

**UCEN/Oasis Charter Public School
Salinas, California**

Policy Adopted: 9/7/2023

**Section III Business
Article XXI Lease Capitalization**

The UCEN Board/Oasis Charter Public School understands its obligations to comply with all terms and conditions of this Lease Capitalization policy, effective July 1, 2022.

Leases that are not classified as short-term (duration of 12 months or less) and whose aggregate payments made equal to **\$16,000** or more will be capitalized (“Capitalization Threshold”) in compliance with ASC 842, except as noted below:

- Leases that transfer ownership and do not contain termination options
- Short-term leases (12 months or less)
- Leases of assets that are investments
- Intangible assets (mineral rights, patents, software, copyrights)
- Biological assets (timber, living plants, living animals)
- Supply contracts
- \$1 Leases or similar, not an exchange/exchange-like transaction

This policy shall be reviewed annually and adjusted as conditions warrant.

Definitions

Operating Lease: A contract that conveys control of the right to use another entity’s nonfinancial asset (underlying asset) as specified by the contract for a period of time in an exchange or exchange-like transaction.

Finance Lease: A leasing arrangement in which the lessee obtains ownership of the leased asset by the end of the lease term.

Measurement of a Finance Lease: As of the commencement date of a lease, the lessee measures the liability and the right-of-use asset associated with the lease. These measurements are derived as follows:

- **Lease Liability:** The present value of all known future lease payments.
- **Right-of-Use Asset:** The lessee’s right to use the leased asset which is amortized over the useful life of the asset.

Discount Rate/Incremental Borrowing Rate: 6.2%

Process Steps

- School determines the need to enter into a lease or is currently party to a lease agreement.
- School determines that the lease meets ASC 842 capitalization requirements.

- School creates/maintains a spreadsheet using the payment schedule specified in the contract. This will include coding to be used over the lease period.
- A copy of the spreadsheet will be maintained, along with any future revisions.
- School reviews calculations for compliance with ASC 842 requirements.

Determining Lease Term

- Under ASC 842, the lease term begins at the commencement date and is based on the noncancellable period for which a lessee has the right to use an underlying asset, which should include any rent-free periods. In addition, whether an option to extend or terminate a lease, or to purchase the underlying asset, should be reflected in the lease term depends on which party (parties) has the right to exercise option, and in some cases the likelihood that the option will be exercised. The lease term may also be affected by the existence of a fiscal funding clause within the contract.

School will re-assess the lease term if one or more of the following occurs:

- Lessee or lessor elects to exercise an option even though originally determined that the lessee or lessor would not exercise that option, or vice-versa.
- An event specified in the contract that requires an extension or termination of the lease takes place.