Lease Accounting Decision Tree for Lessees - DRAFT

For assets leased from a non-state agency.

Is the lease for an asset excluded from the scope of GASB 87? (see scope guide)

YES
Record an expense as payments are made

NO
Will the state own the asset at the end of the lease term?

YES
Follow requirements for Lease Purchase Agreements (See SAAM 2545)

NO
Does the lessee have control¹ of the right to use the asset?

YES
Is the maximum lease term² greater than 12 months?

NO
Record an expense as payments are made.

YES
Does the lease have any fixed or in-substance lease payments?

NO
Record an expense as payments are made.

YES
Are the lease payments significantly lower than the "market rate"?

NO
Record an expense as payments are made.

YES
Do total lease payments exceed the capitalization threshold of $500,000?

NO
Record an expense as payments are made.

YES
Follow accounting requirements for leases under SAAM (TBD).

NO
Record an expense as payments are made.

¹ A contract conveys control of the right to use the asset when the lessee is provided both
1. The right to determine the nature and manner of use of the asset, and
2. The right to obtain service level capacity from use of the asset

² Period a lessee has a non-cancelable right to use the asset, plus a lessee or lessor’s option to:
- Extend the lease if it is reasonably certain the option will be exercised or
- Terminate the lease if it reasonably certain that the option will not be exercised.
Is the lease for an asset excluded from the scope of GASB 87? (see scope guide)

YES
Record as revenue as payments are received

NO
Does the lessee have control\(^1\) of the right to use the asset?

YES
Is the maximum lease term\(^2\) greater than 12 months?

NO
Record as revenue as payments are received.

YES
Does the lease have any fixed or fixed in-substance lease payments?

NO
Record as revenue as payments are received.

YES
Are the lease payments significantly lower than the "market rate"?  

NO
Record as revenue as payments are received.

YES
Do total lease payments exceed the capitalization threshold of $500,000?

NO
Record as revenue as payments are received.

YES
Follow accounting requirements for leases under SAAM (TBD).

NO
Record as revenue as payments are received.

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\(^1\) A contract conveys control of the right to use the asset when the lessee is provided both
1. The right to determine the nature and manner of use of the asset, and
2. The right to obtain service level capacity from use of the asset

\(^2\) Period a lessee has a non-cancelable right to use the asset, plus a lessee or lessor’s option to:
- Extend the lease if it is reasonably certain the option will be exercised or
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