



Mendocino County

Legislation Text

File #: 23-0507, Version: 1

To: Board of Supervisors

From: Auditor-Controller Treasurer-Tax Collector

Meeting Date: May 9, 2023

Department Contact: Megan Hunter

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Item Type: Consent Agenda

Time Allocated for Item: N/A

Agenda Title:

Adoption of Resolution Establishing Capitalization Thresholds for Governmental Accounting Standards Board Statement No. 87, Leases, Governmental Accounting Standards Board Statement No. 96, Subscription Based Information Technology Arrangements, and Updating the Capitalization Threshold for Capital Projects

Recommended Action/Motion:

Adopt Resolution establishing capitalization thresholds for Governmental Accounting Standards Board Statement No. 87, Leases, Governmental Accounting Standards Board Statement No. 96, Subscription Based Information Technology Arrangements, and updating the capitalization threshold for Capital Projects; and authorize Chair to sign same.

Previous Board/Board Committee Actions:

None.

Summary of Request:

California Counties are required to follow uniform accounting and reporting procedures prescribed by the California State Controller, which procedures conform to Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board (GASB). GASB has issued Statement No. 87, Leases (GASB 87), which provides guidance for lease contracts for nonfinancial assets, including buildings, land, vehicles, and equipment; and Statement No. 96 (GASB 96), which provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments. The objective of both statements is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases and by establishing uniform accounting and reporting requirements for SBITA's. **GASB 87** establishes a single model for lease accounting based on the foundational principal that leases are a financing of the right to use an underlying asset. GASB 87 requires the County to capitalize certain lease assets and liabilities for all long-term leases, including those that previously were classified as operating leases and recognized as income by lessors and expenditures by lessees. Lessees will recognize an intangible right-to-use asset and a lease liability. Lessors will recognize a lease receivable and a deferred inflow of resources. **GASB 96** establishes that a SBITA results in a right-to-use subscription asset-an intangible asset-and a corresponding subscription liability. The subscription liability should be recognized by the government at the commencement of the subscription term when the subscription asset is placed into service; and should be measured at the present value of subscription payments expected to be made during the

subscription term. To the extent relevant, the standards for SBITA's are based on the standards established in GASB 87, *requiring the County to capitalize long-term SBITA's*.

Capital Project costs have increased substantially over the past several years. Increased labor and material costs, rising inflation and the economic environment contribute to the continued increase in capital project costs causing the County to track and capitalize low-value (immaterial) items. By this resolution, increasing the capitalization threshold from \$5,000 to \$25,000 for capital projects and setting the threshold at \$25,000 for GASB 87, Leases, and GASB 96, SBITA's, eliminates the need to track low-value items that have no material effect on the County's financial statements either individually or in the aggregate.

Alternative Action/Motion:

Do not adopt recommended action; direction to staff.

Does This Item Support the General Plan? Yes

Strategic Plan Priority Designation: An Effective County Government

Supervisory District: All

vote requirement: Majority

Supplemental Information Available Online At: N/A

Fiscal Details:

source of funding: N/A

current f/y cost: N/A

annual recurring cost: N/A

budget clarification: N/A

budgeted in current f/y: N/A

if no, please describe:

revenue agreement: N/A

Agreement/Resolution/Ordinance Approved by County Counsel: Yes

CEO Liaison: Executive Office

CEO Review: Yes

CEO Comments:

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Executed By: Atlas Pearson, Senior Deputy Clerk

Date: May 9, 2023

Final Status: Adopted

Executed Item Type: Resolution **Number:** 23-083

