Mark Armijo Academy GASB 87 Lease Accounting Policy
Policy Title: Lease Accounting under GASB 87
Effective Date: July 1, 2022
Approval Date: September 5, 2024

Purpose
The purpose of this policy is to establish guidelines and procedures for identifying, classifying, and reporting lease agreements in accordance with GASB Statement No. 87, *Leases*. This policy ensures that all leases are recognized and disclosed appropriately in the Charter School's financial statements.
Scope
This policy applies to all personnel involved in the procurement, management, and accounting of lease agreements at Mark Armijo Academy (MAA).
Definitions

- **Lease**: A contract that conveys control of the right to use another entity's asset (referred to as the underlying asset) for a period in exchange for consideration (payment).
- **Lessee**: The entity that obtains the right to use the underlying asset.
- **Lessor**: The entity that provides the right to use the underlying asset.
- **Right-of-Use (ROU) Asset**: An intangible asset representing the lessee's right to use the underlying asset during the lease term.
- **Lease Liability**: A liability recognized for the lessee's obligation to make payments under the lease agreement.

Policy Statement

1. **Lease Identification and Classification**
    - **Identification**: Business Manager must identify and report lease agreements, including new contracts, renewals, and modifications for evaluation.
    - **Classification**: Leases will be classified as either short-term leases or long-term leases.
        - **Short-Term Leases**: Leases with a maximum possible term of 12 months or less, including options to extend, and no purchase options that are reasonably certain to be exercised. These leases are not capitalized and will be expensed as incurred.
        - **Long-Term Leases**: All leases exceeding 12 months, including options to extend that are reasonably certain to be exercised, will be capitalized.
2. **Initial Recognition**
    - **ROU Asset and Lease Liability**: For all long-term leases, the Charter School will recognize a Right-of-Use (ROU) Asset and a corresponding Lease Liability at the commencement of the lease.
        - **Lease Liability**: Measured at the present value of the future lease payments, including fixed payments, variable payments based on an index or rate, and any amounts expected to be paid under residual value guarantees.
        - **ROU Asset**: Initially measured as the amount of the Lease Liability, adjusted for lease payments made at or before the commencement date, lease incentives received, and initial direct costs.
3. **Subsequent Measurement**
    - **Lease Liability**: The Lease Liability will be reduced by lease payments made and increased by interest on the remaining liability. The interest expense will be recognized using the effective interest rate method.
    - **ROU Asset**: The ROU Asset will be amortized on a straight-line basis over the lease term. The amortization expense will be recognized in the statement of activities.

4. **Lease Modifications and Reassessments**
    - **Modifications**: Any changes to the lease terms or conditions that alter the scope or consideration of the lease will be reviewed by the Business Manager. The Lease Liability and ROU Asset will be remeasured accordingly.
    - **Reassessments**: The Lease Liability will be reassessed if there are changes in the lease term, the assessment of options to purchase, or changes in the amounts expected to be paid under residual value guarantees.
5. **Disclosures**
    - The Charter School will disclose key information about leasing arrangements in the notes to the financial statements, including:
        - A general description of leasing arrangements.
        - The carrying amount of ROU Assets and related Lease Liabilities.
        - The amount of lease expense recognized, including interest and amortization.
        - Information on variable lease payments, residual value guarantees, and any significant judgments related to lease terms and discount rates.

Review and Amendments
This policy will be reviewed annually by the Finance Department and updated as necessary to reflect changes in accounting standards or operational practices.