

### **GASB 87 Background**

GASB 87 was implemented in FY22 and changes the method of recording leased assets. Prior to GASB87, leases were either classified as Operating Leases or Capital Leases. Capital leases had their assets and liabilities recorded to the balance sheet, where operating leases did not. With GASB 87, these assets are now either determined to be a Right-of-Use (ROU) Lease or a Financed Purchase. The terms Operating and Capital Leases are no longer being used.

### **GASB 87 Determination**

Substance over form should be used when determining whether something is considered to be a lease or not. This means that just because something says it is a lease, does not mean it actually is a lease per accounting standards. Likewise, just because the agreement does *not* state it is a lease does not mean it is not a lease. These are called embedded leases.

The following questions should help guide you on whether or not an agreement is a right-of-use lease, a financed purchase, or something else.

- 1) Is the asset a tangible asset, such as land, building, or equipment?
  - a. Yes – Move to question #2
  - b. No – Stop. The item is not related to GASB 87, but might be related to GASB 96 if it is a software subscription. See GASB 96 determination section.
- 2) Does someone besides NDSU own the tangible asset during the terms of the agreement?
  - a. Yes – Move to question #3
  - b. No – Stop. Expense the asset if \$5,000 or less. Capitalize if greater than \$5,000.
- 3) Does NDSU control the right to use the underlying asset during the terms of the agreement?
  - a. Yes – Move to question #4
  - b. No – Stop. Not a lease. Expense payments as they become due.
- 4) Does the length of the agreement contain noncancelable periods greater than 12 months, including any options within the agreement to extend the lease that are reasonably certain to be exercised? (**Note** - the ability to renew a lease at the end of its term is different than an option included in the original agreement to extend with already set prices.)
  - a. Yes – Move to question #5
  - b. No – Stop. This is considered a short-term lease if ownership does not transfer to NDSU at the end of the agreement. Expense payments as they become due. Do not capitalize the intangible asset nor record a related lease payable liability. Cancelable periods are excluded from determining the lease term, including month-to-month agreements.
- 5) Does ownership transfer to NDSU at the end of the agreement, not including bargain purchase options?
  - a. Yes – Stop. This is a considered a financed purchase. Asset management is used to record asset at full purchase price (total of all payments to be made) if greater than \$5,000. Expense if under \$5,000.
  - b. No – This is considered a right-to-use (ROU) lease. Continue to question #6.
- 6) Are total scheduled payments equal to or greater than \$25,000?
  - a. Yes – Materiality threshold is met. Capitalized asset in lease admin.
  - b. No – Immaterial; expense payments as they are made using rental expense accounts.

### **GASB 87 Department Procedures**

- 1) Use the questions in the GASB 87 Determination section above to determine if GASB 87 applies.
  - a. Reach out to the Accounting Office if unsure how to answer any questions.
- 2) If GASB 87 applies, notify the Accounting Office of any new agreements that should be tracked within the Lease Administration module or setup in Asset Management.
  - a. Supply the Accounting Office with a copy of a signed agreement and the most recent invoice (if available).
- 3) When a payment becomes due the Accounting Service Center or department, as applicable, can enter in the AP voucher into PeopleSoft. Attach both the invoice and signed agreement to the AP voucher in PeopleSoft.
  - a. Do not break out the interest from the total payments being made. Instead code the entire principal and interest amount to the same GL (see GL Accounts Reference section for details)
    - i. Prior to GASB 87, these payments would often have principal and interest broken out on the AP voucher. Now that these assets are being capitalized, the lease administration module will calculate the interest and principal.
- 4) Notify the Accounting Office about any changes in existing agreements as soon as they are known, such as changes to terms or exercising options to extend.

### **GASB 87 GL Account Reference**

The below GL accounts are used for GASB 87 with explanations of each. For additional information, the GL accounts that should be used when GASB 87 does *not* apply are also listed.

#### AP Vouchers – ROU Leases

The following GLs should be used when entering AP vouchers for an asset that is an ROU lease per GASB 87. The *fixed* payment amount per the lease schedule should be coded here. Do not break out the interest portion from the total.

581030 – Equipment Lease Principal

582050 – Building Lease Principal

582055 – Land Lease Principal

Use the following GL for AP vouchers when there are any *variable* payments made related to the GASB 87 ROU lease. This is the same account regardless if it is for equipment, building, or land.

581020 – Variable Pmnts-GASB 87 Leases

The following GLs should be used when entering any short-term leases or leases that will not be capitalized due to immateriality.

581015 – Equipment Rental

582030 – Building Rental

582035 – Land Rental

Use a prepaid expense account if making payments that are not due until the next fiscal year. For example, a lease has scheduled payments due on 07/01/23, but you make the payment on 06/30/23. You would want to code that payment to prepaid expense in FY23 and reclass to the proper expense GL in FY24 (581030, 582050, or 582055).

142002 – Prepaid Expense

No longer use the prepaid expense account for annual payments that cover 2 difference fiscal years. Instead, expense using the proper expense GL in the fiscal year the payment is due per the lease agreement. For example, a lease has a scheduled payment due on 01/01/2024 that is for the calendar year 2024. Instead of splitting half to expense in FY24 and the other half to prepaid until being expensed in FY25, code the entire payment to the proper expense GL in FY24 (581030, 582050, or 582055). The LA now will recognize the expense for the related asset when depreciation is calculated on a monthly basis.

#### AP Vouchers – Financed Purchases

The following GLs should be used when entering AP vouchers for financed purchases per GASB 87. The *fixed* payment amount per the lease schedule should be coded here. Do not break out the interest portion from the total. Choose the account based on the asset type. This is the same process as purchasing capitalized assets, with the exception of financed purchases having multiple payments instead of only one.

682xxx – Land and Buildings

691xxx – Major Equipment Over \$5,000

693xxx – IT Equipment Over \$5,000

Like ROU leases, the following GLs should be used for AP vouchers for any *variable* payments made related to GASB 87 financed purchases. Select the GL based on the type of asset (equip, building, land).

581015 – Equipment Rental

582030 – Building Rental

## 582035 – Land Rental

### Lease Administration Module – ROU Leases

The following GLs are used by the Lease Administration module. Assets are added by the Accounting Office into the module which then generates journal entries based on that information entered. Details of each account is provided below in order to show the full picture on how GASB 87 assets are recorded. Lease admin is only used for ROU leases and SBITAs (GASB 96 assets). Financed purchases use the Asset Management module. These entries are posted to the Fullaccrue ledger, whereas AP vouchers are posted to the Actuals ledger.

The module records ROU leases at the present value of all scheduled payments. Future payments consist of any *fixed* determinable payments and do not include *variable* payments that may not exist from one payment to another. ROU leases are considered intangible assets and thus are recorded using the intangible assets account.

#### 151177 – Intangible Assets

The following accounts are used to record the liability remaining on any ROU leases. The initial liability is equal to the intangible asset value recorded to 151177 (above). System generated journal entries are then created to reduce this liability balance based on the payment schedule entered into the lease admin module. Manual journal entries will be needed each year-end to reclass the balance from Noncurrent to Current. Lease agreements with components units (CU) use specific GL accounts, but are handled in a similar manner.

#### 232102 – Leases Payable NonCurrent

#### 232002 – Leases Payable Current

#### 232103 – Lease Payable to CU - NonCurrent

#### 232003 – Lease Payable to CU - Current

When the system generated journal entries mentioned above are created to reduce the liability balance (with a debit), the other lines of that journal entry include a debit to lease interest and a credit to lease principal. The total credit to lease principal should be equal to the fixed payment amount recorded on the related AP voucher in the Actuals ledger. On the financial statements these accounts should net together to \$0.00 when combining the Fullaccrue and actuals ledger. The account selected will be based on the asset type.

#### 581030 – Equipment Lease Principal

#### 581025 – Equipment Lease – Interest

#### 582050 – Building Lease Principal

#### 582040 – Building Lease – Interest

#### 582055 – Land Lease Principal

582045 – Land Lease – Interest

At the end of each fiscal year depreciation/amortization is ran for all assets. Any assets that are classified as ROU leases will be amortized and recorded to the two amortization accounts below.

702010 – Intangible Amortization Expense

152177 – Intangibles – Accumulated Amortization

Asset Management – Financed Purchases

The following GLs are used by the Asset Management module. Assets are added by the Accounting Office. The module then generates journal entries based on the information entered into the module. Detail of each account are provided below in order to show the full picture on how GASB 87 assets are recorded. Financed Purchases use Asset Management as opposed to the Lease Administration module (used only for ROU leases and SBITAs). These entries are posted to the Fullaccrue ledger as opposed to the Actuals ledger where AP vouchers are posted.

Asset management will record Financed Purchases at the purchase price. This will be the sum of all fixed and determinable payments. Variable payments should not be included in the total and be expensed as incurred using the rental expense accounts. The GL that is used will depend on the asset type.

151002 – Land

151052 – Buildings

151102 – Equipment

When the system generates the journal entries to record the asset at its purchase price, the offset (credit) side of this entry is to one of the capital asset additions account depending on the asset type. The credit to these accounts should offset what was paid by the AP voucher and posted to the Actuals ledger. However, since the full amount is being capitalized and payments are being made across multiple fiscal years, they will not offset initially. Therefore, the difference is reclassified to Notes Payable through a manual journal entry.

681005 – Building/Leasehold Impr Additions

681020 – Infrastructure/Land Impr Additions

681030 – Land Additions

681040 – Machinery/Equipment Additions

These accounts are used to record the liability remaining on any financed purchases. A manual journal entry will be needed to reclass from 681xxx to notes payable. The amount will need to

be allocated between current and noncurrent portions as well as distinguishing any agreements between component units (CU).

231102 – Notes Payable NonCurrent

231002 – Notes Payable Current

231103 – Notes Payable to CU NonCurrent

231003 – Notes Payable to CU Current

### Examples

#### Building ROU Lease w/ Option to Extend

A department enters into an agreement with a supplier. The terms of agreement allow the department to use space in a building from 07/01/2023 to 06/30/26 with the option to extend until 06/30/29. After the end of the term the building will remain with the supplier. In return the supplier will receive annual payments from the department in the amount of \$5,000 for years 1-3, and \$5,500 in years 4-6 if the department elects to extend the agreement. The supplier will also prorate snow removal charges to the department based on services provided from the 3<sup>rd</sup> party. The department is reasonably certain that they will exercise the option to extend. Therefore, the total fixed payments that are expected to be made total to \$31,500.

Because total fixed payments exceed \$25,000, the agreement is over 12 months, and the department will not own the asset at the end of the term, the asset will be classified as a Right-of-Use Lease.

#### AP Voucher Entries

Year 1-3: 582050 - Building Lease Principal -\$5,000

Year 4-6: 582050 - Building Lease Principal - \$5,500

Monthly snow removal – 582030 – Building Rental - variable amounts

#### Lease Administration Module Journals

- 1) Intangible asset and liability recorded at present value of future payments

151177 – Intangible Assets	\$27,000
232102 – Leases Payable NonCurrent	(\$27,000)

- 2) Year-end journal to reduce liability and record interest expense

232102 – Leases Payable NonCurrent	\$4,800
582040 – Building Lease Interest	\$200
582050 – Building Lease Principal	(\$5,000)

- 3) Year-end journal to amortize intangible asset over life of asset (6 years)

Last update: 04/24/2024

702010 – Intangible Amortization Expense	\$5,250
152177 – Intangibles – Accumulated Amortization	(\$5,250)
4) Year-end journal to reclass noncurrent/current portion of liability	
232102 – Leases Payable NonCurrent	\$4,750
232002 – Leases Payable Current	(\$4,750)

### **Lease Renewal**

A department enters into an agreement with a supplier. The terms of agreement allow the department to use space in a building from 07/01/2023 to 06/30/24 (12 months). At the end of the term the department agrees to renew the agreement for another 12 months at the same price of \$30,000. Because the original agreement through 06/30/24 did not contain the option to extend for another 12 months at \$30,000, each agreement is treated as a separate short-term lease.

Because the total length of each agreement was 12 months or less, each agreement will be expensed as the invoices are paid.

#### AP Voucher Entries

1<sup>st</sup> agreement: 07/01/2023 – 582030 – Building Rental - \$30,000

Renewed agreement: 07/01/2024 – 582030 – Building Rental - \$30,000

#### Lease Administration Module Journals

None