

Volume No. 1—Policies and Procedures	TOPIC NO	31220 – Cardinal
Section No. 31200—Lease Accounting	TOPIC	LAS Reporting
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Overview

Introduction

This topic provides guidance in the proper accounting and reporting for all lease agreement transactions.

Individual users will enter all lease information for all new or “renewal” leases directly into the online Lease Accounting System (LAS). (See CAPP Topic No. 70605, *LAS Input Documents*: these are no longer required but may be helpful in completing lease documentation for the online data entry.)

The web-enabled Lease Accounting System (LAS) provides online reports for all financial reporting and disclosure requirements promulgated by the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB).

Proper accounting for lease agreements is important because of the numerous required GAAP basis financial statements disclosures for leases. Bond rating firms review this information and determine the Commonwealth's borrowing rate. The Commonwealth currently enjoys a AAA bond rating which saves millions of dollars in interest payments each year. Also, knowledge of lease payment obligations provides improved control over outstanding lease-related liabilities of each agency.

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Policy

Authoritative Guidelines All agencies and institutions must follow guidelines as required by **GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.***

Required Lease Transactions for LAS Agencies input all required lease transactions directly into the online Lease Accounting System (LAS). This applies to all new or renewed leases. Any leases meeting the following must be entered into LAS.

The lease agreement contains:

- an initial non-cancelable term of one year or more, and
- total lease payments that are greater than or equal to \$5,000 over the entire lease term, or
- the Fair Market Value of the leased asset is \$5,000 or more.

If the first condition and either of the last two conditions are met, the lease must be recorded in LAS.

Real Property Leases: Special requirements also exist for real estate type leases for Executive Branch agencies where the Department of General Services - Division of Real Estate Services administers the lease payments on the agencies' behalf. See the **Real Property Leases** subsection later in this CAPP topic for specific requirements.

What Is Not Required To Be Submitted Lease agreements for

- a lease term of less than one year,
- or total lease payments of less than \$5,000,
- or the fair market value is less than \$5,000.

are not required to be included in LAS. However, these leases **may** be entered into LAS for control purposes.

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Policy, Continued

Real Estate Leases

Real Estate Leases should be approved by the Division of Real Estate Services (DRES) of Department of General Services, in accordance with its policies and procedures.

Leases where DRES facilitates the actual payment between the outside vendor and the state agency need to be reported to DOA only by DRES. Therefore, agencies are not required to enter any real property type leases into LAS where DRES facilitates the actual lease payment to the outside vendor. Agencies should notify DOA whenever an existing lease already entered into LAS is now being administered by DRES so that DOA can determine the appropriate actions necessary to avoid “double counting” the lease in the CAFR. Contact DOA with any questions regarding specific leases.

Judicial Branch agencies are required to enter into LAS all leases that meet the reporting requirements previously delineated in this CAPP topic as DRES does not report these leases to DOA. Furthermore, any agency/institution that does not have an internal lease accounting system (except for DRES reported leases) must enter all leases into LAS.

Assets associated with capital or operating leases should not be recorded in FAACS.

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Procedures

Accounting for Leases

RECORDING AND DISCLOSURE OF LEASED ASSETS

LAS provides a tool for agencies to classify and record lease information properly. From the lessee’s standpoint, lease payments associated with operating leases are recorded as current period expenses. There is no long-term debt associated with an operating lease and the leased asset under an operating lease is not recorded as an asset on the Statement of Net Position at year end.

Capital leases, on the other hand, are recorded as long term debt on the financial statements. The payments (except for executory costs; certain portions that are made for taxes, utilities, maintenance, insurance, etc.) are recorded as retirement of debt and interest expense, and the asset is recorded on the balance sheet as an asset at year end. Relevant conditions for recording the lease as an operating lease or capital lease, as well as the method of disclosure in financial statements, are covered below.

Leases are classified as either operating or capital based on the results of the four tests outlined in the **GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements***. (See CAPP – Cardinal Topic No. 31215, *LAS Transactions*). The following procedures apply for entering lease information into LAS.

Complete the lease information input screen and payment stream screen in the online Lease Accounting System (LAS). (See CAPP Topic No. 70605, *LAS Input Documents*, which are no longer required but may be helpful in entering the lease information in the online system.) The system will determine the lease classification based upon the information entered in each screen using the following 4 tests:

- A. Does title pass?
- B. Is there a Bargain Purchase Option?
- C. Is the lease term equal to or greater than 75% of the remaining estimated useful economic life?
- D. Is the present value of the payment stream using the incremental borrowing rate, equal to or greater than 90% of the fair market value? The system will automatically calculate the present value after the lease information and the payment stream information is completed.

If the leased asset is in the last 25% of its economic life then tests C & D are ignored.

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Agencies should input the lease and payment stream information based upon terms set forth in the actual lease agreement in a timely manner. Payments should be entered for the entire life of the lease not just the current fiscal year. Agencies have 30 days from the inception of the lease (first lease payment) to input the lease information into the web-enabled LAS except at year end when all leases with payments beginning during the month of June must be entered on or before the LAS fiscal year-end close date. Any changes to the lease for error correction purposes also need to be made before fiscal year end. Please contact DOA when correcting original lease input for a prior fiscal year.

Required lease data includes the beginning payment date, the beginning or ending of period payments selection, estimated and remaining economic life, fair market value, salvage value, unguaranteed (or guaranteed) residual value and the payment stream. The payment stream is comprised of the number of payments, the frequency of payments, the payment amount (used to calculate the 90% net present value test) and the amount of executory costs. For example, a lease might have 24 payments with one month between payments. In this case, the lease will run for two years.

The lease automatically terminates when the payment stream has run its course from the beginning payment date. Expired leases will not roll into the new fiscal year. If the lease is renewed, the agency should update this information in LAS. Remember, lease renewals are treated like a brand new lease in that the fair market value, economic useful life, etc. must be updated.

Expenditure and revenue activity for all leases must be processed through Cardinal as either rental expense or rental revenue, respectively.

LAS automatically provides for all appropriate accounting information, including classification of the lease as operating or capital for lessee leases. Contact DOA for guidance if your agency has “lessor” leases.

Types of Reports

The online LAS provides a number of online reports for both Operating and Capital leases. These can be accessed directly using the specific menu button for each report or the “Reporting Menu button and then selecting the specific report from the listing. (See CAPP Topic No. 70610, *LAS Reports*, for details on the various online reports available.)

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Procedures, Continued

DOA Support DOA provides telephone assistance when needed. DOA also provides online LAS training. This training is required for anyone wishing to have “update” access to LAS. Contact the Assistant Director, Financial Reporting, for LAS questions or training requirements.

Preparation of Financial Statements Using LAS Reports To prepare financial statements, agencies with lessee leases should use the following procedures:

Operating Leases

No balance sheet accounts are presented as neither the asset nor obligation is recognized. The Statement of Revenues, Expenditures and Changes in Fund Balance (governmental fund types) or Statement of Revenues, Expenses, and changes in Fund Net Position (proprietary fund types) present program expenditures that include rental expenditures. These amounts should be included in expenditure figures charged through Cardinal and summarized functionally in Cardinal expenditure reports.

The online reports available in LAS provide all the relevant financial information necessary to prepare the appropriate financial information and footnotes for Operating leases.

Capital Leases

For governmental fund types, capital lease assets and obligations are shown in the corresponding asset and liability schedules and footnotes. For non-governmental fund types, presentation will be in the relevant fund.

The online reports available in LAS provide all the relevant financial information necessary to prepare the appropriate financial information and footnotes for Capital leases.

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Procedures, Continued

For most agencies, presentation will be in the Statement of Net Position, Debt Schedules and required footnotes.

The depreciable capital assets line item on the Statement of Net Position is used to record fixed assets shown net of accumulated depreciation. The leased property column for the current fiscal year from the online report as broken down by category, gives the proper amount for presentation. See CAPP Topic No. 70610, *LAS Reports*, for the Balance Sheet Report for the net leased asset information.

Proprietary Fund Types leased asset and accumulated depreciation amounts should be presented. Presentation of Higher Education Fund depreciation is determined by the institution.

Obligations, current and non-current lease obligations, as of the current fiscal year end are presented in the Debt Schedules.

A **footnote disclosure** must be made for future lease payments for capital and operating leases.

The online reports available in LAS provide all the relevant financial information necessary to prepare the appropriate financial information and footnotes for capital and operating leases.

Agency/institutions preparing agency based financial statements should contact the Department of Accounts for assistance with the online LAS reports as needed.

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Internal Control

General

Each agency and institution should implement cost beneficial internal control procedures to ensure that:

- All leases are properly classified and included in LAS.
 - All rental expense and income transactions are posted in Cardinal.
 - Rent expense is reviewed and reconciled for proper disclosure.
 - Familiarity with the GASB statements is maintained and compliance with the Comptroller’s Directive Compliance Guidelines is achieved.
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Records Retention

General

Records should be maintained for a period of at least three years or longer, if necessary, to be in compliance with policies established by the Records Management Section, The Library of Virginia. The retention period generally starts at the close of the fiscal period.

For pending, ongoing or unresolved litigation, audits or claims, retain documentation until completion, resolution or negotiation of settlements and retain according to standard schedules. Provide for the periodic destruction of records not subject to permanent deposit in accordance with policies and procedures established by the Records Management Section, Virginia State Library and Archives.

DOA Contact

Contact

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Subject Cross References

References

CAPP - Cardinal Topic No. 31215, *LAS Transactions*

CAPP Topic No. 70605, *LAS Input Documents*

CAPP Topic No. 70610, *LAS Reports*
