



COMMONWEALTH of VIRGINIA

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TO: Agency Fiscal Officers & CAPP Manual Users

FROM: Amanda Simpson, Director, Compliance Oversight and Federal Reporting,
Department of Accounts

SUBJECT: Commonwealth Accounting Policies and Procedures (CAPP) Manual—
Update No. 171 / LAS 87 Topics (see list below)

**Eight Topics
Revised**

Eight topics are included in this update and a summary of changes is included below.

31205 LAS 87– Introduction
31210 LAS 87 – Economic Analysis
31215 LAS 87 – Transactions
31220 LAS 87 – Reporting
70605 LAS 87 – Data Entry
70610 LAS 87 – Reports
70615 LAS 87 – Security
70620 LAS 87 – Logging On and Off

**Status
Summary
Sheet**

An updated *Status Summary Sheet* is shown on our web site and displays the following for each *CAPP Manual* topic:

- Number and Title
- Page Length
- Latest Revision Date

https://www.doa.virginia.gov/reference/CAPP/Status_Summary.pdf

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Background

As previously communicated to Fiscal Officers and other accounting/reporting personnel, the Governmental Accounting and Reporting Standards Board Statement No. 87, *Leases* (GASB 87), dramatically modifies accounting and reporting requirements for leases and is effective July 1, 2020 (fiscal year 2021). Given the significant lease reporting modifications, users responsible for lease reporting should read all LAS 87 CAPP topics. Additionally, since these CAPP topics supplement rather than replace GASB 87, users should obtain and read both GASB 87 and the related Implementation Guide 2019-3, *Leases*. Both documents are available for download at www.gasb.org.

Summary of Selected Key Points

To facilitate GASB 87 implementation, users must remember that the lease classifications have changed. Leases will no longer be classified as either operating or capital leases, and the four capital lease tests have been abolished. The new classifications are as follows:

1. **Short Term Leases** - leases where the maximum lease term including all options to extend or renew the lease (regardless of whether the option will be exercised or not) is 12 months or less. For the Comprehensive Annual Financial Report (CAFR), leases where the calculated value of the lease asset is less than \$50,000 will be classified as Short Term Leases. Agencies/Institutions that prepare individual financial statements may elect to use a threshold that differs from the \$50,000 CAFR threshold.
2. **Financed Purchases** - contracts where the title to the underlying lease asset passes to the lessee at the end of the lease term. Financed Purchases will be reported in a manner similar to installment purchases.
3. **Long Term Leases** - leases where the lease term is greater than one year. DOA has established a Long Term Lease classification threshold of \$50,000 or more for CAFR reporting. This threshold applies to the calculated lease asset amount. The lease asset is computed as the sum of a) the initial present value of the required payment stream; b) prepayments made to the lessor less incentives received from the lessor; and c) ancillary charges such as legal and administrative structuring fees. The lease liability is the present value of the required payment stream, including all payments and other elements as defined by GASB 87. Additionally, Long-Term Leases require reporting both an intangible right to use asset and the lease liability. Further, the present value of the required payment stream should use the implicit rate (lessor rate). If the lessor rate is not known, the agency/institution should develop a process to estimate the rate if practical.

GASB 87 requires users to enter all payment streams including all options to extend or terminate the lease that are reasonably certain to be exercised. This will require agencies to evaluate all lease terms versus using a current year invoice or payment voucher. Further, the likelihood that the lessee or lessor will exercise the extension or termination options should be considered.

To identify leases, all existing contracts should be reviewed. This includes both lease contracts and contracts that may contain multiple components. For instance, if an agency has a service or maintenance contract that includes services as well as possible assets, these contracts should be evaluated to determine whether a lease exists. In these cases, because the lease is embedded in another contract, it is fairly common that these contracts have historically not been accounted for as leases, especially if the management of the contract has been handled within a department other than the accounting department. If the individual components are separable and measurable or estimable, the components should be evaluated and recorded individually. If it is not practicable to separate and measure or estimate the components, the contract should be reviewed and recorded in its entirety. Just being difficult or inconvenient does not equate to not practicable.

Pursuant to GASB 87, lease contracts are no longer renewed. If there are changes to the terms or other factors used in the original valuation, the contract should be remeasured.

Eight Topics Created

Eight topics are included in this update for modifications to lease accounting and reporting. These topics supplement GASB 87 and outline information for the Lease Accounting System 87.

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