

GASB 87 Update & Preparation for Implementation

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GASB 87 Timeline

- ~~• 2/1/21 Initial agreement inventory submissions~~
- ~~• BFR NYS Reporting Entity reviews and analysis of GASB 87 contracts~~
- ~~• Materiality threshold determinations~~
- Implementation of policies and procedures
- 4/1/22 implementation of GASB 87 and future expectations

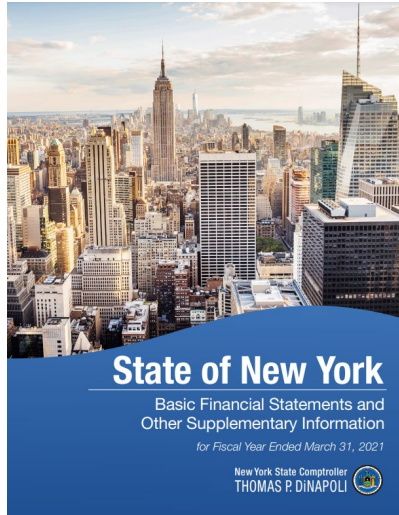


Agenda

- Overview of project importance & the GASB 87 standard
- Results from BFR analysis of NYS Reporting Entity initial agreement inventory toolkits
 - 2/1/21 lease population
 - Materiality threshold discussion
- Expectations for NYS Reporting Entities
 - Lease population as of 2/1/21
 - Lease population for 2/1/21 – 12/31/21
 - Quarterly process beginning 1/1/22
 - Reasonably certain determination
 - LeaseController™ template



Why This Project is Important



- Annually, the State Comptroller is required to compile financial statements.
- These are audited to determine their conformity to GAAP.
- Based upon the data in the financial statements, as well as the audit opinion, credit rating agencies will make determinations on the riskiness of NY State debt.

GASB 87 Overview



Leases

(GASB Statement 87)

- Definition
 - A contract (e.g., an agreement between two or more parties that creates enforceable rights and obligations) that conveys control of the right-to-use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.
- Embedded Leases



Leases

(GASB Statement 87)

Included*	Not Included*
<ul style="list-style-type: none">• Real Property	<ul style="list-style-type: none">• Short-term leases (12 months or less)
<ul style="list-style-type: none">• Equipment	<ul style="list-style-type: none">• Leases that transfer ownership
<ul style="list-style-type: none">• Vehicles	<ul style="list-style-type: none">• Leases of intangible assets
<ul style="list-style-type: none">• Servers	<ul style="list-style-type: none">• Leases of biological assets
<ul style="list-style-type: none">• Printers/Copiers	<ul style="list-style-type: none">• Leases of Inventory
<ul style="list-style-type: none">• Watercoolers	<ul style="list-style-type: none">• Supply Contracts (purchase power agreements)

**This is not an exhaustive list of examples.*



Overview of BFR Analysis



Lease Population

As of 2/1/21:

- 1,025 total GASB 87 leases.
- 179 are revenue leases.
- 315 are OGS-managed and maintained in SFS.
- Leases that are not managed by OGS and are above the new materiality threshold will be maintained in LeaseController, our third-party software solution.



Materiality Threshold

After analysis of the initial reported lease population, BFR established a materiality threshold for those leases maintained in LeaseController. All leases maintained in SFS will be accounted for and reported on.

For leases that commenced **before** 2/1/21, the materiality threshold has been set at **\$300,000 AEV**.

For leases that commenced **after** 2/1/21, the materiality threshold has been set at **\$100,000 AEV**.

*AEV – Annual Exchange of Value

Implementation of Policies and Procedures



Updated Lease Population

- BFR currently has a NYS lease population through 2/1/21.
 - A lease inventory report will be sent to NYS Reporting Entities by 1/31/22 to verify there are no missing leases over the \$300,000 AEV for the 2/1/21 population.
 - NYS Reporting Entities will complete the LeaseController template(s) for the 2/1/21 population to provide complete and accurate lease data for upload. NYS Reporting Entities should submit completed templates to OSC by March 1, 2022.
- NYS Reporting Entities will complete the LeaseController template(s) to provide a population of leases over \$100,000 AEV for 2/1/21 – 12/31/21 and submit to OSC by March 1, 2022.
- Beginning 1/1/22, BFR will be providing quarterly reports to each NYS Reporting Entity displaying its lease inventory. NYS Reporting Entities will be expected to provide their newly commenced leases for the period, modifications to existing leases and any missed leases for prior periods.

Discount Rate – Present value calculation for lease payments



Discount Rate

- Provide the implicit rate if it is included in the contract.
- If the implicit rate isn't included in the contract, LeaseController (and SFS) will use the incremental borrowing rate (IBR) for present value calculation.



Reasonably Certain



Reasonably Certain – Agency Responsibility

- GASB 87 requires that all clauses/options with a financial impact be evaluated for whether the clauses/options are reasonably certain to occur.
- Reasonably certain is a high threshold of probability that must be met to include optional lessee payments in the measurement of lease assets and lease liabilities.
- Lessee or lessor must have a compelling economic reason to exercise the option (or not to exercise the option).
- All economic factors relevant to the assessment must be considered
 - Significant economic incentive (market rates)
 - Significant economic disincentive (cost to terminate)
 - Abandonment of significant leasehold improvements
 - Costs of identifying another suitable underlying asset
 - Costs of returning the underlying asset in a contractually specified condition or location
 - Condition of the asset
 - History of exercising the options to extend or terminate
 - The extent to which the asset underlying the lease is essential to the provision of government services



Reasonably Certain Contract Options

- **Renewal Clause**
 - Periods in a lease agreement that extend the lease beyond the initial lease period
- **Termination Clause**
 - A clause in a lease agreement that allows termination by either the lessee, the lessor, or both
- **Purchase Option**
 - A clause in a lease agreement that allows the lessee the option to purchase the asset
- **Residual Value Guarantees**
 - A clause in a lease agreement that requires an additional payment at the end of the lease term based on the condition of the asset
- **Fiscal Funding**
 - A clause in a lease agreement that would allow governmental lessees to cancel a lease if the government does not appropriate funds for the lease payments



Determining Lease Term

Renewal Periods

- If the lessee or the lessor has the ability to renew the lease, you are required to determine if it is reasonably certain if the renewal option(s) will be executed
- If there are multiple renewal periods, each period must be analyzed
- Renewal periods that are reasonably certain to be exercised are added to the lease term



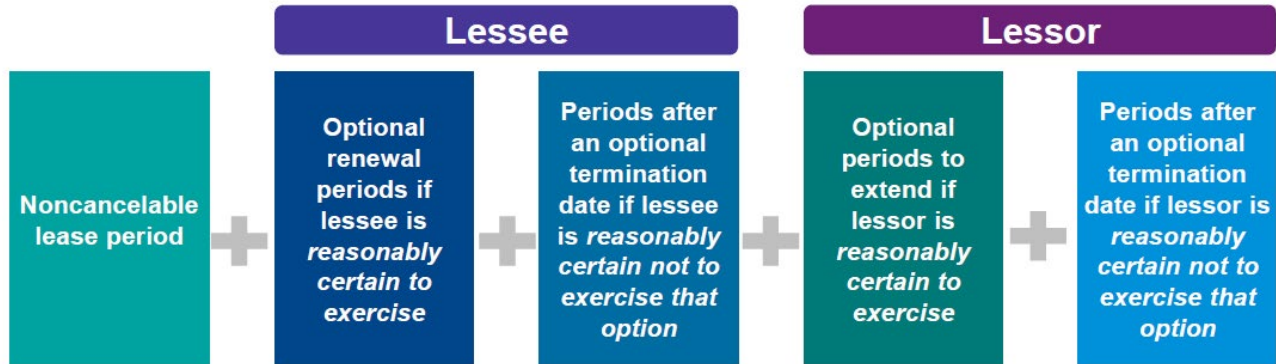
Determining Lease Term

Termination Options

- If the lessee or the lessor has the ability to terminate the lease after a certain period, then that party must determine if it is reasonably certain that the option will not be executed.
- If both the lessee and the lessor have termination options, these periods are excluded from GASB 87 reporting.



Determining Lease Term



LeaseController

Lease Accounting Software and Upload Template



LeaseController

Third-party software developed by Deloitte to input lease data and assist BFR in accounting for quarterly and annual financial reports.

All leases over the materiality threshold that are **not** OGS-managed will be added to LeaseController quarterly.

An updated copy of each LeaseController template can be found on the OSC webpage.

<https://www.osc.state.ny.us/state-agencies/guidance/new-gasb-standards>

Email finrepGASB@osc.ny.gov with a copy of your completed template that contains your lease inventory submission for that quarter.

LeaseController Template

Deloitte.						
LeaseID	LeaseCategoryID	LeaseDesc	Entity_UID	LeasedAssetClassificationID	isLeaseGASB87	isLeaseGASB87Comm
Add Rows						
1	2	3	4	5	6	7
Lease ID * ENTER the Procurement Contract NYS Contract ID (L #)	Lease Type * Enter the Value "LESSEE"	Lease Description	Legal Entity * Enter your SFS GL BU ID Value	Leased Asset Classification * ENTER value "1001 ~ Real Estate" or "1002 ~ Vehicle" or "1003 ~ Equipment" or "2000 ~ Other Leased Asset" or " 3000 ~ Other Asset - Private Public Partnership" as	Does this contract meet the definition of a lease under GASB87? * Value "YES"	GASB87 Comment *
The lease ID is the unique ID assigned to a particular lease.		Enter a brief description of the lease i.e. the name of the parties (Lessor and Lessee) and the asset details. (Ex. - Equipment Lease (AXXXX) between XYZ Limited and ABC Limited)	Entity ID associated to a lease	Type of leased asset (selected from predetermined list during initial setup/creation of lease)	Does this contract meet the definition of a lease under GASB87?	If Parent Question 'isLeaseGASB87' is 'NO', Please provide evidence of why this contract is not considered a lease under GASB87 Child question to Parent question 6 : isLease840
	LESSEE				YES	

LeaseController Template

	A	B	C	D	E	F
1	LeaseID	StreamTypeID	StreamComm	StartDate	EndDate	PaymentAmount
2	Text Required	Text Required	Text	Date Required	Date Required	Amount Required
3						
4	Add Rows	Dropdownlist				
5		Dropdown				
6	LEASE PAYMENT SCHEDULE					
7	1	2	3	4	5	6
8	Lease ID *	Stream Type *	Stream Comment	Payment Start Date (YYYY-MM-DD) *	Payment End Date (YYYY-MM-DD) *	Payment Amount per Period *
9	L000001	Minimum Lease Payments		2022-04-01	2027-03-31	1,000.00
10	L000001	Minimum Lease Payments		2027-04-01	2032-03-31	2,000.00

BFR will be holding working sessions on completing the template and answering any agency questions.

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