General:

Government Accounting Standards Board issued GASB Statement No. 87 *Leases* in June 2017 and is effective for fiscal year 2022.

Currently (pre GASB 87), there are two types of leases, capital leases and operating leases. Capital leases are leases that meet the criteria as set in FASB Statement No. 13. Capital leases are recorded on the financial statements as an asset and a lease liability. Operating leases are all leases that do not meet the criteria of capital lease and lease payments are recorded as expenses or revenue as they are paid or received.

GASB 87 eliminates the definition of capital lease and operating lease, all leases meeting GASB 87 criteria requires the lessees to recognize a lease liability and an intangible right-to-use lease asset and the lessor to recognize a lease receivable and a deferred inflow of resources.

GASB 87 defines *a lease is defined as a contract that conveys control of the right to use another entity's nonfinancial assets (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 GASB 87 lease guidance, unless specifically excluded in this Statement.

Leases excluded from GASB 87:

- Leases of intangible assets, such as computer software
- Leases of biological assets, including timber, living plants and living animals
- Leases of inventory
- Contracts that meet the definition of service concession arrangement in GASB Statement No. 60, *Accounting for Financial Reporting for Service Concession Agreements*
- Leases in which the underlying asset is financed with outstanding conduit debt
- Supply contracts, such as power purchase agreements
A. Definitions

_Conveys Control_ – required both a right to obtain present service capacity from the use of the underlying assets 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 includes use for portions of time, such as certain days each weekend.

_Nonfinancial asset_ – examples include land, building, vehicles and equipment.

_Period of time_ – the lease term is the period of time that the lessee has a noncancellable 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:
  i) Noncancellable period during which the lessee has the right to use the underlying asset.
  ii) 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.
  iii) Any period 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:
  i) Cancelable periods, periods for which either the lessee or lessor have the sole option to terminate the lease without permission from the other party.

_Exchange or exchange-like transaction_ – both parties to the contract/lease receive or give up essentially equal value or not quite equal value.

B. Accounting for leases under GASB 87:

Lessee Accounting:

All contracts meet the following criteria shall be reported as lessee:

1. Contract conveys the right to use another entity’s nonfinancial assets (land, building, equipment) to the University
2. For a period of time (one year or greater)
3. In an exchange or exchange like transaction

The University shall record the value of the leased assets at the present value of future lease payments as an intangible lease asset and lease liability, and recognize the interest and amortization expense over the period of the lease term.

**Lessor Accounting**

All contracts that meet the following criteria shall be reported as a lessor:

1. Contract conveys the right to use the University’s nonfinancial assets (land, building, equipment) from the University
2. For a period of time (one year or greater)
3. In an exchange or exchange like transaction

The University shall record the value of the leased assets at the present value of future lease payments as a lease receivable and deferred inflow of resources, and recognize the interest income and lease revenue over the period of lease term.

**Identifying Interest Rate**

The future lease payments should be discounted using the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease. If the interest rate cannot be readily determined by the lessee, the lessee's estimated incremental borrowing rate (an estimate of the interest rate that would be charged for borrowing the lease payment amounts during the lease term) should be used. The Chief Finance Officer determined the preferable rate to use is the rate the lessor charges the lessee, which may be the implicit rate, because the transaction is made at that rate.
Short Term Leases

Short term leases: leases with a lease term of 12 months or less including all options to extend regardless of intent. Lease revenue or expense are recognized when payments are received or made.