




Volume No. 1—Policies and Procedures	TOPIC NO	31205-LAS 87
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Overview

Introduction

The purpose of the Lease Accounting System (LAS) is to ensure that all leased asset data is properly recorded and retained, and that all lease activity is fully and appropriately disclosed in the Comprehensive Annual Financial Report (CAFR) and agency financial statements in accordance with generally accepted accounting principles (GAAP). GAAP regarding leases for governmental entities is set forth in **GASB Statement No. 87, Leases** (GASB 87).

GASB 87 will become effective for all new leases beginning with fiscal year 2022. Existing leases recorded in the current LAS as of July 1, 2021, will be re-evaluated in LAS 87 to determine the appropriate accounting treatment under GASB 87. While the Lease Accounting CAPP topics will provide selected information of interest, LAS users should review the specific requirement of the statement at www.gasb.org.

To ensure all leases are negotiated in the best interest of the Commonwealth, it is important to understand the terms of leases being considered and to make informed decisions regarding the economic value of entering the lease. Agencies must comply with both accounting and economic analysis standards set forth in the remainder of CAPP Section No. 31200—Lease Accounting.


LAS 87

The Department of Accounts (DOA) developed a new Lease Accounting System (LAS 87) to meet the GASB requirements for recording, classifying and disclosing lease activity. Currently, LAS 87 works only for Lessee type leases. Specific requirements are detailed in the remaining CAPP Topics included in Section No. 31200—Lease Accounting.

LAS 87 is the web-enabled, real time system available for statewide use. Users access LAS 87 via the internet using a user id and password. LAS 87 enables users to input and retrieve lease information and reports directly from within the system.

Individual users will be required to enter all new or renewed leases directly into LAS 87 once the system opens for fiscal year 2022. The existing LAS will effectively be retired following the fiscal year 2021 year-end close.

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Exceptions to GASBS 87 Leases

This Statement does not apply to:

- Leases of intangible assets, including rights to explore for or to exploit natural resources such as oil, gas, and minerals and similar non-regenerative resources; licensing contracts for items such as motion picture films, video recordings, plays, manuscripts, patents, and copyrights; and licensing contracts for computer software.

In sublease transactions, however, this Statement does apply to the intangible right-to-use assets that are created by the original leases of tangible underlying assets.


- Leases of biological assets, including timber, living plants, and living animals.
- Leases of inventory.
- Contracts that meet the definition of a service concession arrangement in paragraph 4 of Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*.
- Leases in which the underlying asset is financed with outstanding conduit debt, unless both the underlying asset and the conduit debt are reported by the lessor.
- Supply contracts, such as power purchase agreements.

Definitions

Introduction

The purpose of this subsection is to provide basic definitions of the key terms used throughout CAPP Section 31200—Lease Accounting. **GASB 87** provides complete definitions for common lease terms shown on the following pages. **Please note that the lease classifications have changed: operating and capital leases terminology is no longer applicable.**

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Ancillary Charges	Ancillary charges are costs incurred to place the lease asset into service such as legal and administrative structuring fees. They do not include any debt issuance costs. Most leases do not have ancillary charges as the vendor usually delivers the leased asset to the lessee without any additional costs. If applicable to the lease, ancillary charges are used in the calculation of the lease asset.
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Beginning Lease Date	This is the date the lease contract commitment begins. This is usually the date that the lessee receives the underlying lease asset. LAS 87 requires users to input the beginning payment date (the date that the first payment is made) to properly calculate the lease's financial information.
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Cardinal	The official financial system of record for the Commonwealth.
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Comprehensive Annual Financial Report (CAFR) Threshold	For statewide reporting, DOA has established a reporting threshold of \$50,000 for short-term leases. Therefore, by default, any lease that has a lease asset value of less than \$50,000 will be classified as a short-term lease in LAS 87. The lease asset value is used in these computations as this amount will always be equal to, or greater than, the present value of the lease payment stream.
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Contracts with Multiple Components and Contract Combinations

Contracts that contain both a lease component (such as the right to use a building) and a non-lease component (such as maintenance services for the same building) should be accounted for separately. Generally, a government should account for the lease and non-lease component of a lease as separate contracts. In LAS 87, the non-lease components may be entered into the system as executory cost payments.

When evaluating these contracts, it is important to consider whether it is practicable to separate the individual components. If it is practicable, they should be considered as separate contracts. If it is not practicable, the primary lease component should be determined using professional judgment. A variety of factors should be considered, including but not limited to, the component's fair value in relation to the other components within the contract; the lease term of the various components to identify the longer term; and the component's benefit to the agency is substantial compared to other components.

End of Lease Term


The date that the underlying asset contained in a lease contract is returned to the lessor or acquired by the lessee. This date is determined using the periods included in the lease term calculation. This date may be based on the original lease terms or occur because of an early termination of the lease contract.

Estimated Asset Value

The estimated value of the underlying lease asset. The estimated value of the leased asset may be determined in a number of ways:

1. per the amount specified in the lease contract
2. through inquires of the lessor
3. comparing the underlying lease asset to a similar purchased asset
4. contacting the local tax assessor, or
5. multiplying the square feet of rental space by the estimated cost per square foot for similar assets

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Executory Costs Costs such as insurance, maintenance or other non-lease components that are included in the total periodic lease payment amount but are not actually for "leasing" or renting the underlying lease asset.

These costs may be estimated by the lessee or obtained from the lessor.


Fair Rental The expected rental amount incurred for equivalent property under similar terms and conditions. Similar leased assets should have similar lease payment amounts for a given lease term.

Financed Purchase A contract that transfers ownership of the underlying asset to the lessee at the end of the lease contract. A financed purchase is not disclosed as a lease in the financial statements.

Guaranteed Residual Value Payment An additional payment made to the lessor by the lessee at the end of the lease term. This amount is in addition to the regular lease payments and is included in the calculation of the lease liability. Contact DOA if your agency plans to enter into a lease contract containing a guaranteed residual value payment.

Incremental Borrowing Rate The rate that, at the beginning of the lease term or renewal date of the lease, the lessee would have incurred if the lessee borrowed, over a similar term, the funds necessary to purchase the leased asset. For the Commonwealth, the published Prime Interest Rate at the beginning of the lease term is used as the **default** rate to calculate the lease liability. **Users should overwrite the default rate in LAS 87 with the actual rate charged by the lessor whenever the lessor's rate is available.**

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Initial Direct Costs Those costs incurred by the lessor that are directly associated with negotiating and consummating completed leasing transactions. Those costs include, but are not necessarily limited to, commissions, debt issuance costs, legal fees, costs of credit investigations, and costs of preparing and processing documents for new leases acquired. In addition, that portion of a salespersons' compensation, other than commissions, and the compensation of other activities described above for leases that are not consummated shall not be included in initial direct costs. No portion of supervisory and administrative expenses or other indirect expenses, such as rent and facilities costs, shall be included in initial direct costs.

LAS 87 The online Lease Accounting System designed to meet the lease reporting requirements and disclosures under **GASB 87**.

Lease A contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) for a period of time as specified in the contract in an exchange or exchange-like transaction. Control is either 1) the right to obtain the present service capacity by using the underlying asset or 2) determining how the underlying asset will be used.

A contract may qualify as a lease even if it does not explicitly state that it is a lease. An example of this situation would be a service contract that includes a lease component. In these situations, the agency should consider the reporting requirement of contracts with multiple components.

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Lease Asset The intangible right-to-use the underlying leased asset. The leased asset amount is calculated using the present value of the lease payments plus 1) other amounts such as ancillary charges incurred to place the underlying lease asset into service or 2) payments made to the lessor by the lessee prior to the commencement of the lease term excluding lease incentives received from the lessor at, or prior to, the lease commencement. At the commencement of the lease term, a lessee should recognize both an intangible right-to-use lease asset and a lease liability. Generally, the lease asset is amortized over the shorter of the asset useful life or lease term. If title passes or there is a purchase option that is reasonably certain to be exercised, the lease asset is amortized over the life of the asset.

Lease Liability A lessee should measure the lease liability at the present value of payments expected to be made during the lease term. At the beginning of the lease term, the lease asset and the lease liability are the same amount unless there are ancillary charges or other payments made to the lessor prior to the commencement of the lease term. In these instances, the lease asset will be higher than the lease liability.

In subsequent financial reporting periods, the lessee should calculate the amortization of the discount on the lease liability and report that amount as an outflow of resources (for example, interest expense) for the period. Any payments made should be allocated first to the accrued interest liability and then to the lease liability.

Lease Payments These are payments that are expected to be made to the lessor based on the terms of the lease. These include fixed and variable payments as well as payments associated with various options and guaranteed residual values.

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Lease Term The lease term is the period during which a lessee has a noncancelable right-to-use an underlying asset (referred to as the noncancelable period), plus any periods covered by a lessee’s or lessor’s option to extend or terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee or lessor will exercise that option(s).

Periods for which 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) are cancelable periods and are excluded from the lease term.

Lessee The party using the underlying lease asset.

Lessor The party granting the right-to-use the underlying lease asset to another party.

Long-term Lease For CAFR reporting purposes, a long-term lease has a contract term greater than 12 months and a calculated lease asset value of \$50,000 or more. Long-term leases are required to be reported in the financial statements and footnotes of the governmental entity under **GASB 87**.


Minimum Lease Payments The total lease payments that the lessee is obligated to make (including executory costs) in a noncancelable lease term including any 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(s).

For LAS 87 users, there are two separate data input fields for the minimum payment and executory costs amounts.

Noncancelable Lease Term The period in which the lease is not cancelable by either the lessee or lessor.

Payments Made Prior to the Commencement of the Lease Term Any payments paid by the lessee to the lessor (less any lease incentives) prior to the commencement of the lease term. These payments are included in the calculation of the lease asset amount.

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Present Value The present value is the equivalent value of a series of future payments, discounted back to the present date at a specific rate of interest.


Purchase Option The option to purchase the lease asset at the end of the lease term. If the purchase option is reasonably certain to be exercised then the “purchase option” amount is added to the last payment in the payment stream and used in the present value calculation of the lease liability.

Reasonably Certain to be Exercised **GASB 87** uses the phrase reasonably certain to be exercised numerous times throughout its discussion of leases. However, the term is actually never defined within the statement. The statement provides that, at the commencement of the lease term, the Lessee and the Lessor shall assess all factors relevant to the likelihood that the Lessee or Lessor will exercise lease extensions or termination options.

Relevant factors include significant economic incentives and disincentives, such as the cost of exercising the renewal option and the expected condition and maintenance requirements for the underlying asset during the extension period. For [CAFR](#) purposes, the user should also review what has typically transpired in the past for similar types of lease contracts when making a determination of what will likely occur in the current scenario.

Remeasurement If there are changes to the lease terms, discount rate or the likelihood that another factor used in the original valuation, including but not limited to, residual value guarantee and various options, a remeasurement is required.

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Short-term Lease

A short-term lease is a lease that, at the commencement of the lease term, has a **maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of the probability of being exercised.** Short-term leases are typically used for relatively low dollar amount leased assets.


For lease terms that exceed 12 months, the CAFR threshold for reporting purposes, is defined as less than \$50,000. A lessee should recognize short-term lease payments as outflows of resources (for example, expense) based on the payment provisions of the lease contract.

Sublease

A sublease involves three parties: the original lessor, the original lessee (who also is the lessor in the sublease), and the new lessee. The original lessor should continue to apply the general lessor guidance. The government that is the original lessee and becomes the lessor in the sublease should account for the original lease and the sublease as two separate transactions, as a lessee and a lessor, respectively. Those two separate transactions should not be offset against one another. The new lessee should apply the general lessee guidance.

Transfer of Ownership

The transfer of title (ownership) for the property that passes from the lessor to the lessee.

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Procedures

Accounting For and Controlling Leased Assets

To ensure consistency and accuracy in accounting for and controlling leased assets, follow these guidelines:


Step	Action
1	Assign a person and a backup to be the agency's LAS 87 representative, giving them specific organizational responsibility for lease recording and accounting within the agency. <i>DOA will establish LAS 87 access only to persons who have completed the online LAS 87 training and passed the LAS 87 Certification Test. View only access may be obtained for users who demonstrate a business need.</i>
2	Ensure that all lease documentation is filed either electronically or physically in an organized manner. Further, ensure that all leases are appropriately recorded in a manner to ensure inclusion in the CAFR. This could be LAS 87 or another reporting tool selected by the agency.
3	Number and control all leases in a consistent manner. Maintain a log with appropriate lease reference information including the Lease Number/Description, etc. permitting the agency and its auditors to quickly locate lease contacts in either the electronic or physical storage locations.
4	File copies of the LAS 87 reports with the corresponding original lease documentation (lease contract, etc.) to provide an audit trail for all leases recorded in the system.

Procurement Requirements

Computer equipment leases must comply with all the guidelines issued by the Virginia Information Technologies Agency. Real property leases such as land and buildings must comply with guidelines issued by the Department of General Services (DGS) and should be approved by the Bureau of Real Estate Services at DGS. Most real estate leases will be administered by DGS and individual agencies will not have to record leases that DGS administers on their behalf in LAS 87.

Users must record all lease information and payment stream data in the Lease Accounting System (LAS 87) within 30 days from the beginning of the lease term but not later than the “end of the fiscal year” closing date for LAS 87.



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LAS 87 Online Training DOA has an online version of LAS 87 training available in the Learning Center. Anyone completing the online LAS 87 training and passing the LAS 87 Certification Test will be eligible to obtain an “update” user id and password to LAS 87. **Since the requirements for lease reporting under GASBS 87 are significantly different than the old lease standards, all users having access to the current LAS or any new users must take the online training and pass the online test to be granted update access to LAS 87.**

DOA Contact

Contact Financial Reporting Project Lead
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 las@doa.virginia.gov

Subject Cross References

References CAPP Topic No. 31210-LAS 87, *Economic Analysis*
 CAPP Topic No. 70605-LAS 87, *Input Documents*
