

STATE OF OKLAHOMA
OFFICE OF MANAGEMENT AND ENTERPRISE SERVICES
GAAP CONVERSION MANUAL

L. GASB 87 TEMPLATE CONVERSION PACKAGE

July 2021

I. PURPOSE AND OBJECTIVES

The ACFR presents the state's lease obligations as of June 30. Further, the Deputy State Treasurer for Debt Management (formerly known as the State Bond Advisor) is charged with collecting certain information regarding leases made by the state. The Office of Management and Enterprise Services (OMES) together with the Deputy State Treasurer for Debt Management have prepared this conversion package to meet the needs of both offices.

GASB Statement 87 requires all lease agreements that are greater than one year or have the capability to be extended beyond one year, to be capitalized as assets with a corresponding liability. To simplify the calculations of the asset and liability, the Financial Reporting Unit (FRU) will utilize Public Business Revenue Manager (PBRM) lease management software. The GASB 87 template collects the data necessary to make these calculations.

The state requires a fiscal funding or cancellation clause that permits governmental lessees to terminate the agreement on an annual basis if funds are not appropriated to make required payments. The fiscal funding or cancellation clause should not exclude the lease agreement from being capitalized. For purposes of this conversion package, any lease meeting the criteria below are considered reportable leases.

Reportable leases are:

- Any lease agreement where rental payments are for a period longer than twelve months, or
- Lease agreements with a lease term twelve months or shorter but with option to extend beyond twelve months if management has a reasonable expectation to terminate the lease.

Exceptions:

- Lease agreements in which the lease term is twelve months or shorter;
- Lease agreements in which the lease term has the option to terminate, that reduces to the term to twelve months or less and management has a reasonable expectation to exercise;
- Lease agreements in which the lessee and the lessor are both general fund agencies;
 - Note: lease agreements with higher education or component unit agencies would not meet this exception.
- Service contracts;
- Subscription based information technology agreements (SBITA).
 - SBITA are covered by GASB 96, which will be implemented for fiscal year 2022.

II. AGENCY ACTION REQUIRED

- A. Carefully read the key terms in Part III.
- B. The Excel GASB 87 Lease Template (template) should be completed with amounts as of close of business on June 30.
- C. Round all dollar amounts to the nearest whole dollar.
- D. All working papers are subject to audit by the State Auditor & Inspector (SA&I). The agency is required to keep a copy of the completed template form and all associated working papers for three years after the completion of the SA&I audit.
- E. The person who completes and signs the template form should keep a copy. OMES will contact this person if there are any questions.

- F. If needed, call your agency’s financial reporting analyst for guidance.

III. KEY TERMS

- A. Discount Rate is the rate used for calculation of lease amortization. Can be either the lessor’s implicit interest rate or the lessee’s incremental borrowing rate.
- B. Lease is a contract that conveys control of the right to use another entity’s nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction.
- C. Lease Term is the period during which a lessee has a noncancelable right to use an underlying asset, plus the following periods, if applicable:
 - a. Periods covered by a lessee option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option
 - b. Periods covered by a lessee’s option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option
- D. Lessor is the party that receives the periodic rental payments.
- E. Lessee is the party that makes the periodic rental payments.
- F. Lessee's Incremental Borrowing Rate is the estimated interest rate the lessee would have had to pay if the leased property had been purchased by the lessee and financed over the period covered by the lease.
- G. Lessor's Implicit Interest Rate is the interest rate calculated by the amortization of the lease payments under the terms of the lease.
- H. Minimum Lease Payments are periodic rental payments required in the terms of the lease.
- I. Options are contractual agreements that can be exercised at the discretion of the agency to extend the life of the agreement.
- J. PBRM is the lease management system that will be used by the OMES Financial Reporting Unit to calculate lease liability and depreciation for lease agreements.
- K. Rental Expenditures are non-periodic rental payments.
- L. Termination Option is the right of a lessee to end the agreement before the initial lease term.

IV. SPECIFIC INSTRUCTIONS

- A. Completing the schedule in the “Base Information” tab for lease agreements existing at year end:
 - 1. Complete the information in “**Agency Cover**” tab. The Agency name should be selected from the dropdown menu. The primary contact should be the preparer of the schedule and the secondary contact should be the approver.
 - 2. For each lease agreement, evaluate whether the agreement is a reportable lease (see Exhibit A for decision tree or the “**Process Flow**” tab in the template).
 - 3. For reportable leases with a single provision, input data into the “**Base Information**” tab. The “**Instructions**” tab contains detailed information about how the data should be entered. The data that should be derived from the lease contract includes:
 - a. Start date of the agreement
 - b. End date of the agreement
 - c. Start date of option periods (if applicable)
 - d. End date of option periods (if applicable)

- e. Payment frequency (i.e. monthly, quarterly, annually)
 - f. Payment timing (i.e. advance or arrears)
 - g. Annual rate
 - i. If possible, this should be derived from the lease agreement contract.
 - ii. If not stated in the contract, an effort should be made to gather the rate from the vendor.
 - iii. If neither is available after a good faith effort, this field may be left blank and OMES will substitute the incremental borrowing rate.
 - h. Payment amount
 - i. Note: This should not include variable amounts. For example, if a copier lease includes a charge related to the number of copies, this charge would not be included.
 - i. Category of leased asset (i.e. building, equipment)
4. For reportable leases with multiple provisions (example: payment amount changes over the life of the lease), additional instructions are provided in the “**Multi-Record Entries**” tab.
 5. For non-reportable leases, limited information can be entered into the “**Excluded Leases**” tab. This is optional and provided for the agency’s benefit to track leases that are not required for GASB 87 reporting, as a way of tracking these decisions in the event of audit questions.

B. Working Papers

The agency should keep any documents that support data on the template form. For example:

- * Lease agreement contracts
- * Debt service schedules
- * Lease worksheets
- * Lease template
- * Depreciation worksheets
- * Status of leases

V. EXHIBIT A – Reportable Lease Decision Tree

The following series of questions should be asked for each individual lease agreement:

1. Are both the lessee and lessor general fund agencies?
 - a. If yes, lease is not reportable and can be entered into the “**Excluded Leases**” tab with the reason for exclusion listed as “intrafund lease.”
 - b. If no, proceed to question 2.
2. Is the lease agreement a service contract?
 - a. If yes, lease is not reportable and can be entered into the “**Excluded Leases**” tab with the reason for exclusion listed as “service contract”.
 - b. If no, proceed to question 3.
3. Is the lease agreement term greater than 12 months in length?
 - a. If yes, proceed to question 4.
 - b. If no, proceed to question 7.
4. Does the agreement have a termination option that would reduce the lease term to shorter than 12 months in length?
 - a. If yes, proceed to question 5.
 - b. If no, the lease is reportable, and data should be entered into “**Base Information**” tab.
5. Does the decision for exercising the termination option rest exclusively with the lessee? (i.e. must the lessor also invoke the clause?)
 - a. If yes, proceed to question 6.
 - b. If no, the lease is reportable, and data should be entered into “**Base Information**” tab.
6. Does the management have a reasonable expectation that the option to terminate will be exercised?

- a. If yes, the lease is not reportable and may be entered into the “**Excluded Leases**” tab with the reason for exclusion listed as “short-term lease”.
 - b. If no, the lease is reportable, and data should be entered into “**Base Information**” tab.
7. Does the lease agreement include option periods that would extend the lease term beyond 12 months in length?
 - a. If yes, proceed to question 8.
 - b. If no, lease is not reportable and can be entered into the “**Excluded Leases**” tab with the reason for exclusion listed as “short-term lease”.
8. Does the decision for exercising the option rest exclusively with the lessee? (i.e. Can the option be declined by the lessor?)
 - a. If yes, proceed to question 9.
 - b. If no, lease is not reportable and can be entered into the “**Excluded Leases**” tab with the reason for exclusion listed as “short-term lease”.
9. Does the management have a reasonable expectation that the option will be exercised?
 - a. If yes, the lease is reportable, and data should be entered into “**Base Information**” tab.
 - b. If no, lease is not reportable and can be entered into the “**Excluded Leases**” tab with the reason for exclusion listed as “short-term lease”.