***Sec 1. Summary***

The Governmental Accounting Standards Board (GASB) issued Standard 87, to improve accounting and financial reporting for leases by governments. This standard requires recognition of certain lease assets and liabilities for leases previously reported as operating leases; therefore establishing a single model of lease accounting based on the foundational principal that leases are financing of the right to use an underlying asset. This standard creates new asset categories referred to as Intangible Right to Use Assets, which can be Buildings, Land, Vehicles or Equipment.

Additionally, GASB Statement 96 was issued to address accounting and financial reporting for Subscription-Based Information Technology Arrangements (SBITAs). SBITAs are agreements where governments acquire the right to use a vendor's IT software, similar to leases for tangible assets. SBITAs create an intangible asset and a corresponding subscription liability that must be recognized.

***Sec 2. Capitalization Threshold for Intangible Right to Use Assets and SBITAs***

Intangible right-to-use assets associated with leases of the City and subscription-based IT arrangements (SBITAs) should be capitalized if the future lease or subscription payments remaining in the contract term are $100,000 or greater.

If the primary government is a lessee or subscriber in a leasing or subscription arrangement, the intangible asset should be capitalized if greater than or equal to the threshold above. Assets with payments below the threshold should be expensed as payments are made. This threshold should only be applied upon entering into a lease agreement as defined by GASB Statement 87 and GASB 96, respectively.

Example: The City has an equipment lease or a SBITA agreement with a term of five years. Payments per the agreement are $1,667 per month. The City would capitalize this agreement because the total payments on are greater than or equal to $100,000.

Example: The City has an equipment lease or SBITA agreement with a term of five years. Payments per the contract are $1,000 per month. The City would not capitalize this agreement because the total payments are less than $100,000. Instead, payments would be expensed for the lease term

***Sec 3. Term of Lease or Subscription***

The term is the period in which there is a noncancelable right to use the underlying asset, plus all following periods (if applicable):

- Periods covered by an option to extend the agreement if it is reasonably certain, based on all relevant factors, that the lessee/subscriber will exercise that option.
- Periods covered by a option to terminate the agreement if it is reasonably certain, based on all relevant factors, that the lessee/subscriber will not exercise that option.

A fiscal funding or cancellation clause should affect the term only when it is reasonably certain that the clause will be exercised.

Lessees, lessors, or subscriber should reassess the term only if one or more of the following occur:

- The lessee, lessor, or subscriber elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee, lessor, or subscriber would not exercise that option.
- The lessee, lessor, or subscriber elects not to exercise an option even though it was previously determined that it was reasonably certain that the lessee, lessor, or subscriber would exercise that option.
- An event specified in the contract that requires an extension or termination of the agreement takes place

***Sec 4. Short-Term Leases and Subscriptions***

A short-term lease or SBITA is an agreement that, at the commencement of the lease term, has a maximum possible term of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Short term leases will be recognized as revenues (or expenses) as they occur.

***Sec 5. Lessee and SBITA Accounting***

A Lessee or SBITA subscriber should recognize a liability and an intangibleasset at the beginning of the term, unless the agreement is a short term agreement or it transfers ownership of the underlying asset. The liability should be measured at the present value of payments expected to be made during the term (less any incentives). The lasset should be measured at the amount of the initial measurement of the liability, plus any payments made to the lessor/provider at or before the commencement of the term and certain direct costs.

The lessee or subscriber should reduce the liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee/subscriber should amortize the asset in a systematic and rational manner over the shorter of the term or the useful life of the underlying asset. The notes to the financial statement should include a description of all leasing arrangements and SBITAs , the amount of the  asset recognized, and a schedule of future payments to be made.

***Sec 6. Lessor Accounting***

A Lessor should recognize a lease receivable and a deferred inflow of resources at the beginning of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

***Sec 7. Lease and SBITA  Modifications and Subleases***

An amendment to a contract should be considered a modification, unless the subscriber/lessee's right to use the underlying asset decreases, in which case it would be a partial or full termination. A termination should be accounted for by reducing the carrying values of the liability and asset by a lessee/subscriber, or the receivable and deferred inflows of resources by the lessor, with any difference being recognized as a gain or loss. A modification that does not qualify as a separate lease/agreement should be accounted for by remeasuring the liability and adjusting the related asset by a lessee/subscriber and remeasuring the receivable and adjusting the related deferred inflows of resources by a lessor.

Subleases should be treated as transactions separate from the original lease. The original lessee that becomes the lessor in a sublease should account for the original lease and the sublease as separate transactions, as a lessee and lessor, respectively.