



## GASB Statement No. 87 - Leases

### What is GASB and why does it affect UGA reporting:

GASB is the acronym for Governmental Accounting Standards Board. This organization is an independent, private-sector organization that establishes authoritative accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles (GAAP).

[Follow the link for more information about GASB.](#)

### Why is the reporting for Leases changing?

Currently, there are two separate types of leases. "Capital Leases" are those leases that meet certain criteria as set forth in FASB Statement No. 13. These leases are recorded on the financial statements as an asset (for the underlying item being leased) and a lease liability (for the remaining future lease payments). "Operating Leases" are all leases that don't meet the criteria of FASB 13. These leases do not report any debt for future outflows of resources that may be required. Instead, the payments for these leases are recorded as expenditure in the year paid and no asset is recorded for the underlying item being leased.

The concern that GASB had with the current presentation is the financial statements do not reflect the debt outstanding on these leases and this could result in incorrect assumptions being made by the users of the financial statements related to cash solvency of the governmental entity.

### What does GASB 87 change?

GASB Statement No. 87 establishes a single reporting model for lease accounting to enhance the relevance and consistency of information about governments' leasing activity. GASB 87 changes the definition of a lease to eliminate the "capital" and "operating" differences. All leases meeting GASB 87 criteria require Lessees to recognize a lease liability and intangible right-to-use lease asset and Lessors to recognize a lease receivable and a deferred inflow of resources.



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### What is the new definition of a Lease?

GASB 87 states, "A lease is defined as a contract that **conveys control** of the **right to use** another entity's **nonfinancial asset (the underlying asset)** as specified in the contract for a **period of time** in an **exchange or exchange-like transaction**. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement. "

**"conveys control"** - requires both a right to obtain present service capacity from the use of the underlying asset and the right to determine the nature and manner of use of the asset.

**"right to use"** - contract to use the asset is not limited to 100% access to the asset. A right-to-use lease also includes use for portions of time, such as certain days each week or hours each day.

**"nonfinancial asset"** - examples include: land, buildings, vehicles and equipment.

Common leases at UGA include: land, buildings, building/office space, copiers, vehicles, lab equipment, medical equipment, stamp machines, water coolers, cell towers, storage units.

**"period of time"** - the lease term is the period of time that the lessee has a noncancelable right to use the asset plus any periods that the lessee or lessor have the sole option to extend the lease and it is reasonably certain that the option will be exercised.

Lease Term includes:

^ **Noncancelable** period during which the lessee has right to use the underlying asset.

^ Any periods in which either the lessee or lessor have the sole option to extend the lease, if **reasonably certain** the option will be exercised by that party.

^ Any periods in which either the lessee or lessor have the sole option to terminate the lease, if **reasonably certain** the option will not be exercised by that party.

Lease Term excludes:

^ **Cancelable** periods - Periods for which either the lessee or lessor have an option to terminate the lease **without permission** from the other party (OR if **both parties have to agree** to extend).

**"exchange or exchange-like transaction"** - both parties to the contract/lease receive or give up essentially equal value or not quite equal value.



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### **Implementing GASB 87**

Currently, UGA Departments have been asked to take a complete inventory of all lease agreements to identify and report all known lease activity for nonfinancial assets that are not excluded by GASB 87. Departments have been asked to identify UGA as both Lessee and Lessor in these agreements.

Beginning December 1, 2020, UGA will begin adding those leases that meet GASB 87 criteria into the Asset Management module. Lease liability will be determined using system generated amortization schedules.

Beginning January 1, 2021, all leases (new and renewals) meeting GASB 87 criteria will be required to be analyzed and tracked within UGA FMS (financial management system). This tracking will begin as purchase requests are submitted through UGAMart, in the Asset Management model and in the General Ledger.

All Departments requesting to lease an in-scope GASB 87 asset will be asked to complete a GASB 87 Decision Analysis document for each lease agreement. This documentation will be used as support in determining how the lease will be recorded on the financial statements and serve as audit documentation.

### **GASB 87 Exclusions - What types of leased items are not included?**

**\$1 Leases** - GASB 87 Paragraph 4 states that this standard only applies to exchange or exchange-like transactions. When leases are entered into for de minimus amounts (\$1 per year) there is not an equal exchange of value given and received between the lessor and lessee.

The value of the asset being leased (by the Lessee) should be of essentially equal or not quite equal value as the lease payments received (by the Lessor).

**Service Contracts** - Contracts for maintenance services or other types of "services" are not included. If a contract/lease agreement includes both a leased asset component and a service component AND the two components cannot easily be separated in the lease payment, then the service portion would have to be included because there would be no way to separate the two components.

**For any future lease contracts and agreements, please ensure that these components are broken down in the wording of the contract for ease of GASB 87 determinations.**



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**Intangible Assets** - assets that lack physical substance. GASB 87 provides examples that include: rights to explore for or to exploit natural resources such as oil, gas, and minerals and similar nonregenerative resources; licensing contracts for items such as motion picture films, video recordings, plays, manuscripts, patents, and copyrights; licensing contracts for computer software. Other examples are franchises, goodwill, trademarks and trade names. (Paragraph 8a)

**Biological Assets** - assets that are living. GASB 87 identifies timber, living plants and living animals. Other items would include vegetation/produce (crops) (Paragraph 8b)

**Inventory** - Not common at a University. More common in a manufacturing setting. (Paragraph 8c)

**Service Concession Arrangements** - Excluded because these are covered by GASB 60. Arrangements between a transferor (government) and an operator (governmental or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure in exchange for significant consideration and the operator collects and is compensated by fees from third parties. (Paragraph 8d)

Examples include the University Bookstore and certain food vendor arrangements through Auxiliary Services.

**Supply Contracts** - an agreement where the seller promises to supply all of the specified goods or services that a buyer needs over a certain time and at a fixed price and the buyer agrees to purchase such goods or services exclusively from the seller during that time.

These contracts are generally for consumable supplies and materials that are consumed in the use of the item. (Paragraph 8f)

**Short-Term Leases** - Leases that will only last for 12 months or less. The contract for these leases do not include any options to renew that extend past the 12 months. (Paragraph 16)

Note that short term leases are a *maximum* of 12 months in the term. A lease that conveys control for 3 months out of each year for 3 years would equate to a 9 month total term in the lease and be considered short term even though it extends across a 3 year period of time.



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**What should be considered when determining if a Lease meets GASB 87 criterion. NOTE: This section walks you through the GASB 87 Questionnaire that is REQUIRED to be submitted with Purchase Requests for leased items.**

**Step #1** - Determine if the leased item is excluded or not. See "GASB 87 Exclusions" section above. If the lease is excluded, then you will identify

**Step #2** - Determine the length of the period that the item will be leased. (Paragraph 12) While the initial purchase request will only extend for 1 year, you will also need to know the period of time during which UGA (Lessee) has a **noncancelable** right to use the underlying asset. GASB 87 identifies the following periods of time should be included in this time period:

- a. Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option.
- b. Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option. (Not exercising an option to terminate just means that the lease will keep going)
- c. Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option.
- d. Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option. (Not exercising an option to terminate just means that the lease will keep going)

It is UGA's policy that it is reasonably certain that renewal options will be exercised for all renewal periods allowed in the contract.

What is the difference between "cancelable" and "noncancelable" rights?

**Cancelable right** - Periods in a contract where both the lessee and the lessor have an option to terminate the lease without permission from the other party (or if both parties have to agree to extend). Cancelable periods are excluded from GASB 87 in calculating lease terms.

Generally state-wide contracts are not written with cancelable rights. Once signed the contract term is set and the lessee/lessor cannot terminate the lease at any time. Both parties would have to wait until the next renewal option to terminate or notify of intent to terminate.

An example of a cancelable right would be an extension, during a holdover period until a new lease is signed, that allows for the lease to continue from month to month. The lease "extension" months would not be included in the lease period calculation.

**Noncancelable right** - the lease term over which the lessee will be legally obliged to make lease payments, taking into the account the options to extend or terminate that are reasonably certain to be exercised.



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**Step #3** - Materiality test to determine if leased liability is significant and should be accounted for under GASB 87 criteria. The lease liability is the present value of payments expected to be made during the lease term. (Paragraph 21)

The State Accounting Office (SAO) has indicated that leased assets, that are clearly not material to the financial statements, will not be included for GASB 87 reporting purposes. This "cost vs. benefit" analysis requires a comparison to a standard measurement. The Board of Regents has indicated that all colleges/universities will use the Asset Capitalization Policy to determine if an asset will be identified for GASB 87.

How to determine the Present Value of Future Minimum Payments

The Present Value of Future Minimum Lease Payments is an economic and financial term to identify what a set of payments in the future would equal today.

The easiest way to explain this is to think about purchasing a car. When you purchase a car, you will either pay cash or get approved for credit (loan). When you get approved to buy the car on credit that payment amount is calculated based on the cash price + interest. You have to pay interest because of inflation and the concept of the time value of money. "A dollar today is worth more than a dollar tomorrow". Generally, the car dealer wants to receive the cash price of the car at the date of the sale. In order to ensure that this occurs, the amounts of the car loan future payments will have interest applied increase the future funds that you pay to equal the cash price that you would have paid on the date you drove off of the car dealership with your new car!

Example of a simple car loan:  
Auto Price: \$30,000  
Term: 60 months  
Interest Rate: 4.5%  
The Amortization Schedule, by year, would look like this:

Annual Amortization Schedule

Annual Schedule		Monthly Schedule		
	Beginning Balance	Interest	Principal	Ending Balance
1	\$30,000.00	\$1,238.01	\$5,473.47	\$24,526.54
2	\$24,526.54	\$986.57	\$5,724.91	\$18,801.63
3	\$18,801.63	\$723.56	\$5,987.92	\$12,813.71
4	\$12,813.71	\$448.48	\$6,263.00	\$6,550.72
5	\$6,550.72	\$160.78	\$6,550.70	\$0.00



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Cash Price = Principal	\$	30,000.00
Interest	\$	3,557.40
Future Lease Payments	\$	33,557.40

So it will take \$33,557.40 in future payments to equal \$30,000 at the time of purchase.

The calculation to determine the Present Value of Future Minimum Lease Payments in this example would be:

\$29,999.97	Present Value	<b>Formula "<math>=PV(.045/12,60,-559.29,0,0)</math>"</b>
4.50%	rate	Yearly
60	nper	months
-559.29	pmt	Monthly
0	fv	
0	type	

***CASH PRICE DETERMINATION - In looking at the above calculation, it is easy to see that the present value of the car loan payments equals the cash price that would have been paid at the date of the sale!***

As you are looking at vendor information when completing the purchase request, the vendors generally won't tell you that they are charging you interest at a certain percentage rate. The easiest way to complete the GASB 87 Questionnaire will be to see what the "CASH" price of the item that you want to lease is before you initiate the purchase request for the lease. If possible, take a screen shot of the cash price quoted or print the page and scan it into the purchase request document.

**Step #4** - Determine if there is an exchange of equal or not quite equal value. Exchange transactions occur when both parties receive and/or give up assets of equal or not quite equal value. Leasing a \$5,000 copier where the payments equal or are not quite equal to \$5,000 constitutes an exchange transaction. Leasing land for \$1/\$10/\$100 per year when the land could be rented on the open market for \$12,000 per year is not equal value and would be considered a nonexchange transaction. Nonexchange transactions are excluded from GASB 87.



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**Step #5** - Determine if UGA will own the asset at the end of the lease term. If title will transfer to UGA, then this is a financed purchase not a lease. Financed purchases will be accounted for separately from leased assets and require a separately identifiable expense account code. See the Chart of Accounts and the GASB 87 Questionnaire for more guidance.

Note that certain leases allow for an option to purchase at the end of the lease. A determination will need to be made at the beginning of the lease whether or not it is probable that this option to buy will be exercised. If it will, the lease should be considered a "financed purchase". If not, the lease should be considered as falling under GASB 87 "leased assets" considerations.

**Step #6** - Determine if UGA will have the right to control the asset.

The "right to control" requires **both** of the following:

(1) the right to obtain the present service capacity from use of the underlying asset (the best way to describe this is to ask, "Do you currently have access to use the item?", if the answer is "YES", then you are presently using/benefiting from the item's service capacity.)

(2) the right to determine the nature and manner of use of the underlying asset (Do you have the right to control how the asset is used? Does the vendor (Lessor) place limitations on what you can do with the leased asset while in your use?) If the answer is "NO", then you have the right to determine the nature and manner of use.

The right to use the leased asset doesn't always mean that you have 100% right to use 24/7. You could lease equipment to use a certain portion of the day, each day of the year, for several years. Or you could lease land to be used certain days. The question to ask is, "While you are using the asset, do you have the right to control the use and limit its use by others?". If the answer to these questions is "YES", then you have the right to control the asset during the timeframe that you are leasing.