

RESOLUTION 2023-32

A RESOLUTION TO UPDATE THE CITY OF FRANKLIN LEASE ACCOUNTING AND REPORTING POLICY

WHEREAS, the City of Franklin desires to follow best financial and compliance practices for implementing Governmental Accounting Standards Board (GASB) Statement 87, Leases, effective beginning fiscal year 2022; and

WHEREAS, the City of Franklin desires to follow best financial and compliance practices for implementing Governmental Accounting Standards Board (GASB) Statement 96, Subscription-Based Information Technology Arrangements, effective beginning fiscal year 2023; and

WHEREAS, the City of Franklin desires to provide City-wide guidance; and

WHEREAS, the Board of Mayor and Aldermen approved the policy by Resolution 2021-96 on June 22, 2021 and updated the policy by Resolution 2022-44 on August 23, 2022; and

WHEREAS, the Board of Mayor and Aldermen believes changes or revisions to the policy hereby adopted shall be made only by resolution of the Board of Mayor and Aldermen of the City of Franklin; and

WHEREAS, the Board of Mayor and Aldermen believes it is in the best interest of the citizens of the City of Franklin to update the lease accounting and reporting policy as shown in Exhibit A.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF MAYOR AND ALDERMEN OF FRANKLIN, TENNESSEE, that the Lease Accounting and Reporting Policy shall be adopted as follows:

Section 1. Delete the current GASB Statement 96 to Section 1 (Purpose) and replace as follows (new language is highlighted):

Updated wording

1. PURPOSE

To implement new accounting and reporting requirements for government leases in accordance with Governmental Accounting Standards Board (GASB) Statement 87, Leases, effective beginning fiscal year 2022 and Statement 96, Subscription-Based Information Technology Arrangements, effective beginning fiscal year 2023. In the statements, leases are no longer classified as operating or capital leases.

Section 2. Delete the current Add technology/software as a subscription to Section 2 (Leases of Assets) and replace as follows (new language is highlighted):

Updated wording:

2. LEASES OF ASSETS

Leases are agreements between the owner of an asset (lessor) and a payor (lessee) for use of the asset over a period of time. The City may be the lessor or lessee in these agreements. This policy applies to leases of land, building, vehicles, ~~or~~ equipment, or technology/software as a subscription of \$50,000 or more, which are included in the new requirements. Leases of software and leases that transfer ownership of the asset, which are not included in the new requirements, are not included in this policy.

Section 3. Delete the current Annual Reporting of Lease and replace as follows specifying the reporting is in both fund financials and government-wide financials and update the annual report name and abbreviation in Section 8 (Annual Reporting of Leases) (new language is highlighted and deleted language is shown as strikethrough):

Updated wording:

8. ANNUAL REPORTING OF LEASES

The calculated amounts will be reported in both the fund financials and the government-wide or proprietary fund statements in the City's Comprehensive Annual Comprehensive Financial Report (CAFR) (ACFR). ~~There is no impact on the fund financials used for budgeting.~~

Section 4. BE IT FINALLY RESOLVED that this resolution shall take effect from June 27, 2023, the health, safety, and welfare of the citizens requiring it.

IT IS SO RESOLVED AND DONE on this 27th day of June, 2023.

ATTEST:

By: Eric S. Stuckey
Eric S. Stuckey
City Administrator

CITY OF FRANKLIN, TENNESSEE:

By: Dr. Ken Moore
Dr. Ken Moore
Mayor

Approved as to form:

By: Shauna R. Billingsley
Shauna R. Billingsley
City Attorney

CITY OF FRANKLIN

Lease Accounting and Reporting Policy

Exhibit A

1. PURPOSE

To implement new accounting and reporting requirements for government leases in accordance with Governmental Accounting Standards Board (GASB) Statement 87, Leases, effective beginning fiscal year 2022 and Statement 96, Subscription-Based Information Technology Arrangements, effective beginning fiscal year 2023. In the statement, leases are no longer classified as operating or capital leases.

2. LEASES OF ASSETS

Leases are agreements between the owner of an asset (lessor) and a payor (lessee) for use of the asset over a period of time. The City may be the lessor or lessee in these agreements. This policy applies to leases of land, building, vehicles, ~~or~~ equipment, and technology/software as a subscription of \$50,000 or more, which are included in the new requirements. Leases of software and leases that transfer ownership of the asset, which are not included in the new requirements, are not included in this policy.

3. LEASE PERIOD

This policy applies to lease agreements of more than 1 year.

4. LEASE AGREEMENT REQUIRED TERMS

- a. Description of lease specifying the rights to assets provided or given.
- b. Name of lessor and lessee (for City, include department name if applicable)
- c. Describe land, buildings, vehicles, or equipment asset(s) being leased, including asset identifiers (address, VIN, serial number, etc.) if applicable.
- d. Resolution and/or contract number the lease was approved.
- e. Date the lease was approved.
- f. Date a pre-lease payment is due (prior to start of lease).
- g. Pre-lease payment amount due (prior to start of lease).
- h. Lease start date (date rights to use asset occur).
- i. Initial lease end date.
- j. Extended lease end date if applicable.
- k. Frequency of lease payments.
- l. Due dates of payments (to determine if payments are paid at beginning or at end of a payment period)
- m. Portion of total payment that is for maintenance of asset in lieu of lease of asset.
- n. Payment escalator (percent, CPI, or amount increase in the lease payments during the lease term)
- o. The interest rate (discount rate) the lessor charges the lessee.

5. INTEREST RATE (DISCOUNT RATE)

If the interest rate is not stated by the lessor, the Finance Department will determine the appropriate interest rate (discount rate) based on the lessee's estimated incremental borrowing rate.

6. ACCOUNTING FOR LEASES IF LESSOR

If the City is the lessor, the Finance Department will calculate the following:

- a. Deferred Inflows. This matches the Initial Lease Asset Value (lease payments +/- pre-lease payment made) on the lessee side.
- b. Lease Receivable. This matches the Lease Liability (present value of lease payments) on the lessee side.
- c. Lease Revenue. This matches the Depreciation Expense (straight-line annual reduction of Asset Value) on the lessee side, and
- d. Interest Revenue. This matches the Interest Expense (time value of money included in each lease payment) on the lessee side.

7. ACCOUNTING FOR LEASES IF LESSEE

If the City is the lessee, the Finance Department will calculate the following:

- a. Initial Lease Asset Value (lease payments +/- pre-lease payment made)
- b. Lease Liability (present value of lease payments)
- c. Depreciation Expense (straight-line annual reduction of Asset Value), and
- d. Interest Expense (time value of money included in each lease payment)

8. ANNUAL REPORTING OF LEASES

The calculated amounts will be reported in both the fund financials and the government-wide or proprietary fund statements in the City's Comprehensive Annual Comprehensive Financial Report (CAFR) (ACFR). ~~There is no impact on the fund financials used for budgeting.~~

9. PERIODIC REPORTING OF LEASES

Finance will periodically submit reports of outstanding leases to the City Administrator as well as to the Budget & Finance Committee of the Board of Mayor and Aldermen.

10. ADDITIONAL LEASE TERMS

The City may include additional terms in a lease agreement not listed above.