

GASB 87 - *Leases*

Introduction

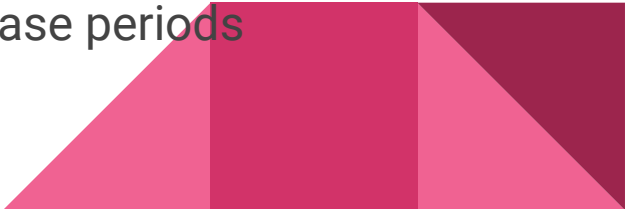
GASB 87 - Leases (a simple hi-level view)



- Lease classification changes - no more “Operating” or “Capital”
 - New terminology - **Lease**
- Leases are now classified under a single approach concept:
 - leases are financings for the **right to use an asset**.
- What GASB 87 leases are most like -
 - Operating leases, where you lease an asset for a specific amount of time (more than 1 year), but you do not own the asset at the end of the lease.
 - They EXCLUDE:
 - Inventory
 - Intangible assets (i.e. computer software)
 - Biological assets (living animals, plants, timber)
 - Service contracts (except those that include a hardware component)
 - Supply contracts, such as power purchase agreements
 - Interagency leases

GASB 87 leases - more to it

It can be difficult to determine what qualifies as a GASB 87 lease, more factors to consider:

- The right of control
 - The right to determine the nature and manner of using the asset
 - Some leases that might not otherwise qualify as a GASB 87 lease could have an embedded lease that does qualify
 - Some contracts not defined as a lease, may actually meet the definition of the lease.
 - The lease term and cancelable and non cancelable lease periods
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Most common nonfinancial assets that are leased are:

- Land
- Buildings (i.e. office space)
- Vehicles
- Equipment

Keep in mind, the standard applies to both lessee and lessor.



Accounting

- GASB 87 leases **will now require us to report** in AFIS:
 - For lessee: a Lease **asset** (Land, Buildings, Equipment) and a corresponding lease **liability**. Then, after lease payments are made, the liability is reduced, interest expense is recorded, and the Lease asset will be amortized.
 - For lessor: a Lease **receivable** and a corresponding **deferred inflow** is recorded, which then after receiving lease payments, the receivable is reduced and interest income is recorded. The Deferred inflow is also reduced and lease revenue is recorded.



Date to begin reporting GASB 87 leases

We will be reporting within the CAFR, GASB 87 leases for CAFR 2022. This means, that all GASB 87 leases above a certain threshold (to be determined later) will need to be on AFIS (within the new reconfigured lease module) by **July 1, 2021**.



How does this impact the State?


- Agencies will need to understand GASB 87, analyze their current contracts, and determine applicability.
- Going forward- new leases will need to be analyzed.
- Current contracts need to be monitored for any lease modification throughout the life of the contract
 - Agencies may need to modify their business process to effectively monitor their contracts
- The population of existing GASB 87 leases will need to be gathered in order to determine the threshold for reporting.

We need your help!

GASB 87 Lease Survey Results

In June 2020, a 'Hi-level' lease survey was sent to all agencies asking for the count, type, and amount of all of their outstanding leases as of 6-30-20 that qualify under GASB 87 .

RESULTS:

- 53 out of 102 agencies responded
 - Total count of leases = 3,204
 - Total dollar amount of leases = \$305 million
 - Agencies reporting total leases >\$100k = 17
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What we need from you...

- Read and understand GASB 87. We are currently working on developing this information and will have resources available on the GAO website.
- For those agencies that have leases totaling \$100,000 or more, we will be sending out an email requesting a breakdown of your GASB 87 leases as of 6/30/20 (i.e. Lease #1 for 100,000, Lease #2 for 150,000, and lease terms). **This information will be used to help us determine the lease threshold.**
- For those agencies who did not respond, we will be sending a separate email requesting a breakdown of your GASB 87 leases.

It is imperative that **you understand GASB 87** so that we can report leases properly as this will be a **key focus for the auditors**. By not accurately determining leases, could cause errors and potential findings and significant errors could lead to a modified audit opinion.

Wrapping - up

There's much more to this standard, but at least you have a brief introduction of what is changing with leases.

GASB 87 resources and information will be provided soon within the GAO website. We will keep you updated.

THANKS to all of YOU for helping with this BIG CHANGE!

