



Governmental Accounting Standards Board (GASB) 87 – Lease Accounting Q&A

1. How does GASB 87 change the current “operating lease” versus “capital lease” designation criteria? Currently, a lease is determined to be capital if it has any of the following characteristics:

- Ownership of asset is shifted to the lessee before the end of the lease period
- The lessee can purchase the assets for less than fair market value (“bargain purchase option”)
- Lease period is at least 75% of the asset’s useful life
- Present Value of the lease payments is at least 90% of the fair value of the asset at the beginning of the lease

ANSWER: Any lease or rental where the period of payment is greater than 12 months will be capitalized (with some exceptions-see below). The above four criteria no longer apply.

2. What exactly comprises the 12-month period? How do I calculate my lease term?

ANSWER: To see if your lease or rental exceeds 12-months, simply add the time period of payments and any extension or renewal options available. If these exceed 12-months, the lease or rental is subject to the new requirements.

- Add the initial/noncancelable lease period
- Add optional extension period if the lease is reasonably certain to exercise
- Add period after optional renewal period that lessee will seek to use asset.

NOTE: The lease term excludes periods in which both the lessee and the lessor have options to terminate regardless of probability.

NOTE: Fiscal funding/cancellation clauses ignored unless reasonably certain of being exercised.

3. Who does this impact?

ANSWER: All state and local governments; there will be no exemptions.

4. Is it possible that my agency can be exempted from the requirements of GASB 87?

ANSWER: The reporting requirements set forth by the GASB apply to all governmental entities; no exceptions. There are however, certain exclusions for unique lease situations (see below).

5. Are there any exclusions for GASB 87?

ANSWER: Yes, the following unique situations are excluded from GASB 87:

- Leases between agencies within the primary government. Please confirm with the CG office if this falls in this category.
- Leases of intangible or biological assets

- Inventory
- Supply contracts
- Service concession agreements.

6. Will capital leases still exist?

ANSWER: No, “capital lease” and “operating lease” terminology will no longer exist under GASB 87. Going forward there will be three types of leases:

- Short-term leases-rentals or leases whose maximum possible term (including extension and renewal periods) is 12 months or less. GASB 87 does not apply.
- Contracts that transfer ownership- the lease agreement transfers ownership of asset by the end of the contract. GASB 87 does not apply.
- All other leases-lease liability and lease asset are recognized. GASB 87 applies.

7. Will operating leases or long-term rentals in existence prior to July 1, 2021 be impacted by GASB 87?

ANSWER: Yes, all operating leases and long-term rentals in existence prior to July 1, 2021 will be impacted by GASB 87 and must be:

- Determine what type of the three leases (referenced above) applies to the respective asset. Please note, if there are 12 months or less remaining a 7/1/2021, the asset would not be affected by GASB 87.
- If GASB 87 applies, document the terms of the lease/rental agreement as of July 1, 2021.
- If not already provided, establish amortization schedule with proper interest rate assignment (see below).
- Payments will be split between principal, interest, and executory cost (if applicable).
- Asset will be created and uploaded to SCEIS via SCEIS upload template (see below).
A liability, representing all future payments, will be reported on the Agency reporting package as of 6/30/2022.

8. What’s an embedded lease?

ANSWER: An embedded lease is a lease agreement that exists within a contract and can occur within service, construction, advertising, and transportation agreements.

For example, a dumpster lease with two lines: container rent and trash removal. The container rental is considered an embedded lease and is subject to GASB 87. Trash removal remains a service expense.

Another example-a copier lease with two lines: a base number of copies, and cost per copy above the base copy. The base number of copies is considered an embedded lease and is subject to GASB 87. The cost per copy above the base remains a contingent rental.

9. Is there a minimum dollar threshold for capitalization of assets?

ANSWER: There is no minimum dollar threshold for capitalization of assets related to leased assets subject to GASB 87.

10. Will SCEIS create the assets for my existing leases as of 7/1/2021?

ANSWER: Yes, SCEIS is working on an upload template. You can start gathering the required information now. Template will be provided later.

11. My lease/rental is determined to be affected by GASB 87, how will I know what interest rate to use in the amortization schedule?

ANSWER: The applicable interest rate used is determined first by the rate specified in the contract (explicit rate). If no rate is specified, then the type of asset will determine the interest rate (implicit rate).

- **Explicit Rate-** If an interest rate is specified in the contract, use this. This is the preferable interest rate.
- **Implicit Rate-** If no interest rate is specified in the contract, an interest rate will be determined by type of Asset:
 1. Machinery, Equipment where no interest rate is specified, follow the rate as determined in the statewide contract with Presidio Technology Capital, LLC. (link-[Interest Rates as specified in contract with Presidio Technology Capital, LLC](#). The “Bank prime loan” rate can be located on the Federal Reserve website (link-[Federal Reserve Prime Rate](#)).
 2. Real Estate related leases/rentals where no interest rate is specified, follow the mortgage rate at time of commencement. Updated rates can be found at: [IRS implicit rates for real estate](#)

Applicable Federal Rates (AFR) for December 2020

	Annual	Period for Compounding		
		Semiannual	Quarterly	Monthly
<u>Short-term</u>				
AFR	0.15%	0.15%	0.15%	0.15%
110% AFR	0.17%	0.17%	0.17%	0.17%
120% AFR	0.18%	0.18%	0.18%	0.18%
130% AFR	0.20%	0.20%	0.20%	0.20%
<u>Mid-term</u>				
AFR	0.48%	0.48%	0.48%	0.48%
110% AFR	0.53%	0.53%	0.53%	0.53%
120% AFR	0.58%	0.58%	0.58%	0.58%
130% AFR	0.62%	0.62%	0.62%	0.62%
150% AFR	0.72%	0.72%	0.72%	0.72%
175% AFR	0.84%	0.84%	0.84%	0.84%
<u>Long-term</u>				
AFR	1.31%	1.31%	1.31%	1.31%
110% AFR	1.45%	1.44%	1.44%	1.44%
120% AFR	1.58%	1.57%	1.57%	1.56%
130% AFR	1.71%	1.70%	1.70%	1.69%

Note 1-Use the rate in effect at the commencement of the Lease

Note 2-Select the interest rate based on the repayment cycle

Note 3- Select the appropriate lease term.

Short term- term not over 3 years

Mid-term-term between 3 and 9 years

Long-term-term over 9 years

Note 4-**Do not** use these rates provided in screenshot above!! Use the rates updated per this link:

[IRS implicit rates for real estate](#)

12. I don't know how to do an amortization schedule. What should I do?

ANSWER: An amortization calculator can be found at the following link:

GASB 87 Lease Calculator - [Click here](#)

A completed sample of the above lease calculator will be provided on the Comptroller General's website.

13. What is an implicit rate?

ANSWER: The market rate of interest that a lessee would have to pay for the lease/rental agreement under similar circumstances.

14. Will the leased asset in SCEIS be automatically retired when the lease ends?

ANSWER: No, the leased asset will not be automatically retired in SCEIS when the lease ends. Agencies must go through the asset retirement process.

15. Currently, assets are assigned to the shopping cart before the Purchase Orders (PO) are created. Will this process remain the same?

ANSWER: No, the asset will no longer be tied to the shopping cart or the PO. Only the lease payments are made against the PO.

16. I currently code my office space leases to G/L 5040060000 – OPERATING LEASE-RENT-NON-STATE-OWNED REAL PROPERTY. How will my agency be able to report on certain lease expenses if everything will be coded to Principle & Interest going forward?

ANSWER: To help reporting, more detailed principal and interest expenditure accounts will be created. Further communication to follow.

17. Do I have to attach a copy of the amortization schedule to each Accounts Payable (A/P) invoice?

ANSWER: An amortization schedule must be attached to a leased asset invoice for approval by CG A/P auditors.

18. Will I have any activity in 504* operating lease G/L once GASB 87 is implemented?

ANSWER: Yes, activity in G/L 504*-Operating Lease will include short term rentals, leases between other state agencies, etc.

19. Why is GASB making everyone do this?

ANSWER: GASB 87 holds that a lease is simply the financing of the right to use an asset. This requirement establishes a single reporting model for lease accounting and allows for greater transparency of future contractual debt associated with rentals and leases.

20. Does it make a difference if my agency will never own the equipment we are leasing (for example- there is no bargain purchase option in our existing lease with Pollock)?

ANSWER: No, it makes no difference if the equipment is to be owned or returned by the lessee in determining the asset's capitalization status. However, the lessee's intent to own the asset will determine the asset class.

21. Will this impact the FY2022 PO's I will begin creating in May 2021? May I roll forward my current leases' PO's?

ANSWER:

- Yes, this will impact FY2022 PO's created prior to FY2022. Currently, PO's are recorded on one expense line. Under GASB 97, this will be split between up to three lines: Principal, Interest, and Executory Costs (if applicable).
- No, you will not be able to roll forward POs from FY21 to FY22.

22. How will I know if my agency has completed all the necessary steps?

ANSWER: A checklist will be provided to ensure all necessary steps have been taken.

23. What areas in my agency will be involved this new process?

ANSWER: GASB 87 will have broad impact across your agency and will require everyone from shopping cart creators, procurement, accounts payable, asset custodians, all the way to the agency head/director be well-trained on the changes to capitalizable assets.

24. What kind of training will be made available?

ANSWER: Stay tuned...

25. I'm overwhelmed. Where do I begin?

ANSWER: Do not stress, we have a great plan for a smooth implementation. You can start today by contacting Kelly with the CG's office at kghent@cg.sc.gov or the CAFR inbox at CAFR@cg.sc.gov to get started with identifying leases and gathering required lease details.

Helpful Links

GASB Statement No. 87, Lease - [Click here](#)

Implementation Guide No. 2019-3, Leases - [Click here](#)

CLA GASB 87 Lease Calculator - [Click here](#)

[GASB 87-How does it affect your organization?](#)

[GASB 87 Checklist](#)