

LEASE MATERIALITY POLICY

1. PURPOSE

The purpose of the Lease Materiality Policy is to establish the dollar threshold at which City of Beaumont accounts for leases for external financial reporting purposes.

2. ADOPTION AND REVIEW

This policy shall be reviewed periodically for recommended revisions in order to maintain the policy in a manner that reflects the ongoing financial goals of the City of Beaumont and compliance with Generally Accepted Accounting Principles (GAAP). Finance Department management shall adopt and revise the policy as necessary.

3. POLICY

3.1. In accordance with Governmental Accounting Standard Board (GASB) Statement No. 87, *Leases*, a lease is defined 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 transactions (i.e., buildings, land, vehicles, and equipment). Any contract that meets this definition should be accounted for under the lease guidance as identified in GASB Statement No. 87. Subject to certain provisions and exceptions noted in the guidance, leases are generally reported as follows in a government's external financial statements:

3.1.1 **Lessee:** A lessee should recognize a **lease liability** and a **lease asset** at the commencement of the lease term. A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (i.e., expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

3.1.2 **Lessor:** A lessor should recognize a **lease receivable** and a **deferred inflow of resources** at the commencement of the lease term. A lessor should recognize interest revenue on the lease receivable and an inflow of resource (i.e., revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease.

3.2. Effective July 1, 2024, The City of Beaumont has established a materiality dollar threshold for determining the inclusion or exclusion of leases in the external financial statements, both as lessee and lessor. At the commencement of the lease term, City of

Beaumont will analyze the terms and provisions of the lease agreement (contract) in order to calculate the value of the underlying asset.

3.2.1 An individual lease agreement (contract) that generates a right-to-use underlying asset value calculated at greater than or equal to \$25,000 will be included in the external financial statements.

3.2.2 A lease agreement (contract) with an underlying asset value less than \$25,000 may be included in the external financial statements at the discretion of City of Beaumont Finance management should it be determined that its exclusion might otherwise cause the financial statements to be incomplete or misleading in some manner.