



# North Carolina Office of the State Controller

## Financial Reporting Update

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### GASB 87 Effective for FY 2022

February 11, 2020

**Update: July 1, 2020** – updated the effective date based on GASB 95; clarify Other Direct Costs capitalized in lease asset; Added FAQ to Appendix A, page 3 to address questions related to lease software procurement; Added Example 6 to Appendix C to address nuances with short term lease exception

**Update: August 2021** – include newly issued implementation guidance since prior update; link to OSC discount rate procedural guidance and statewide accounting policy on leases; update references to Comprehensive Annual Financial Report (Annual Report); add Appendix D, revise Appendix A and Appendix B for newly published information.

**Update: June 20, 2022** – update references to Annual Comprehensive Financial Report (ACFR); added guidance on contract combinations; update Appendices A and B to clarify guidance related to contracts that transfer ownership and correct links; update Appendix A to add agreements that may contain embedded leases; update Appendix D for new allowance accounts; add Appendix E.

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*. This statement supersedes or amends parts of 15 existing statements. GASB 87 overhauls the accounting and financial reporting of leases for state and local governments by establishing a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying nonfinancial asset.

The objective of this statement is to improve the consistency of accounting and reporting for leases by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. Under the new standard, leases previously classified as capital leases will be impacted also. GASB 87 will enhance the comparability, relevance, and reliability of information about the leasing activities of governments.

GASB 87 was originally effective for the fiscal year ending June 30, 2021. However, in May 2020, GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB 95). Based on the issuance of GASB 95, the implementation of GASB 87 is being delayed to the fiscal year ending June 30, 2022. GASB 87 will require a restatement of beginning balances for all periods presented (retroactive application). This statement will apply to all state and local governments with leasing arrangements as defined in the statement. This standard will have a significant impact on the entire State of North Carolina financial reporting entity, including the primary government (state agencies/departments) and its component units (universities, community colleges, other component units). The requirements in GASB 87 need not be applied to immaterial items.



## Identifying Leases and Determining the Lease Term

Under pre-GASB 87 guidance, governments distinguished between operating and capital leases. Beginning in fiscal year 2022 and for all prior periods presented, there is no longer a distinction between operating and capital leases. All leasing arrangements as defined by GASB 87 will now be treated as financings of the right to use the leased asset.

GASB 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset, such as a vehicle, building, or equipment) as specified in the contract for a period of time in an exchange or exchange-like transaction. The contract must be legally enforceable. A contract conveys control of the right to use the underlying asset if it has both of the following:

- a. The right to obtain the present service capacity from use of the underlying asset as specified in the contract and
- b. The right to determine the nature and manner of use of the underlying asset specified in the contract.

Contracts for services are excluded, and contracts that contain both a lease component and a service component should separate and report only the lease component. There are several other exclusions from the scope of this definition. See the list of exclusions in Appendix A, Glossary of Useful Terms and Appendix B, Question 1c.

For further guidance on identifying leases, refer to **Appendix A: OSC Steps to Identifying Leases** and **Appendix B: OSC Decision Guide for Lease Identification**. Also refer to questions 4.1 – 4.11 in Implementation Guide No. 2019-3, *Leases*, for examples and common considerations related to the scope and applicability of GASB 87. [See link below.](#)

For arrangements that meet the GASB 87 definition of a lease, entities will be required to determine the lease term applicable to that lease, whether the entity is a lessee or a lessor in the arrangement. The lease term is the noncancelable period, plus periods covered by the lessee's and lessor's options to:

- Extend the lease, if reasonably certain of being exercised
- Terminate the lease, if reasonably certain of NOT being exercised

Periods for which both the lessee and lessor have an option to terminate or both parties have to agree to extend the lease are cancelable periods and are excluded from the lease term. Fiscal funding/cancellation clauses are ignored unless reasonably certain of being exercised.

A lessee or a lessor is 'reasonably certain' if they have evaluated relevant factors such as economic incentives or disincentives (cost to terminate, market rates for new leases, cancellation penalties, etc.), the history of exercising options to extend or terminate, and how essential the leased asset is to a government's operations. After evaluating these factors, an entity can be reasonably certain if there is a greater than probable chance that one of the above options will or will not be exercised. In certain cases, lease terms should be reassessed. For example, if a lessee exercises an option that it was previously uncertain about, the lease term should be adjusted.



GASB 87 specifically exempts short-term leases from the provisions of the standard. A short-term lease is one that has a maximum possible term under the contract, including options to extend, of 12 months or less as determined at the beginning of the lease. Options to terminate the lease are excluded. A short-term lease should be accounted for as expenses for the lessee upon payment and revenues for the lessor upon receipt of the payment, similarly to how operating leases were recognized under previous guidance.

For examples of lease term determinations, see **Appendix C: Lease Term Examples**. Also refer to questions 4.12 – 4.20 in Implementation Guide No. 2019-3, *Leases*, for further guidance and clarification. See [link below](#).

### General Reporting Requirements - Lessee

A government can be either a lessee or a lessor in a leasing arrangement. In this section, we discuss the general reporting requirements for lessees.

One major change that will affect both lessees and lessors with existing capital leases is that the lessee will NOT recognize and depreciate the underlying capital asset in the lease. For leases within the scope of GASB 87, a lessee should initially recognize a lease liability and an intangible right to use asset. The intangible right to use asset (lease asset) is a capital asset. The right to use asset is distinct from the underlying asset itself (vehicle, building, etc.), which will continue to be reported on the lessor's books.

Lessees should measure the lease liability at the present value of future minimum lease payments. Initial measurement of the lease liability should include the following:

- Fixed payments
- Variable payments that depend on an index or rate
- Variable payments that are fixed in substance
- Payments for residual value guarantees
- Exercise price of a purchase option if the lessee is reasonably certain to exercise the option
- Payments for early termination of the lease
- Lease incentives receivable from the lessor (this decreases the payment)
- Any other payments that are reasonably expected of being required based on an assessment of all relevant factors.

Variable payments that are dependent on a lessee's future performance or usage of the underlying asset should not be included in the lease liability. These variable payments should be expensed when the obligation for payment is incurred. However, if any component of these variable payments is fixed, they should be included in the lease liability.

Future lease payments should be discounted using the interest rate the lessor charges the lessee or the implicit rate. If the interest rate is not readily determinable, the lessee's estimated incremental borrowing rate should be used.

The lease asset should be measured as the sum of the initial lease liability plus prepayments made at or before the commencement of the lease term less lease incentives received plus initial



direct costs that are ancillary charges necessary to place the lease asset in service. An example of an initial direct cost that would be capitalized is transportation charges for bringing the asset to its intended location where it will be placed into service. Other initial direct costs include, but are not limited to, legal, administration, or negotiation fees.

Initial recognition will include a restatement of beginning balances in the year of implementation, so entities are required to calculate lease liabilities and assets as of July 1, 2021, in order to comply with GASB 87. Entities will need to examine their existing capital and operating leases to determine whether they will continue to meet the definition of a leasing arrangement under GASB 87. For existing leases that meet the definition, all lease calculations should be made as if the commencement date of the lease is the earliest period presented. For most entities, this will be July 1, 2021.

In subsequent periods, the lessee will amortize the interest (i.e. discount) on the lease liability and report that amount as interest expense. Payments should be allocated first to interest payable and then to the amortization of the lease liability. The lease asset should be amortized over the shorter of the lease term or the useful life of the underlying asset. If a lease contains a purchase option and it is reasonably certain that it will be exercised, the lease asset should be amortized over the useful life of the asset.

Financial statements prepared using the current financial resources measurement focus, i.e., Governmental Funds (General Fund, Special Revenue Funds, Capital Project Funds, and Permanent Funds), should report an expenditure and other financing source in the period the lease is initially recognized. These should be measured in accordance with the requirements for measuring the lease liability. In subsequent periods, payments should be accounted for as principal and interest expenditures. Amortization of interest should not be recognized in the fund level financial statements.

The lease liability should be remeasured if certain changes have occurred at or before the financial reporting date and the changes are expected to significantly affect the amount of the lease liability. Generally, the lease asset should be adjusted by the same amount as the lease liability.

GASB 87 requires notes to the financial statements for lease activities, other than short-term leases as follows:

- a. General description of its leasing arrangements, including (1) the basis, terms, and conditions on which variable payments not included in the measurement of lease liability are determined and (2) the existence, terms, and conditions of residual value guarantees provided by the lessee not included in the measurement of the lease liability
- b. The total amount of lease assets, and the related accumulated depreciation, disclosed separately from other capital assets
- c. The amount of lease assets by major classes of underlying assets, disclosed separately from other capital assets
- d. The amount of expense/expenditure recognized in the reporting period for variable payments and other payments (such as residual value guarantees or termination penalties) not previously included in the measurement of the lease liability
- e. Principal and interest requirements to maturity, presented separately, for the lease liability for each of the five subsequent fiscal years and in five-year increments thereafter
- f. Commitments under leases before the commencement of the lease term



- g. The components of any impairment loss associated with the underlying asset, including the amount of impairment loss and any related change in the lease liability
- h. Additional disclosures are required for lessees that have sublease, sale-leaseback, and/or lease-leaseback transactions. See GASB 87, paragraphs 81, 85, and 87 for further information (See [link below](#)).

For further clarification, guidance and examples, please refer to questions 4.23 – 4.42 of Implementation Guide No. 2019-3, *Leases*. See [link below](#).

### General Reporting Requirements – Lessor

In many ways, the reporting requirements of the lessor are the mirror image of the requirements for lessees.

Lessors should initially recognize a lease receivable and a deferred inflow of resources. Lessors should measure the lease receivable at the present value of lease payments expected to be received, less amounts deemed uncollectible. Initial measurement of the lease receivable should include the following:

- Fixed payments
- Variable payments that depend on an index or rate
- Variable payments that are fixed in substance
- Residual value guarantee payments that are fixed in substance
- Any lease incentives payable to the lessee (this decreases the lease receivable)

Variable payments that are dependent on a lessee's future performance or usage of the underlying asset should not be included in the lease receivable. These variable payments should be recognized as revenue in the period to which those payments relate. However, if any component of these variable payments is fixed, they should be included in the lease receivable.

Future lease payments to be received should be discounted using the interest rate the lessor charges the lessee or the implicit rate.

The deferred inflow of resources should be measured as the sum of the initial lease receivable plus lease payments received at or before the commencement of the lease term that apply to a future period, such as the final month's rent, less any lease incentives paid to the lessee.

If the underlying asset in a lease is reported as an investment in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, the lessor should not apply the recognition and measurement provisions of GASB 87. The note disclosure requirement in GASB 87, paragraph 57d, should be applied. For example, if a lease is entered for the purpose of subleasing solely for profit, GASB Statement 72 would apply and not GASB 87. There are also different requirements for certain regulated leases, such as aviation leases.

Initial recognition will include a restatement of beginning balances in the year of implementation, so entities are required to calculate lease receivables and deferred inflows of resources as of July 1, 2021, in order to comply with GASB 87. Entities will need to examine their existing leases



to determine whether they will continue to meet the definition of a leasing arrangement under GASB 87. For existing leases that will continue to meet the definition, all lease calculations should be made as if the commencement date of the lease is the earliest period presented. For most entities, this will be July 1, 2021.

A lessor should not derecognize the asset underlying the lease. The lessor should continue to depreciate the capital asset and continue to apply other applicable guidance.

In subsequent periods, the lessor will amortize the interest (i.e. discount) on the lease receivable and report that amount as a revenue. Interest should be amortized using the effective interest method, per Implementation Guide 2019-3 Question 4.49. Payments received should be allocated first to interest receivable and then to the amortization of the lease receivable. The deferred inflow of resources should be systematically recognized as revenue over the lease term. Financial statements prepared using the current financial resources measurement focus, i.e., Governmental Funds, should recognize the deferred inflow of resources as revenue, if available, systematically over the lease term. Revenue is considered available if it is collected within 31 days after year-end.

The lease receivable should be remeasured if certain changes have occurred at or before the financial reporting date and the changes are expected to significantly affect the amount of the lease receivable. Generally, the deferred inflow of resources should be adjusted by the same amount as the lease receivable.

GASB 87 requires notes to the financial statements for lease activities, other than short-term leases and certain regulated leases as follows:

- a. General description of its leasing arrangements, including the basis, terms, and conditions on which any variable payments not included in the measurement of the lease receivable are determined
- b. The total amount of revenue recognized in the reporting period from leases, if not already displayed separately on the face of the financial statements
- c. The amount of revenue recognized in the reporting period for variable and other payments not previously included in the measurement of the lease receivable, including revenues related to residual value guarantees and termination penalties
- d. The existence, terms, and conditions of options by the lessee to terminate the lease or abate payments if the lessor government has issued debt for which the principal and interest payments are secured by the lease payments
- e. Additional disclosures are required for lessors that have regulated lease, sublease, sale-leaseback, and/or lease-leaseback transactions. See GASB 87 paragraphs 60, 81, 85, and 87 for further detail (See [link below](#)).

Additional note disclosures are required if a lessor's principal ongoing operations consist of leasing assets to other entities or if the lessor has regulated leases.

For further clarification, guidance and examples, please refer to questions 4.43 – 4.55 of Implementation Guide No. 2019-3, *Leases*. See [link below](#).



## General Reporting Requirements – Other Topics Addressed

GASB 87 discusses several related topics, such as reporting for lease modifications and terminations, subleases, sale-leaseback transactions, lease-leaseback transactions, intra-entity leases, leases between related parties, and more. Below are the topics considered most likely to apply to state entities during the implementation year of this standard:

- **Intra-Entity Leases:**
  - Leases between a primary government and its blended component unit should be eliminated at the reporting entity level. If the blended component unit has separately issued financial statements, the blended component unit should report the lease activity in its standalone financial statements.
  - Leases between a primary government and its discretely presented component unit, such as a university or community college, should be reported separately and should **not** be eliminated.
  - If the underlying asset is fully owned by the State of North Carolina and the “lease” exists for the purpose of reimbursing costs between one state entity and another, the requirements of GASB 87 do not apply. For example, payments made or received for Motor Fleet vehicles do **not** fall under the definition of a lease per GASB 87.
  - Leases within departments or between agencies in the primary government (e.g. a lease between the Dept. of Administration and the Dept. of Public Safety) do **not** fall under the definition of a lease per GASB 87. Leases are the right to use a different legal entity’s nonfinancial asset.
  
- **Contracts with Multiple Components:** These are contracts that may contain both a lease and a non-lease component, or those leases that contain multiple underlying assets.
  - Lease and Non-Lease Component – the lease and non-lease component should be accounted for as separate contracts. In cases where there are no stated prices for the separate components (such as leasing a building and also paying for the associated utilities, which can vary in price), lessees and lessors are permitted to determine their best estimate for allocating the contract price to those components. If a best estimate cannot be determined, the lease can be accounted for as a single lease. The accounting for the lease should be based on the primary lease component.
  - Multiple Underlying Assets – contracts for multiple underlying assets with different lease terms should be accounted for as separate contracts.
  
- **Contract Combinations:** Contracts that are entered into at or near the same time with the same counterparty should be considered part of the same contract if either of the following criteria are met:
  - The contracts are negotiated as a package with a single objective.
  - The amount of consideration to be paid in one contract depends on the price or performance of the other contract.

If multiple contracts are determined to be part of the same contract, that contract should be evaluated in accordance with the guidance for contracts with multiple components.



For further clarification, guidance, and examples, please refer to questions 4.56 - 4.75 of Implementation Guide No. 2019-3, *Leases*. Link below.

To gain additional understanding of GASB 87, please refer to the following resources:

- The GASB webpage from which you can access a PDF file of GASB 87 as well as other GASB pronouncements – [GASB Pronouncements](#)
- [Implementation Guide No. 2019-3, Leases](#)
- [Implementation Guide No. 2020-1](#) (Questions 4.6-4.17, effective fiscal year 2023)
- [Implementation Guide No. 2021-1](#) (Questions 4.4-4.21, effective fiscal year 2023 and Question 4.22 effective fiscal year 2022)
- Appendix A: OSC Steps to Identifying Leases
- Appendix B: OSC Decision Guide for Lease Identification
- Appendix C: Lease Term Examples
- Appendix D: NCAS Chart of Account Changes
- [Appendix E: Fixed Asset System Guidance, Journal Entries Examples, and ACFR Worksheet Examples](#)
- [OSC GASB 87 Lease Inventory Template](#)
- [105.7 – Statewide Accounting Policy - Leases](#)
- [GASB 87 Discount Rate Procedural Guidance](#)

### **GASB 87 Implementation Considerations**

OSC expects the implementation of this statement to require a significant expenditure of time, effort, and resources for all state entities leading up to the fiscal year 2022 implementation date and thereafter. It is important for state entities to begin the process of identifying, examining, and maintaining their leasing contracts now to comply with reporting requirements for GASB 87. The change in reporting requirements for leases will require entities to examine current reporting for existing and potential leases to determine whether they meet the new requirements of GASB 87.

In an effort to assist state entities with this implementation and to gain an understanding of the nature of leasing arrangements throughout the State to implement further policy, OSC sent the Lease Inventory Template to primary government agencies on May 17, 2019 (link provided above). Primary government agencies were required to submit certain portions of this template to OSC on December 2, 2019 for leases held as of June 30, 2019. This template was provided to component units as a convenience to build a GASB 87-compliant inventory of their leasing arrangements but is not required to be submitted to OSC. ALL entities throughout the State should update and maintain their respective lease inventories on at least an annual basis.

**Governmental Funds (General Fund, Special Revenue Funds, Capital Projects Funds, and Permanent Funds).** The lessee will not report the lease liability and lease asset on the Balance Sheet. The liability will be reported in GASB 5200 Long Term Debt Account Group and the lease asset will be reported in the Fixed Asset System. Additionally, the amortization of interest and the intangible asset will not be reported in the Governmental Fund financial statements. Adjustments will be made in the State's **ACFR** in the government-wide financial statements. The Statement of Revenues, Expenditures, and Changes in Fund Balances will be impacted as discussed in the lessee section above for Governmental Funds. The lessee will not recognize restatements in the financial statements. The restatement, if applicable, will be reported in the State's **ACFR** in the government wide financial statements. The lessor will report the lease receivable and deferred inflow of resources on the Balance Sheet as discussed in the lessor section above. The lessor





will recognize restatements in the financial statements, as applicable. Note disclosures will be required for lessees and lessors as noted above. OSC will provide additional reporting information for leases in Governmental Funds.

**Proprietary Funds (Enterprise Funds, Internal Service Funds, and Component Units, such as Universities and Community Colleges).** The Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, Statements of Cash Flows, and the Notes to the Financial Statements will be impacted. Restatements of beginning net position also will be required. At a government-wide level, leasing activities within legally separate business-type activities will be eliminated. For example, at the government-wide level, a lease between two universities or a lease between a university and its own component unit would be eliminated for ACFR purposes. Note disclosures will be required for lessees and lessors as noted above. OSC will provide additional information for leases in Proprietary Funds.

Further, entities should review any existing bond/debt covenants, agreements, laws, etc. to ensure continued compliance after the GASB 87 implementation. If the term “capital lease” is used, this will need to be modified. Consider the implications of simply removing the word “capital” as the number of leases that will be reported will increase significantly. Other implementation considerations should include discussions of potential changes to internal controls and processes for identifying, entering into, and reporting leasing arrangements to prevent and detect material misstatements or omissions for standalone and ACFR financial disclosures.

Thank you for your time and attention to this important change. OSC will continue to provide updates as the standard is implemented. Additional implementation guidance will be issued as it is developed for statewide chart of account changes, policy updates, specific journal entry examples for lessees and lessors, interest rates, and other items. Questions regarding this specific update should be directed to your individual OSC analyst.

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## **Appendix A:**

### ***OSC Guide to Identifying Leases under GASB 87***

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The purpose of this document is to provide a guide to staff throughout the State in (1) identifying leases at their organization and (2) creating a central repository (i.e., an inventory) of leasing contracts with relevant information to aid in the implementation and reporting requirements for GASB 87, *Leases*. This document should be read in conjunction with completing the required elements of the GASB 87 Lease Inventory Template, sent to all state entities on May 17, 2019. A copy of the Lease Inventory Template can be found [here](#).

Current reporting guidance promulgated by the Governmental Accounting Standards Board (GASB) states that leases are either operating or capital. The issuance of GASB Statement 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. GASB 87 is effective for the fiscal year ended June 30, 2022, including a restatement of beginning net position as of July 1, 2021.

The new standard requires each agency to examine its existing leasing and other contracts in their entirety to determine how they will be reported under the new guidance. **GASB 87 will require significant time, up-front effort, and coordination within each agency. Staff should be maintaining their lease repositories on an ongoing basis starting now.** This will require ongoing coordination among various business units or departments, such as Purchasing and Procurement, depending on the extent of decentralization of leasing contracts and the procurement process. The following is a general step-by-step guide for the identification of leases at your agency.

#### **Step 1: Read GASB 87 and GASB Implementation Guide 2019-3, *Leases***

Begin by reading [GASB 87, \*Leases\*](#). Also refer to the [Implementation Guide 2019-3, \*Leases\*](#), which provides examples and clarification on the requirements contained within GASB 87. [Implementation Guide 2020-1](#) and [Implementation Guide 2021-1](#) also provide sections of further guidance specific to leases (scroll to Page 7 in the FRU for effective dates and specific paragraphs).

#### **Step 2: Identify Leases at Your Organization**

2a: **Examine your Procurement Process and Form a Leases Workgroup.** Examine your agency's process for entering into contracts. If several departments are involved in this process, form a leases workgroup to ensure that all types of current and potential leasing contracts can be identified. A leases workgroup should include members of the accounting team (Controller's Office) and any other business units/departments within your agency that have the authority to engage in contracts with parties both internal and external to the State. Gather all real property leases that are currently held with the State Property Office for your organization. **\*At least one member of the accounting/ACFR team at your agency should be involved in this process\*.**

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**2b: Examine Existing and Known Leases.** Begin the process of identifying leases by gathering contracts that are already reported as operating or capital leases. Examine your general ledger accounts for capital leases payable, rental expense, and rental income to ensure you are considering all existing and recorded leasing arrangements. **Use Appendix B: OSC Decision Guide for Lease Identification to help you identify if you have a leasing arrangement under GASB 87.** If the contract meets the definition of a lease under GASB 87, add it to the Lease Inventory Template on the correct tab depending on whether your agency is the lessee or lessor in the contract. **Focus on identifying and adding your largest dollar value leases first.** Convert any hard-copy lease agreements to electronic and readable/searchable (pdf) format and keep those documents in a central electronic drive/location. Do not include any leases or arrangements that should be excluded from GASB 87. See the FAQ and Glossary of Useful Terminology below and the Decision Guide tab in the template for leases that do not apply.

**2c: Evaluate Other Contracts for Embedded Leases.** Not every lease is labeled a “lease agreement,” and identifying embedded leases can involve considerable time and judgment as many of these contracts may not have been identified as leases in the past. Embedded leases are components within contracts that allow for the use of an asset, with the user having control over the right to use that asset. Such contracts (or components of such contracts) may be defined as leases under GASB 87 even if the contract does not use the word ‘lease’. One way to conduct a review of potential embedded leases is to analyze your agency’s payments made to outside vendors, and research what the vendor contracts underlying those payments contain. **Embedded leases may be found in advertising, service, transportation, or construction agreements as well as in related party charges. For example, related party charges could include renting pieces of land.**

### **Step 3: Analyze and Document Key Lease Terms, Evaluate Bond and Other Debt Covenants, Make Necessary Changes to Internal Controls and Processes**

Analyze your lease agreements further, **focusing on your largest dollar value leases first.** The Lease Inventory Template contains key elements for the calculation of liabilities, assets, and deferred inflows of resources per GASB 87. Maintaining this information on a per lease basis will be essential to the accurate and complete reporting of leases statewide and for your entity. Note that lease agreements may not contain all the necessary data to comply with the new lease standards, such as fair values and discount rates. See [105.7 – Statewide Accounting Policy – Leases](#) for further guidance on capitalization thresholds for primary government entities. Also see [OSC GASB 87 Discount Rate Procedural Guidance](#) for more information on how to determine interest rates for leasing arrangements.

Those entities that are statutorily permitted to issue debt in their own name should examine their bond and other debt covenants to determine how a lease liability will affect the requirements contained therein.

GASB 87 introduces additional considerations around an entity’s internal control structure. In order to ensure accurate and complete reporting of leases, there will be an increased focus on internal controls related to identification of leasing transactions, ongoing maintenance of leasing information, and robust management review of leasing information for financial reporting at an agency level.

## FAQ and Glossary of Useful Terminology\*

\*Note: The Implementation Guide 2019-3, Leases contains further examples, illustrations, and clarification on terminology.

### Why is New Leasing Guidance Necessary?

New guidance is needed because the existing leasing standards have been in effect for decades without being changed or reconsidered. They do not take the definitions of assets and liabilities as defined by the GASB into consideration. Previous standards have been criticized for creating an artificial distinction between capital and operating leases when the economic impact is the same for the lessee.

### Is OSC acquiring a statewide contract for lease software?

No. OSC recommends individual state entities consider procuring lease maintenance software if that entity has a large volume of leases (for example, greater than 15 leases). Due to the ongoing maintenance required in developing amortization schedules for each lease, accounting for lease additions, terminations, and modifications, as well as many other moving parts to the overall lease liability and lease asset calculations, entities with a large volume of leases or very decentralized operations should consider procurement of a lease maintenance software to ensure compliance with GASB 87.

### What is a "Lease" under GASB 87?

Entities enter into leasing arrangements within the normal course of business. With the new standard, a lease is defined as a contract 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. Examples of nonfinancial assets include buildings, land, vehicles, and equipment.

### What arrangements are NOT subject to GASB 87?

GASB 87 does NOT apply to:

- a.) Leases of intangible assets, biological assets, and inventory (e.g., software subscriptions, animals/plants, and finished goods inventory)
- b.) Service concession arrangements
- c.) Leases in which the underlying asset is financed with conduit debt
- d.) Supply contracts: such contracts convey access to output of assets, not control of right to use asset
- e.) Leases of financial assets reported as investments
- f.) Short term leases, as defined in GASB 87 paragraph 16 (see definition below)
- g.) Contracts that transfer ownership of the underlying asset by the end of the lease term and do not contain termination options (such contracts are considered financed purchases). If

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termination options exist, regardless of the probability of exercising the options, the transaction should be reported as a lease if all other requirements of GASB 87 are met.

**Short-term lease** - (outside scope of GASB 87) – 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 their probability of being exercised. Options to terminate the lease are excluded. For a lease that is cancellable by either the lessee or the lessor, such as a rolling month-to-month lease or a year-to-year lease, the maximum possible term is the noncancelable period, including any notice periods. For example, if an agency has a year-to-year lease on a machine but must give at least 90-days' notice to cancel the lease, the lease term is the 12-month non-cancellable period, PLUS the notice period of 90 days. As such, the total lease term is 15 months and would not be considered a short-term lease. However, in this example, if there is no required notice period, the lease term would be 12 months, and as such a short-term lease is not subject to the requirements of GASB 87. See Questions 4.17-4.20 in the Implementation Guide 2019-3, Leases for additional examples.

**Lease term** - the period during which a lessee has a non-cancellable right to use an underlying asset.

**Lease-leaseback transaction** - an asset is leased by one party (first party) to another party and then leased back to the first party.

**Sublease** - a lease by a lessee of part or all leased assets to another person but with the original lessee retaining rights or interest under the original lease.

**Sale-leaseback transaction** – involves the sale of an underlying asset by the owner, and a lease of the property back to the seller.

**Fiscal Funding/Cancellation Clause** - A government agency may place a fiscal funding clause in a lease, which states that the government agency has the option to break the lease if it does not receive the money to make the lease payment through the appropriation process. The fiscal funding clause provides the government agency with a safety measure that eliminates the risk that it will have to pay high cancellation fees.

**Incremental Borrowing Rate** – The rate that, at the inception of the lease, the lessee would have incurred to borrow over a similar term, the resources necessary to purchase the leased asset.

**Present Value** - The discounted value of a future amount or amounts of cash, assuming a given rate of interest.

**Regulated Lease** - Leases that are subject to external laws, regulations, or legal rulings. For example, the U.S. Department of Transportation and the Federal Aviation Administration regulate aviation leases between airports and air carriers and other aeronautical users.

## Appendix B: OSC Decision Guide for Lease Identification

**Note:** This decision chart does not replace reading GASB 87 and related implementation guidance. This chart is meant as a non-authoritative guide for the most common decisions to be made when identifying whether a contract contains a lease.

**Instructions:** For each contract that is currently reported as an operating or capital lease, OR for any contract that may contain a leasing component, go through this Decision Guide to verify whether you have a lease that needs to be reported under GASB 87.

**1a. Is there a contract in existence for a specified period of time with another entity?**

**\*Note:** Answer "no" if this is a lease between agencies or departments of the State (e.g. between DPS and DOT).

(GASB 87, para. 4)

\_\_\_\_\_ (Go to Question 1b.)  
YES

\_\_\_\_\_ (This contract does not contain a lease.)  
NO

**1b. Is there an identified non-financial asset?**

(GASB 87, para. 7)

\_\_\_\_\_ (Go to Question 1c.)  
YES

\_\_\_\_\_ (This contract does not contain a lease.)  
NO

**1c. Does the contract meet any of the exclusions for GASB 87?  
(See Chart Below)**

GASB 87 does NOT apply to:

- a.) Leases of intangible assets, biological assets, and inventory [GASB 87, para. 8] (e.g. software subscriptions, animals/plants, and finished goods inventory)
- b.) Service concession arrangements [GASB 87, para. 8]
- c.) Leases in which the underlying asset is financed with conduit debt [GASB 87, para. 8]
- d.) Supply contracts; such contracts convey access to output of assets, not control of the right to use the asset [GASB 87, para. 8]
- e.) Leases of financial assets reported as investments [GASB 87, para. 41]
- f.) Short term leases, as defined in GASB 87 paragraph 16 (See Links Below)
- g.) Contracts that transfer ownership at the end of the lease term and do not contain termination options [GASB 87, para. 19]. If termination options exist, regardless of the probability of exercising the options, the transaction should be reported as a lease if all other requirements of GASB 87 are met. (such contracts are considered financed purchases)

\_\_\_\_\_ (This contract does not contain a GASB 87 lease.)  
YES

\_\_\_\_\_ (Go to Question 1d.)  
NO

**Appendix B**

**1d. Does the contract specify that equal or near-equal value is exchanged for the user's right to use the asset?**

(GASB 87, para. 4)

\_\_\_\_\_ (Go to Question 2a.)  
YES

\_\_\_\_\_ (This contract does not contain a lease.)  
NO

**2a. Does the user of the asset have the right to obtain the present service capacity from use of the underlying asset throughout the period of use?**

(GASB 87, para. 5)

\_\_\_\_\_ (Go to Question 2b.)  
YES

\_\_\_\_\_ (This contract does not contain a lease.)  
NO

**2b. Does the user have the right to determine the nature and manner of use of the underlying asset as specified in the contract?**

(GASB 87, para. 5)

\_\_\_\_\_ Primary Government Agencies: This contract may  
contain a lease. Go to Question 3.  
YES \_\_\_\_\_ Component Units: This contract contains a lease if it  
meets your entity's capitalization threshold for leases.

\_\_\_\_\_ (This contract does not contain a lease.)  
NO

**3. \*Primary Government Agencies Only\* - Does this lease arrangement meet the capitalization threshold set forth in OSC Statewide Accounting Policy 105.7, Leases?**

\_\_\_\_\_ This contract contains a lease.  
YES \_\_\_\_\_ Must report for statewide  
accounting and reporting  
purposes.

\_\_\_\_\_ Immaterial for reporting  
purposes. Expense payments as  
they are made.  
NO

**Appendix C:  
How to Determine Your Lease Term - Examples**

**Example 1**

Fact Pattern: A 5-year lease, and the lessee is able to cancel the lease after 4 years.

	Lessee		Lessor		Lease Term (Noncancelable Period)
	Terminate	Extend	Terminate	Extend	
Certainty Level of Being Exercised (Uncertain or Reasonably Certain)	<i>Uncertain</i>	<i>na</i>	<i>na</i>	<i>na</i>	<b>5 years</b>
	<i>Reasonably Certain</i>	<i>na</i>	<i>na</i>	<i>na</i>	<b>4 years</b>

**Example 2**

Fact Pattern: A 5-year lease, and the lessee is able to extend the lease 3 more years after Year 4.

	Lessee		Lessor		Lease Term (Noncancelable Period)
	Terminate	Extend	Terminate	Extend	
Certainty Level of Being Exercised (Uncertain or Reasonably Certain)	<i>na</i>	<i>Uncertain</i>	<i>na</i>	<i>na</i>	<b>5 years</b>
	<i>na</i>	<i>Reasonably Certain</i>	<i>na</i>	<i>na</i>	<b>7 years</b>

**Example 3**

Fact Pattern: A 5-year lease. Lessee is able to extend the lease to 6 years, Lessor is able to cancel after 4 years.

	Lessee		Lessor		Lease Term (Noncancelable Period)
	Terminate	Extend	Terminate	Extend	
Certainty Level of Being Exercised (Uncertain or Reasonably Certain)	<i>na</i>	<i>Uncertain</i>	<i>Uncertain</i>	<i>na</i>	<b>5 years</b>
	<i>na</i>	<i>Reasonably Certain</i>	<i>Reasonably Certain</i>	<i>na</i>	<b>4 years</b>
	<i>na</i>	<i>Uncertain</i>	<i>Reasonably Certain</i>	<i>na</i>	<b>4 years</b>
	<i>na</i>	<i>Reasonably Certain</i>	<i>Uncertain</i>	<i>na</i>	<b>6 years</b>

**Example 4**

Fact Pattern: A 5-year lease. Both the Lessee and the Lessor can cancel after 4 years without permission from the other party.

	Lessee		Lessor		Lease Term (Noncancelable Period)
	Terminate	Extend	Terminate	Extend	
Certainty Level of Being Exercised (Uncertain or Reasonably Certain)	<i>Uncertain</i>	<i>na</i>	<i>Uncertain</i>	<i>na</i>	<b>4 years</b>
	<i>Reasonably Certain</i>	<i>na</i>	<i>Reasonably Certain</i>	<i>na</i>	<b>4 years</b>
	<i>Uncertain</i>	<i>na</i>	<i>Reasonably Certain</i>	<i>na</i>	<b>4 years</b>
	<i>Reasonably Certain</i>	<i>na</i>	<i>Uncertain</i>	<i>na</i>	<b>4 years</b>

\*Note - the entire lease is cancelable after 4 years by either party. As such, the noncancelable period is 4 years, not 5.



**Example 5**

Fact Pattern: A 6-month lease. Option to extend for an additional 6 months, and the lessee or lessor can cancel after 6 months.

	Lessee		Lessor		Lease Term (Noncancelable Period)
	Terminate	Extend	Terminate	Extend	
Certainty Level of Being Exercised (Uncertain or Reasonably Certain)	<i>Not applicable - this is a short term lease with a maximum possible term of 12 months or less, including any options to extend or terminate, regardless of whether either party is reasonably certain they will extend.</i>				

**Example 6** **\*\*NEW Example Added, July 2020\*\***

Fact Pattern: A 6-month lease. Lessee option to extend for additional 7 months.

	Lessee		Lessor		Lease Term (Noncancelable Period)
	Terminate	Extend	Terminate	Extend	
Certainty Level of Being Exercised (Uncertain or Reasonably Certain)	<i>na</i>	<i>Reasonably Certain</i>	<i>na</i>	<i>na</i>	<b>13 months*</b>
	<i>na</i>	<i>Uncertain</i>	<i>na</i>	<i>na</i>	<b>6 months*</b>

**\*Note: This example does NOT meet the short term lease exception requirement. This is because the short term exception includes any options to extend, regardless of how reasonably certain the lessee is to exercise the option.**

NC Office of the State Controller - APPENDIX D, Part 1

New Accounts Added to Implement GASB Statement 87, Leases

Effective for fiscal year 2022

	New NCAS Account #	Full Account Title Account Classification Definition	NCAS Account Title (25 Char) Financial Statement Caption DSS Financial Statement Rollup
1	115300	Lease Receivable <b>Receivable (Current Asset)</b> Definition: This account represents the present value of lease payments expected to be received within one year of the balance sheet date by a lessor in a leasing arrangement. This account is for use by governmental and proprietary lessors, including component units of the State.	LEASE RECEIVABLE rolls to new caption "Lease Receivable" in the Assets section on the balance sheet (DSS 11G/11P).
2	115301	Allowance for Doubtful Accounts - Leases <b>Contra-Receivable (Current portion)</b> To account for the current portion of lease payments the lessor assesses to be uncollectible.	ALLOW-DOUBT ACCTS-LEASES rolls to new caption "Lease Receivable" as a reduction of the asset in the Assets section on the balance sheet (DSS 11G/11P).
3	125300	Lease Receivable-Noncurrent <b>Receivable (Noncurrent Asset)</b> Definition: This account represents the present value of lease payments expected to be received at least one year or more subsequent to the balance sheet date by a lessor in a leasing arrangement. This account is for use by proprietary lessors, including component units of the State.	LEASE RECEIVABLE-NONCURRE rolls to new caption "Lease Receivable, Noncurrent" in the Noncurrent Assets section of the balance sheet for proprietary funds (DSS 11P). This is not valid on the DSS 11G for governmental funds.
4	125301	Allowance for Doubtful Accounts - Leases <b>Contra-Receivable (Noncurrent portion)</b> To account for the noncurrent portion of lease payments the lessor assesses to be uncollectible.	ALLOW-DOUBT ACCTS-LEASES rolls to new caption "Lease Receivable, Noncurrent" as a reduction of the asset in the Noncurrent Assets section of the balance sheet for proprietary funds (DSS 11P). This is not valid on the DSS 11G for governmental funds.
5	127001	Right to Use Lease Asset - Land and Permanent Easements <b>Capital Assets</b> Definition: This account represents the value of the intangible Right to Use lease asset for leased land and permanent easements accounted for under GASB Statement 87, Leases. The value in this account should include all capitalizable costs applicable under GASB Statement 87, Leases. See OSC Statewide Accounting Policy 105.7 and the GASB 87 Financial Reporting Update for further details.	RTU-LAND rolls to new caption under "Capital Assets" on the DSS 11P/11G.
6	127101	Right to Use Lease Asset - Buildings <b>Capital Assets</b> Definition: This account represents the value of the intangible Right to Use lease asset for leased permanent structures accounted for under GASB Statement 87, Leases. The value in this account should include all capitalizable costs applicable under GASB Statement 87, Leases. See OSC Statewide Accounting Policy 105.7 and the GASB 87 Financial Reporting Update for further details.	RTU-BUILDINGS rolls to new caption under "Capital Assets" on the DSS 11P/11G.

NC Office of the State Controller - APPENDIX D, Part 1

New Accounts Added to Implement GASB Statement 87, Leases

Effective for fiscal year 2022

	<b>New NCAS Account #</b>	<b>Full Account Title Account Classification Definition</b>	<b>NCAS Account Title (25 Char) Financial Statement Caption DSS Financial Statement Rollup</b>
7	127350	Right to Use Lease Asset - Machinery & Equipment <b>Capital Assets</b> Definition: This account represents the value of the intangible Right to Use lease asset for leased machinery and equipment accounted for under GASB Statement 87, Leases. This account includes leases for furniture, general equipment, motor vehicles, and motorized equipment. The value in this account should include all capitalizable costs applicable under GASB Statement 87, Leases. See OSC Statewide Accounting Policy 105.7 and the GASB 87 Financial Reporting Update for further details.	RTU-MACHINERY & EQUIPMENT rolls to new caption under "Capital Assets" on the DSS 11P/11G.
8	127295	Right to Use Lease Asset - General Infrastructure <b>Capital Assets</b> Definition: This account represents the value of the intangible Right to Use lease asset for leased general infrastructure accounted for under GASB Statement 87, Leases. The value in this account should include all capitalizable costs applicable under GASB Statement 87, Leases. See OSC Statewide Accounting Policy 105.7 and the GASB 87 Financial Reporting Update for further details.	RTU-GENL INFRASTRUCTURE rolls to new caption under "Capital Assets" on the DSS 11P/11G.
9	127970	Accumulated Depreciation-Leased Asset-Land <b>Capital Assets, Depreciable</b>	ACCUM DEPREC RTU-LAND rolls to new caption under "Accumulated Depreciation" within the Depreciable Capital Assets parent category on DSS 11P/11G.
10	127971	Accumulated Depreciation-Leased Asset-Buildings <b>Capital Assets, Depreciable</b>	ACCUM DEPREC RTU-BLDG rolls to new caption under "Accumulated Depreciation" within the Depreciable Capital Assets parent category on DSS 11P/11G.
11	127972	Accumulated Depreciation-Leased Asset-Machinery and Equipment <b>Capital Assets, Depreciable</b>	ACCUM DEPREC RTU-MACH&EQ rolls to new caption under "Accumulated Depreciation" within the Depreciable Capital Assets parent category on DSS 11P/11G.
12	127973	Accumulated Depreciation-Leased Asset-General Infrastructure <b>Capital Assets, Depreciable</b>	ACCUM DEPREC RTU-GEN INFR rolls to new caption under "Accumulated Depreciation" within the Depreciable Capital Assets parent category on DSS 11P/11G.

NC Office of the State Controller - APPENDIX D, Part 1

New Accounts Added to Implement GASB Statement 87, Leases

Effective for fiscal year 2022

	<b>New NCAS Account #</b>	<b>Full Account Title Account Classification Definition</b>	<b>NCAS Account Title (25 Char) Financial Statement Caption DSS Financial Statement Rollup</b>
13	229208	<p>Deferred Inflows of Resources for Lease Agreements</p> <p><b>Deferred Inflows of Resources</b></p> <p>Definition: For deferred inflows of resources defined by GASB Statement 87, Leases. Amounts reported in this account are amortized over the lease term. This account is for use by governmental and proprietary lessors, including component units of the State.</p>	<p>DEF INFLOWS LEASE AGMTS</p> <p>rolls to new caption under "Deferred Inflows of Resources" on the DSS 11P/11G.</p>
14	437128	<p>Lease Interest Revenue</p> <p><b>Nonoperating Misc. Revenue (11P) / Misc. Revenue (11G)</b></p> <p>Definition: This account represents interest revenue related to leases accounted for under GASB 87, Leases. This account is for use by governmental and proprietary lessors, including component units of the State.</p>	<p>LEASE INTEREST</p> <p>rolls to new caption under "nonoperating revenues" on the DSS 53P and existing caption "miscellaneous revenue" on the DSS 52G.</p>
15	534140	<p>Right to Use - Land and Permanent Easements</p> <p><b>Property, Plant &amp; Equipment Expense/Expenditure</b></p> <p>Definition: This account represents capitalizable costs during the fiscal year related to lease agreements for land and permanent easements accounted for under GASB Statement 87, Leases. This account is for use by governmental and proprietary funds, including component units of the State of North Carolina. These costs must be capitalized as part of the 127001 Right to Use Lease Asset at year end.</p>	<p>RTU-LAND AND PERM EASE</p> <p>rolls under Expenditures, Other - Capital Outlay on the DSS 52G. For the DSS 53P, this account can be found under Unclassified/Invalid Accounts - Valid accts (must be 0 at year end). *This 534XXX account can be used by proprietary funds but should have a zero balance at year end.*</p>
16	534240	<p>Right to Use - Buildings</p> <p><b>Property, Plant &amp; Equipment Expense/Expenditure</b></p> <p>Definition: This account represents capitalizable costs during the fiscal year related to lease agreements for permanent structures accounted for under GASB Statement 87, Leases. This account is for use by governmental and proprietary funds, including component units of the State of North Carolina. These costs must be capitalized as part of the 127101 Right to Use Lease Asset at year end.</p>	<p>RTU-BUILDINGS</p> <p>rolls under Expenditures, Other - Capital Outlay on the DSS 52G. For the DSS 53P, this account can be found under Unclassified/Invalid Accounts - Valid accts (must be 0 at year end). *This 534XXX account can be used by proprietary funds but should have a zero balance at year end.*</p>
17	534425	<p>Right to Use - General Infrastructure</p> <p><b>Property, Plant &amp; Equipment Expense/Expenditure</b></p> <p>Definition: This account represents capitalizable costs during the fiscal year related to lease agreements for general infrastructure accounted for under GASB Statement 87, Leases. This account is for use by governmental and proprietary funds, including component units of the State of North Carolina. These costs must be capitalized as part of the 127295 Right to Use Lease Asset at year end.</p>	<p>RTU-GENL INFRASTRUCTURE</p> <p>rolls under Expenditures, Other - Capital Outlay on the DSS 52G. For the DSS 53P, this account can be found under Unclassified/Invalid Accounts - Valid accts (must be 0 at year end). *This 534XXX account can be used by proprietary funds but should have a zero balance at year end.*</p>
18	534560	<p>Right to Use - Machinery and Equipment</p> <p><b>Property, Plant &amp; Equipment Expense/Expenditure</b></p> <p>Definition: This account represents capitalizable costs during the fiscal year related to lease agreements for machinery and equipment accounted for under GASB Statement 87, Leases. This account is for use by governmental and proprietary funds, including component units of the State of North Carolina. These costs must be capitalized as part of the 127350 Right to Use Lease Asset at year end.</p>	<p>RTU-MACH &amp; EQUIP</p> <p>rolls under Expenditures, Other - Capital Outlay on the DSS 52G. For the DSS 53P, this account can be found under Unclassified/Invalid Accounts - Valid accts (must be 0 at year end). *This 534XXX account can be used by proprietary funds but should have a zero balance at year end.*</p>

**NC Office of the State Controller - APPENDIX D, Part 2**  
**Existing Accounts Modified to Implement GASB Statement 87, Leases**  
**Effective for fiscal year 2022**

<b>OSC Action</b>	<b>NCAS Account #</b>	<b>Old Account Title: Account Classification Old F/S Caption; Old Definition</b>	<b>New NCAS Account Title Acct classification F/S caption; Definition</b>
1 Caption Title Change, Modify Description	214100	Capital Leases Payable Current Liabilities Old F/S Caption: Capital Leases Payable Old Definition: This account is used to record the principal payments related to a capital lease due in the current period.	<u>New Account Title:</u> LEASE LIABILITY <u>Acct. Classification:</u> Current Liabilities <u>F/S Caption:</u> Lease Liability <u>New Definition:</u> This account is used to record the principal payments related to a lease due in the current period.
2 Caption Title Change, Modify Description	224100	Capital Leases Payable Noncurrent Liabilities Old F/S Caption: Capital Leases Old Definition: This account is used to record the principal payments related to a capital lease due at a future date at least one year or more subsequent to the balance sheet date.	<u>New Account Title:</u> LEASE LIABILITY-NONCURR <u>Acct. Classification:</u> Noncurrent Liabilities <u>F/S Caption:</u> Lease Liability <u>New Definition:</u> This account is used to record the principal payments related to a lease due at a future date at least one year or more subsequent to the balance sheet date. This is the value of the lease liability as calculated per GASB Statement 87 requirements, and is reduced by the current portion each year.
3 Caption Title Change.	437213	Proceeds - Capital Leases Other Financing Source Old F/S Caption: Other Debt Issued Old Definition: none.	<u>New Account Title:</u> PROCEEDS-LEASES <u>Acct. Classification:</u> Other Financing Source <u>F/S Caption:</u> Other Debt Issued <u>New Definition:</u> For use by governmental funds only.
4 Caption Title Change.	535313	Capital Lease Principal Payments Other Expenses & Adjustments Old F/S Caption: Principal Retirement Old Definition: none	<u>New Account Title:</u> LEASE PRINCIPAL PAYMENTS <u>Acct. Classification:</u> Other Expenses & Adjustments <u>New F/S Caption:</u> Principal Retirement (Expenditures DSS 52G) <u>New Definition:</u> This is a valid expenditure account for governmental funds. This is a valid nonoperating expense for proprietary funds and can be found under Unclassified/Invalid Accounts-Valid accts (must be 0 at year end). This account must have a 0 balance at year-end.
5 Caption Title Change.	535323	Capital Lease Interest Other Expenses & Adjustments Old F/S Caption: Interest and Fees (52G) or Debt Interest (53P) Old Definition: none	<u>New Account Title:</u> LEASE INTEREST PAYMENTS <u>Acct. Classification:</u> Other Expenses & Adjustments <u>New F/S Caption:</u> Interest and Fees (Expenditures DSS 52G) or Interest and Fees with subcaption of Debt Interest (Nonoperating Expenses DSS 53P) <u>New Definition:</u> none

## **Appendix E Fixed Asset System Guidance, Journal Entries Examples, and ACFR Worksheet Examples:**

For each of the examples below, OSC used a lease amortization template received from a third-party. This template was shared with state agencies and component units that did not procure lease software. This template is intended to be used by entities that have a small number of leases that are not complex. This template can be obtained from [OSC's website](#) and is titled "Lease\_Amortization\_Final.zip" file.

The examples below do not incorporate all scenarios that could impact the lease liability and lease asset for the lessee and the lease receivable and deferred inflow of resources for the lessor. Guidance is provided in this Financial Reporting Update in the "General Reporting Requirements – Lessee" section to properly measure the lease asset and lease liability and in the "General Reporting Requirements – Lessor" section to properly measure the lease receivable and deferred inflow of resources. The examples for the lessor will be added to this document at a later date.

### **Primary Government (State Agencies) Lessees:**

Governmental Funds (General, Special Revenue, Permanent, and Capital Projects Funds)

- [Previous Operating Leases](#)
- [Previous Capital Leases](#)
- [New Leases](#)

Proprietary Funds (Enterprise and Internal Service Funds)

- [Previous Operating Leases](#)
- [Previous Capital Leases](#)
- [New Leases](#)

### **Universities and State Health Plan Lessees:**

- [Previous Operating Leases](#)
- [Previous Capital Leases](#)
- [New Leases](#)

### **Community Colleges Lessees:**

- [Previous Operating Leases](#)
- [Previous Capital Leases](#)
- [New Leases](#)

### **Nonmajor Component Units Lessees:**

- [Previous Operating Leases](#)
- [Previous Capital Leases](#)

- [New Leases](#)

## Primary Government (State Agencies)

### Lessees

In the examples below it has been determined that the lease criteria in GASB Statement 87 and the OSC [capitalization threshold](#) have been met so a lease asset and liability will be reported in FY 2022 based on the GASB 87 requirements.

#### 1) Previous Operating Leases

##### Governmental Funds (General, Special Revenue, Permanent, and Capital Projects Funds):

##### Facts:

Agency ABC had an operating lease for a building as of June 30, 2021.

Since it was reported as an operating lease there is no existing asset or liability in the financial statements or capital asset in the Fixed Asset System.

The data for this lease was entered in the Lease Amortization spreadsheet, referred to at the beginning of this Appendix, on the Inventory tab. All columns on the Inventory tab were completed. Here is a screen shot of the first five columns of this inventory tab.

Agreement	Agreement Effective Date	Lessee/Lessor	Governmental/BTA	Underlying Asset Type
Existing Op Lease-GOVT LESSEE	7/1/2021	Lessee	Governmental	Building

Once all data is entered on the Inventory tab for this agreement, including a “yes” in the “Preparer Consideration of Materiality” column AN, an “Existing Op Lease-GOVT LESSEE” tab is generated.

Note: a new tab will not be created if “yes” is not selected in column AN. The title of the tab is the Agreement name from the Inventory tab.

The screenshot shows a software interface with several elements highlighted in red boxes:

- A dropdown menu containing the text "AN".
- A dropdown menu titled "Preparer Consideration of Materiality (yes = material, no = not considered)" with "Yes" selected.
- A navigation bar at the bottom with tabs: "Inventory", "Asset Classes", "Summary Am\_Sch", "Template", and "Existing Op Lease-GOVT LESSEE". The "Existing Op Lease-GOVT LESSEE" tab is highlighted.

Click on this detail tab, “Existing Op Lease-GOVT LESSEE,” to obtain the information for the fixed asset system, journal entries, and ACFR Worksheets as noted in the screen shots below.

***Lease Inputs (input information based on lease inventory tab)***

Lease Commencement Date 7/1/2021

Lease Term 2.00

Number of Payments 24.00

What is the payment frequency? Annual / SemiAnnual / Quarterly / Monthly / Weekly Monthly

When are lease payments made? (B)eginning of the period in advance or (E)nd of the period in arrears Beginning

Payment #	Date	Lease Liability Opening Balance	Payments	Interest Expense	Principal	Lease Liability Closing Balance
0	7/1/2021	\$ 116,071	\$ 5,000		\$ 5,000	\$ 111,071
1	8/1/2021	111,071	\$ 5,000	324	\$ 4,676	106,395
2	9/1/2021	106,395	\$ 5,000	310	\$ 4,690	101,705
3	10/1/2021	101,705	\$ 5,000	297	\$ 4,703	97,002
4	11/1/2021	97,002	\$ 5,000	283	\$ 4,717	92,285
5	12/1/2021	92,285	\$ 5,000	269	\$ 4,731	87,554
6	1/1/2022	87,554	\$ 5,000	255	\$ 4,745	82,809
7	2/1/2022	82,809	\$ 5,000	242	\$ 4,758	78,051
8	3/1/2022	78,051	\$ 5,000	228	\$ 4,772	73,279
9	4/1/2022	73,279	\$ 5,000	214	\$ 4,786	68,492
10	5/1/2022	68,492	\$ 5,000	200	\$ 4,800	63,692
11	6/1/2022	63,692	\$ 5,000	186	\$ 4,814	58,878
12	7/1/2022	58,878	\$ 5,000	172	\$ 4,828	54,050
13	8/1/2022	54,050	\$ 5,000	158	\$ 4,842	49,207
14	9/1/2022	49,207	\$ 5,000	144	\$ 4,856	44,351
15	10/1/2022	44,351	\$ 5,000	129	\$ 4,871	39,480
16	11/1/2022	39,480	\$ 5,000	115	\$ 4,885	34,595
17	12/1/2022	34,595	\$ 5,000	101	\$ 4,899	29,696
18	1/1/2023	29,696	\$ 5,000	87	\$ 4,913	24,783
19	2/1/2023	24,783	\$ 5,000	72	\$ 4,928	19,855
20	3/1/2023	19,855	\$ 5,000	58	\$ 4,942	14,913
21	4/1/2023	14,913	\$ 5,000	43	\$ 4,957	9,956
22	5/1/2023	9,956	\$ 5,000	29	\$ 4,971	4,985
23	6/1/2023	4,985	\$ 5,000	15	\$ 4,985	0
24	Last Period	0	\$ -	0	\$ (0)	0
Total			\$ 120,000	3,929	\$ 116,071	

Remaining lease term: 2 years

Lease Liability measured per GASB 87 \$116,071

RTU lease asset – Building \$116,071



Building Useful life: 55 years (per OSC policy)

Principal payment: Monthly, \$57,193 total in FY 22; \$58,878 total in FY 23

Interest payment: Monthly, \$2,807 total in FY 22; \$1,122 total in FY 23

**Fixed Asset System State Agency:**

- Add the Intangible Right to Use (RTU) lease asset to the fixed asset system manually with a June 2021 acquisition date. (There will be no 534xxx accounts recorded in NCAS for this transaction). The asset will be added in FAS using the 534xxx account that maps to the 127xxx account. This account will be entered as the object code using the last four digits of the expenditure account beginning with 4xxx and not the asset account. See the RTU expenditure and lease asset accounts in the NCAS Accounts chart below for applicable accounts. The RTU lease asset is equal to the lease liability since this is an existing lease. Guidance on measuring the lease liability is included in the “General Reporting Requirements – Lessee” section of this Financial Reporting Update.

Add RTU Building by entering the following:

- New FAS Asset number
  - Enter object code: 4240
  - Acquisition date: 202112
  - Cost of asset: \$116,071
  - Depreciable asset
- Input the shorter of the remaining useful life or remaining lease term as of July 1, 2021, for amortization/depreciation to begin in FY 2022. A full year’s depreciation will be taken beginning in FY 2022 based on the number of years input by the agency not the default for useful life. Since the remaining lease term of two years is less than the useful life of a building (55 years), the remaining lease term will be input in FAS.  
Enter shorter of lease term or useful life:
    - Enter “useful life”: 2 years
  - The FAS should not catch-up depreciation; no depreciation prior to July 1, 2021. Depreciation will be calculated by the OSC technical team based on the information input by the agency. OSC will know not to catch-up depreciation based on the object code and RTU lease asset in the title. No restatement will need to be done for accumulated depreciation. Just a full year depreciation taken in the current year.

**Note:** The OSC Statewide Accounting Financial Reporting team emailed a spreadsheet to agency contacts. Each agency that uses FAS should complete this spreadsheet and return to OSC by July 1, 2022. This spreadsheet should include only the information for operating leases that existed as of July 1, 2022 and met the requirements to be reported as a lease. If this spreadsheet is submitted to OSC, the agency should not manually enter these lease assets in FAS. The OSC technical team will load this information in the Fixed Asset System programmatically.

**NCAS Accounts:**

<b>Right to Use (RTU) Expenditure/Expense Accounts to be keyed in FAS</b>	<b>Intangible Right to Use (RTU) Lease Asset Accounts (mapped based on the related 534xxx account)</b>
534140 RTU – Land and Permanent Easements	127001 RTU Lease Asset – Land and Permanent Easements
534240 RTU – Buildings	127101 RTU Lease Asset – Buildings
534560 RTU – Machinery and Equipment	127350 RTU Lease Asset – Machinery & Equipment
534425 RTU – General Infrastructure	127295 RTU Lease Asset – General Infrastructure

**Journal Entries:**

The entries below are prepared using the data from the Lease Amortization template spreadsheet screen shots above.

- 1) To book the lease liability as of July 1, beginning balance of lease liability. This liability should be measured at the present value of future lease payments per the guidance in “General Reporting Requirements – Lessee” section of this Financial Reporting Update.

Entry in NCAS in GASB 5200, July 1, 2021 balance (Post with a June 30<sup>th</sup> date if the budget code is certified on a monthly basis so recertification is not required):

Debit 128100 Amount available and to be provided \$116,071  
Credit 224100 Lease liability – Noncurrent \$116,071

- 2) Cash basis entries:

To record periodic lease payments. Make this entry for the frequency of payments required to be made based on your contractual obligation (i.e., monthly, quarterly, annually, etc.). In this example payments will be made monthly.

July 1, 2021 principal payment:

Debit 535313 Lease Principal Payments expenditure \$5,000  
Credit Cash \$5,000

August 1, 2021 principal and interest payments:

Debit 535313 Lease Principal Payments expenditure \$4,676  
Debit 535323 Lease Interest Payments expenditure \$ 324  
Credit Cash \$5,000

Payments will be made each month according to the Lease Amortization schedule (see screen shot above).

Total Principal Payments recorded to account 535313 Lease Principal Payments expenditure at June 30, 2022: \$57,193

Total interest payments recorded to account 535323 Lease Interest expenditure at June 30, 2022: \$2,807

Since this lease was previously classified as an operating lease, if any payments on the lease were recorded as rent expenditures (account 5325XX) during the 2022 fiscal year, these expenditures will need to be reclassified to lease principal and interest payments.

Debit 535313 Lease Principal Payments expenditure  
Debit 535323 Lease Interest Payments expenditure  
Credit 5325XX Rent expenditure

- 3) To reduce the lease liability by the principal payments made during the year in GASB 5200. Entries can be made each month as principal payments are made, or they can be done at year-end.

- If choose to reduce liability as principal payments are made:

Entry in NCAS in GASB 5200, July 2021:

Debit 224100 Lease liability – Noncurrent	\$5,000
Credit 128100 Amount available and to be provided	\$5,000

Entry in NCAS in GASB 5200, August 2021:

Debit 224100 Lease liability – Noncurrent	\$4,676
Credit 128100 Amount available and to be provided	\$4,676

Entries continue in NCAS in GASB 5200 for each month as payments are made.

- If choose to reduce liability for total principal payments made during year:

Entry in NCAS in GASB 5200, June 30, 2022:

Debit 224100 Lease liability – Noncurrent	\$57,193
Credit 128100 Amount available and to be provided	\$57,193

**ACFR Worksheets:**

The NCAS package was prepared using the data from the Lease Amortization template spreadsheet screen shots and journal entries above.

**203 Worksheet:**

90

91 5) Did your agency have any **previous operating leases** that were recorded as right to use assets in FY 2022 as of 7/1/2021?

92

93 Yes  No

94

95 **If you answered yes, please provide the following information for the right to use assets recorded in FY 2022.**

96

FAS Asset Number	Type of Asset	Cost- Right to Use Asset 7/1/2021
FAS number for RTU asset	RTU - Building	116,071.00
_____	_____	_____
_____	_____	_____

102 Total Cost of Right to Use Assets - Operating Lease 116,071.00

103 \*Restatement- Right to Use Assets/Operating Lease 116,071.00

104 \* Right to Use Asset cost related Operating Leases is the restatement amount to be reported on the ws 430G.

105

106 Please complete the column for Capital Assets GASB 5100 on worksheet 430G-Fund Equity Restatement.

107

108

<b>Restatement Amount for Right to Use Assets to be reported on WS 430G</b>	<b>116,071.00</b>
---	-------------------

109

110

The example above is for one lease. If your agency has numerous leases that were previously operating leases, and there are not enough spaces on the 203 WS, provide an Excel spreadsheet along with your package that contains the FAS Asset Number, Type of Asset, and Cost of the Right to Use Lease Assets as of 7/1/2021 for each lease asset. Input the total cost of the RTU Lease Assets as of July 1, 2021 on the 203 WS as noted below:

90

91 5) Did your agency have any **previous operating leases** that were recorded as right to use assets in FY 2022 as of 7/1/2021?

92

93 Yes  No

94

95 **If you answered yes, please provide the following information for the right to use assets recorded in FY 2022.**

96

FAS Asset Number	Type of Asset	Cost- Right to Use Asset 7/1/2021
See attached spreadsheet	See attached spreadsheet	1,000,000.00
_____	_____	_____
_____	_____	_____

102 Total Cost of Right to Use Assets - Operating Lease 1,000,000.00

103 \*Restatement- Right to Use Assets/Operating Lease 1,000,000.00

104 \* Right to Use Asset cost related Operating Leases is the restatement amount to be reported on the ws 430G.

105

106 Please complete the column for Capital Assets GASB 5100 on worksheet 430G-Fund Equity Restatement.

107

108

<b>Restatement Amount for Right to Use Assets to be reported on WS 430G</b>	<b>1,000,000.00</b>
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109

110

**The above amount is the total cost of all RTU Assets as of July 1**

301 Worksheet:

20  
21 **I. Lessee:**  
22 Complete the following schedule for required lease disclosures:  
23

	GovActivities	BusinessActivities	UnivFoundations	
Lease Payments for Fiscal Year	Governmental Activities	Business-type Activities <sup>(1)</sup>	University Foundations <sup>(1)</sup>	
2023	60,000.00			Y1
2024				Y2
2025				Y3
2026				Y4
2027				Y5
2028 - 2032				Y6-Y10
2033 - 2037				Y11-Y15
2038 - 2042				Y16-Y20
2043 - 2047				Y21-Y25
2048 - 2052				Y26-Y30
2053 - 2057				Y31-Y35
2058 - 2062				Y36-Y39
2063 - 2067				Y40-Y44
2068 - 2072				Y45-Y49
2073 - Beyond				Y50-Beyond
Less: Amount Representing Interest	(1,122.00)			Less: Amount Re
Lease Liability	58,878.00	<b>= June 30 lease liability on 305 WS</b>		

48  
49 **NOTE:** These balances must agree to LEASES PAYABLE on the balance sheet.  
50 (1) **Universities Only:** Leases of discretely presented component unit foundations should be reported separately in the "University Foundations" column.  
51 The total of the "Business-type Activities" and the "University Foundations" columns must agree to LEASES PAYABLE on the balance sheet.  
52  
53 **Additional disclosures are required in the attached ACFR Package Narratives. 301 Narrative WS is required**  
54 **Questions below (at bottom of WS) required to be answered**  
55 Do you have a lease with a component unit of the State?  
56 Yes \_\_\_\_\_ No \_\_\_\_\_ **Answer Missing**  
57 If yes, provide the component unit the lease is with and the amount of the lease.  
58 **Component Unit/ Lease amount** \_\_\_\_\_

305 Worksheet:

	Balance July 1, 2021	Prior Year Adjustments	Additions	Deletions	Balance June 30, 2022	Due Within One Year
	A	B	C	D	E	F
Bonds and similar debt payable:						
General obligation bonds						
GARVEE bonds						
Direct placements						
Certificates of participation						
Limited obligation bonds						
Issuance discounts						
Issuance premium				=535313 Lease principal payments on 52G	=224100 Lease liability, on 11G GASB 5200	
Arbitrage rebate payable						
Death benefit payable						
Workers compensation						
Notes from direct borrowings		=430G				
Leases payable		116,071.00		(57,193.00)	58,878.00	58,878.00
Pollution remediation payable						
Asset retirement obligation						
Compensated absences (Gen. Assembly only)						
Cost settlement payable						
Other (Call OSC/describe in Explanations tab)						
Accrued interest (Bonds, notes, leases)						



AN

**Preparer Consideration of Materiality (yes = material, no = not considered)**

Yes

Inventory | Asset Classes | Summary Am\_Sch | Template | **Existing Op Lease-BTA LESSEE**

Click on this detail tab, "Existing Op Lease-BTA LESSEE," to obtain the information for the fixed asset system, journal entries, and ACFR Worksheets as noted in the screen shots below.

**Lease Inputs (input information based on lease inventory tab)**

Lease Commencement Date	7/1/2021
Lease Term	8.00
Number of Payments	96.00
What is the payment frequency? Annual / SemiAnnual / Quarterly / Monthly / Weekly	Monthly
When are lease payments made? (B)eginning of the period in advance or (E)nd of the period in arrears	Beginning

Payment #	Date	Lease Liability Opening Balance	Payments	Interest Expense	Principal	Lease Liability Closing Balance
0	7/1/2021	\$ 16,774	\$ 200		\$ 200	\$ 16,574
1	8/1/2021	16,574	\$ 200	48	\$ 152	16,422
2	9/1/2021	16,422	\$ 200	48	\$ 152	16,270
3	10/1/2021	16,270	\$ 200	47	\$ 153	16,118
4	11/1/2021	16,118	\$ 200	47	\$ 153	15,965
5	12/1/2021	15,965	\$ 200	47	\$ 153	15,811
6	1/1/2022	15,811	\$ 200	46	\$ 154	15,657
7	2/1/2022	15,657	\$ 200	46	\$ 154	15,503
8	3/1/2022	15,503	\$ 200	45	\$ 155	15,348
9	4/1/2022	15,348	\$ 200	45	\$ 155	15,193
10	5/1/2022	15,193	\$ 200	44	\$ 156	15,037
11	6/1/2022	15,037	\$ 200	44	\$ 156	14,881
12	7/1/2022	14,881	\$ 200	43	\$ 157	14,725
13	8/1/2022	14,725	\$ 200	43	\$ 157	14,567
14	9/1/2022	14,567	\$ 200	42	\$ 158	14,410
15	10/1/2022	14,410	\$ 200	42	\$ 158	14,252
16	11/1/2022	14,252	\$ 200	42	\$ 158	14,094
17	12/1/2022	14,094	\$ 200	41	\$ 159	13,935
18	1/1/2023	13,935	\$ 200	41	\$ 159	13,775
19	2/1/2023	13,775	\$ 200	40	\$ 160	13,615
20	3/1/2023	13,615	\$ 200	40	\$ 160	13,455
21	4/1/2023	13,455	\$ 200	39	\$ 161	13,294
22	5/1/2023	13,294	\$ 200	39	\$ 161	13,133
23	6/1/2023	13,133	\$ 200	38	\$ 162	12,972

The above schedule continues for each year. A screen shot of the last two payments are included below.

95	6/1/2029	199	\$ 200	1	\$ 199	(0)
96	Last Period	(0)	\$ -	(0)	\$ 0	(0)
Total			\$ 19,200	2,426	\$ 16,774	

Remaining lease term: 8 years

Lease Liability measured per GASB 87 \$16,774

RTU lease asset – Equipment \$16,774

Equipment Useful life: 20 years (per OSC policy)

Principal payment: Monthly, \$1,893 total in FY 22; \$1,910 total in FY 23; continues through FY 2029

Interest payment: Monthly, \$507 total in FY 22; \$490 total in FY 23; continues through FY 2029

**Fixed Asset System State Agency:**

- Add the Intangible Right to Use (RTU) lease asset to the fixed asset system manually with a June 2021 acquisition date. (There will be no 534xxx accounts recorded in NCAS)



for this transaction). The asset will be added in FAS using the 534xxx account that maps to the 127xxx account. This account will be entered as the object code using the last four digits of the expense account beginning with 4xxx and not the asset account. See the RTU expense and lease asset accounts in the chart above (Existing operating lease for governmental fund section) for applicable accounts. The RTU lease asset is equal to the lease liability since this is an existing lease. Guidance on measuring the lease liability is included in the “General Reporting Requirements – Lessee” section of this Financial Reporting Update.

Add RTU Equipment by entering the following:

- New FAS Asset number
  - Enter object code: 4560
  - Acquisition date: 202112
  - Cost of asset: \$16,774
  - Depreciable asset
- Input the shorter of the remaining useful life or remaining lease term as of July 1, 2021, for amortization/depreciation to begin in FY 2022. A full year’s depreciation will be taken beginning in FY 2022 based on the shorter of the remaining useful life or remaining lease term. Since the remaining lease term of eight years is less than the useful life of equipment (20 years in this example), the remaining lease term will be input in FAS.
    - Enter shorter of lease term or useful life:
      - Enter “useful life”: 8 years
  - The FAS should not catch-up depreciation; no depreciation prior to July 1, 2021. Do not enter the PY LTD amount in FAS. No restatement will need to be done for accumulated depreciation. Just a full year depreciation taken in the current year.

**Note:** The OSC Statewide Accounting Financial Reporting team emailed a spreadsheet to agency contacts. Each agency that uses FAS should complete this spreadsheet and return to OSC by July 1, 2022. This spreadsheet should include only the information for operating leases that existed as of July 1, 2022 and met the requirements to be reported as a lease. If this spreadsheet is submitted to OSC, the agency should not manually enter these lease assets in FAS. The OSC technical team will load this information in the Fixed Asset System programmatically.

#### **Journal Entries:**

The entries below are prepared using the data from the Lease Amortization template spreadsheet screen shots above.

- 1) To book the lease liability and RTU lease asset as of July 1, beginning balance of RTU lease asset and lease liability. This liability should be measured at the present value of future lease payments per the guidance in “General Reporting Requirements – Lessee” section of this Financial Reporting Update. Since this is an existing lease, the RTU lease asset is equal to the lease liability.

Entry in NCAS as of July 1, 2021, beginning balance, to be posted with a June 30<sup>th</sup> date/13<sup>th</sup> period entry:

Debit 127350 RTU Lease Asset – Mach. & Equip.	\$16,774
Credit 214100 Lease liability – current	\$1,893
Credit 224100 Lease liability – Noncurrent	\$14,881

2) Cash basis entries:

To record periodic lease payments. Make this entry for the frequency of payments required to be made based on your contractual obligation (i.e., monthly, quarterly, annually, etc.). In this example payments will be made monthly. Enterprise and Internal Service Funds must zero out the Lease Principal Payments at 6/30 by reducing the Lease Liability for the principal payments made during the year.

July 1, 2021 principal payment:

Debit 535313 Lease Principal Payments expense	\$200
Credit Cash	\$200

August 1, 2021 principal and interest payments:

Debit 535313 Lease Principal Payments expense	\$152
Debit 535323 Lease Interest Payments expense	\$ 48
Credit Cash	\$200

Payments will be made each month according to the Lease Amortization schedule (see screen shot above).

Total Principal Payments recorded to account 535313 Lease Principal Payments expense at June 30, 2022: \$1,893

Total interest payments recorded to account 535323 Lease Interest expense at June 30, 2022: \$507

Since this lease was previously classified as an operating lease, if any payments on the lease were recorded as rent expense (account 5325XX) during the 2022 fiscal year, these expenses will need to be reclassified to lease principal and interest payments.

Debit 535313 Lease Principal Payments expense
Debit 535323 Lease Interest Payments expense
Credit 5325XX Rent Expense

3) To reduce the lease liability by the principal payments made during the year and reduce lease principal payments expense to zero.

13<sup>th</sup> period, June 30, 2022 entry:

Debit 214100 Lease liability – current	\$1,893
--	---------

Credit 535313 Lease Principal Payments expense \$1,893

4) Establish the current/noncurrent portions of lease liability for next fiscal year.

13<sup>th</sup> period, June 30, 2022 entry:

Debit 224100 Lease liability – Noncurrent \$1,910  
 Credit 214100 Lease liability – current \$1,910

5) Record current year depreciation expense and Accumulated Depreciation:

13<sup>th</sup> period, June 30, 2022 entry:

Debit 535430 Depreciation expense \$2,096.75  
 Credit 127972 Accumulated Depreciation RTU M&E \$2,096.75

**ACFR Worksheets:**

The NCAS package was prepared using the data from the Lease Amortization template spreadsheet screen shots and journal entries above.

201 Worksheet:

Description	Balance July 1, 2021	Prior Year Asset Adjustments	Additions		Retirements	Balance June 30, 2022
	A	B	Purchased Additions	Donated Additions		
11. Other intangible assets						
<b>Right to Use Lease assets, depreciable:</b>						
12. Right to Use Lease Asset- Land and permanent easements						
13. Right to Use Lease Asset- Buildings		=430BTA				
14. Right to Use Lease Asset- Machinery and equipment		16,774.00				16,774.00
15. Right to Use Lease Asset- General Infrastructure						
<b>Total Capital Assets</b>		16,774.00				16,774.00

210 Worksheet:

2022 ACFR V ACCUMULATED DE(210)				
NA - State Health Plan and Agencies with governments(SB 5100) using NCAS Fixed Asset System				
Description	Accumulated Depreciation Balance July 1, 2021	Prior Year Adjustments	Accumulated Depreciation Increases	Accumulated Depreciation Balance June 30, 2022
11. Other intangible assets				
<b>Right to Use Lease assets, depreciable:</b>				
12. Right to Use Lease Asset- Land and permanent easements				
13. Right to Use Lease Asset- Buildings				
14. Right to Use Lease Asset- Machinery and equipment			2,096.75	2,096.75
15. Right to Use Lease Asset- General Infrastructure				
<b>Total Accumulated Depreciation-Capital Assets</b>			2,096.75	2,096.75

301 Worksheet:

C	D	E	F	G	H	I	J	K	L	AD	AE
21	<b>I. Lessee:</b>										
22	Complete the following schedule for required lease disclosures:										
23				GovActivities	BusinessActivities	UnivFoundations					
24	<b>Lease</b>			<b>Governmental</b>	<b>Business-type</b>	<b>University</b>					
25	<b>Payments</b>			<b>Activities</b>	<b>Activities (1)</b>	<b>Foundations (1)</b>					
26	<b>for Fiscal Year</b>										
28	2023				2,400.00						Y1
29	2024				2,400.00						Y2
30	2025				2,400.00						Y3
31	2026				2,400.00						Y4
32	2027				2,400.00						Y5
33	2028 - 2032				4,800.00						Y6-Y10
34	2033 - 2037										Y11-Y15
35	2038 - 2042										Y16-Y20
36	2043 - 2047										Y21-Y25
37	2048 - 2052										Y26-Y30
38	2053 - 2057										Y31-Y35
39	2058 - 2062										Y36-Y39
40	2063 - 2067										Y40-Y44
41	2068 - 2072										Y45-Y49
42	2073 - Beyond										Y50-Beyond
45	Less: Amount Representing Interest				(1,919.00)						Less: Amount Re
47	Lease Liability				14,881.00						<b>= June 30 lease liability on 310 WS</b>
19	<b>NOTE:</b> These balances must agree to LEASES PAYABLE on the balance sheet.										
50	<b>(1) Universities Only:</b> Leases of discretely presented component unit foundations should be reported separately in the "University Foundations" column.										
51	The total of the "Business-type Activities" and the "University Foundations" columns must agree to LEASES PAYABLE on the balance sheet.										
53	<b>Additional disclosures are required in the attached ACFR Package Narratives. 301 Narrative WS is required</b>										
54	<b>Questions below (at bottom of WS) required to be answered</b>										
55	Do you have a lease with a component unit of the State?										
56		Yes		No							<b>Answer Missing</b>
57	If yes, provide the component unit the lease is with and the amount of the lease.										
58	<b>Component Unit/ lease amount</b>										



Cash Flows Excel Workbook:

Exh A:

	Comp 11P 2022	Comp 11P 2021	Restatement (Wkst 431BTA)	Comp 11P 2021, Restated	Change
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents				\$ —	\$ —
Pooled cash	(2,400.00)			—	(2,400.00)
Prepaid items				—	—
Total current assets	(2,400.00)	—	—	—	(2,400.00)
Capital assets – noncurrent:					
Capital assets – depreciable, net	14,677.25		16,774.00	16,774.00	(2,096.75)
Total noncurrent assets	14,677.25	—	16,774.00	16,774.00	(2,096.75)
Total assets	12,277.25	—	16,774.00	16,774.00	(4,496.75)
<b>LIABILITIES</b>					
Current liabilities:					
Obligations under securities				—	—
Lease liability (caption title change)	1,910.00		1,893.00	1,893.00	17.00
Unearned revenue				—	—
Total current liabilities	1,910.00	—	1,893.00	1,893.00	17.00
Noncurrent liabilities:					
Advances from other funds				—	—
Notes from direct borrowings				—	—
Lease liability (caption title change)	12,971.00		14,881.00	14,881.00	(1,910.00)
Net pension liability				—	—
Total noncurrent liabilities	12,971.00	—	14,881.00	14,881.00	(1,910.00)
Total liabilities	14,881.00	—	16,774.00	16,774.00	(1,893.00)
<b>NET POSITION</b>					
Total net position	\$ (2,603.75)	\$ —	\$ —	\$ —	\$ (2,603.75)

Exh B:

		DSS 53P 2022
<b>OPERATING EXPENSES</b>		
	Professional services	
	Contract for	
	Claims	
	Cost of goods sold	
	Depreciation	2,096.75
	Insurance and bonding	
	Other fixed charges	
	Other expenses	
	Total operating expenses	2,096.75
	Operating income (loss)	(2,096.75)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
	Noncapital grants	
	Noncapital gifts, net	
	State aid - coronavirus	NEW 2022
	Noncapital contributions	
	Lease interest revenue	NEW 2022
	Interest and fees	(507.00)
	Losses on sale of non-current equipment	
	Miscellaneous nonoperating expenses	
	Total Nonoperating revenues (expenses)	(507.00)
	Income (loss) before other revenues, expenses, and transfers	(2,603.75)
	Transfers out	
	Increase (decrease) in net position	(2,603.75)
	Net position, July 1	
	Restatement	—
	Net position, June 30	(2,603.75)

Exh C:

	Beginning Balances (1)	Prior Year Adjustments (1)	Additions and Transfers in (1)	Retirements and Transfers out (1)	Ending Balances
<b>Subtotal</b>	—	—	—	—	—
Right to use lease asset - land	—	—	—	—	—
Right to use lease asset - buildings	—	—	—	—	—
Right to use lease asset - machinery and equipment	—	16,774.00	—	—	16,774.00
Right to use lease asset - general infrastructure	—	—	—	—	—
<b>Subtotal</b>	—	16,774.00	—	—	16,774.00
<b>Total capital assets, depreciable</b>	—	16,774.00	—	—	16,774.00
<b>Less accumulated depreciation for:</b>					
Right to use lease asset - land	—	—	—	—	—
Right to use lease asset - buildings	—	—	—	—	—
Right to use lease asset - machinery and equipment	—	—	2,096.75	—	2,096.75
Right to use lease asset - general infrastructure	—	—	—	—	—
<b>Subtotal</b>	—	—	2,096.75	—	2,096.75
<b>Total accumulated depreciation/amortization</b>	—	—	2,096.75	—	2,096.75
<b>TOTAL CAPITAL ASSETS, DEPRECIABLE, NET</b>	—	16,774.00	(2,096.75)	—	14,677.25
(Note: should equal total on Exhibit A)	OK				OK
<b>TOTAL CAPITAL ASSETS, NET</b>	\$ —	\$ 16,774.00	\$ (2,096.75)	\$ —	\$ 14,677.25

<b>Accumulated depreciation - increases:</b>		
Depreciation/amortization expense		2,096.75
Acc. deprec. on capital assets transferred in		—
<b>Total</b>		2,096.75
		OK

Exh D:

	Beginning Balances (1)	Prior Year Adjustments (2)	Additions (2)	Reductions (2)	Ending Balances (1)	Due Within One Year	Change
Notes from direct borrowings	—	—	—	—	—	—	—
Lease liability <i>caption title change</i>	—	16,774.00	—	1,893.00	14,881.00	1,910.00	(1,893.00)
Payable	—	—	—	—	—	—	—
Other liabilities	—	—	—	—	—	—	—
Net pension liability	—	—	—	—	—	—	—
<b>Total long-term liabilities</b>	—	16,774.00	—	1,893.00	14,881.00	1,910.00	(1,893.00)

Exh F:

<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Construction of capital assets	—	—	—
Capital assets - increases and/or transfers	—	—	—
Principal paid on capital debt	—	—	—
Notes from Direct Borrowings-Reductions	—	—	—
Lease liability - reductions	—	1,893.00	(1,893.00)
Interest paid on capital debt	—	—	—
Interest and fees on debt	—	507.00	—
Capital assets - increases: interest expense capitalized	—	—	—
Change in interest payable	—	—	(507.00)
Federal subsidy for interest on debt	—	—	—
<b>Total</b>	\$ —	\$ 2,400.00	\$ (2,400.00)



Exh G:

<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets		-
Capital gifts		
Principal paid on capital debt		(1,893.00)
Interest paid on capital debt		(507.00)
Insurance recoveries		-
Proceeds from lease arrangements	NEW 2022	-
Proceeds from capital debt		-
<b>Net cash provided (used) by capital and related financing activities</b>		<b>(2,400.00)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net cash provided (used) by investing activities		
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(2,400.00)</b>
Cash and cash equivalents, July 1		-
<b>Cash and cash equivalents, June 30</b>		<b>\$ (2,400.00)</b>
<b>Reconciliation of operating income or loss to net cash used by operating activities:</b>		
Operating income (loss)		\$ (2,096.75)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense		2,096.75
Revenue (amortization) inflow for leases	2022	-
Deferred inflows for pensions		-
<b>Total adjustments</b>		<b>2,096.75</b>
<b>Net cash provided by (used in) operating activities</b>		<b>\$ -</b>

## 2) Previous Capital Leases

Primary Government agencies should contact their OSC analyst if a previous capital lease meets the requirements to be reported as a lease under GASB 87.

### 3) New Leases

#### Governmental Funds (General, Special Revenue, Permanent, and Capital Projects Funds):

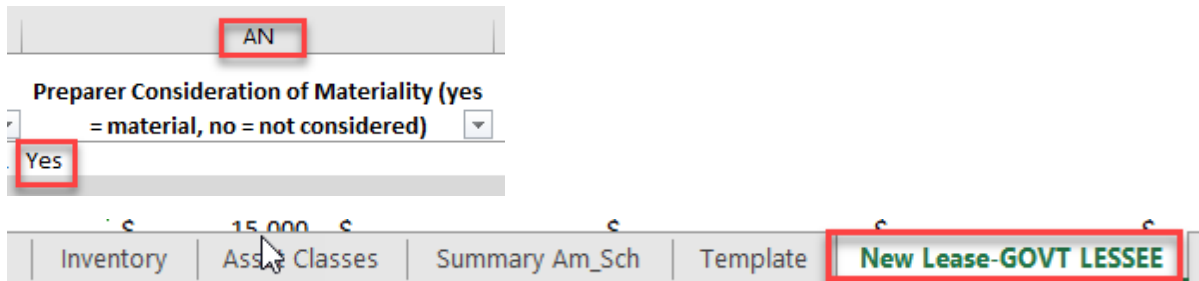
##### Facts:

Agency ABC entered into a new lease for a building on October 1, 2021.

The data for this lease was entered in the Lease Amortization spreadsheet, referred to at the beginning of this Appendix, on the Inventory tab. All columns on the Inventory tab were completed. Here is a screen shot of the first five columns of this inventory tab.



Once all data is entered on the Inventory tab for this agreement, including a “yes” in the “Preparer Consideration of Materiality” column AN, a “New Lease-GOVT LESSEE” tab is generated. Note: a new tab will not be created if “yes” is not selected in column AN. The title of the tab is the Agreement name from the Inventory tab.



Click on this detail tab, “New Lease-GOVT LESSEE,” to obtain the information for the fixed asset system, journal entries, and ACFR Worksheets as noted in the screen shots below.

#### Lease Inputs (input information based on lease inventory tab)

Lease Commencement Date	10/1/2021
Lease Term	3.00
Number of Payments	36.00
What is the payment frequency? Annual / SemiAnnual / Quarterly / Monthly / Weekly	Monthly
When are lease payments made? (B)eginning of the period in advance or (E)nd of the period in arrears	Beginning

Payment #	Date	Lease Liability Opening Balance	Payments	Interest Expense	Principal	Lease Liability Closing Balance
0	10/1/2021	\$ 513,402	\$ 15,000		\$ 15,000	\$ 498,402
1	11/1/2021	498,402	\$ 15,000	1,454	\$ 13,546	484,856
2	12/1/2021	484,856	\$ 15,000	1,414	\$ 13,586	471,270
3	1/1/2022	471,270	\$ 15,000	1,375	\$ 13,625	457,644
4	2/1/2022	457,644	\$ 15,000	1,335	\$ 13,665	443,979
5	3/1/2022	443,979	\$ 15,000	1,295	\$ 13,705	430,274
6	4/1/2022	430,274	\$ 15,000	1,255	\$ 13,745	416,529
7	5/1/2022	416,529	\$ 15,000	1,215	\$ 13,785	402,744
8	6/1/2022	402,744	\$ 15,000	1,175	\$ 13,825	388,919
9	7/1/2022	388,919	\$ 15,000	1,134	\$ 13,866	375,053
10	8/1/2022	375,053	\$ 15,000	1,094	\$ 13,906	361,147
11	9/1/2022	361,147	\$ 15,000	1,053	\$ 13,947	347,200
12	10/1/2022	347,200	\$ 15,000	1,013	\$ 13,987	333,213
13	11/1/2022	333,213	\$ 15,000	972	\$ 14,028	319,185
14	12/1/2022	319,185	\$ 15,000	931	\$ 14,069	305,116
15	1/1/2023	305,116	\$ 15,000	890	\$ 14,110	291,006
16	2/1/2023	291,006	\$ 15,000	849	\$ 14,151	276,855
17	3/1/2023	276,855	\$ 15,000	807	\$ 14,193	262,662
18	4/1/2023	262,662	\$ 15,000	766	\$ 14,234	248,428
19	5/1/2023	248,428	\$ 15,000	725	\$ 14,275	234,153
20	6/1/2023	234,153	\$ 15,000	683	\$ 14,317	219,836
21	7/1/2023	219,836	\$ 15,000	641	\$ 14,359	205,477
	8/1/2023	205,477	\$ 15,000	599	\$ 14,399	191,078

The above schedule continues for each year. A screen shot of the last payments are included below.

34	8/1/2024	29,800	\$ 15,000		\$ 14,800	14,800
35	9/1/2024	14,956	\$ 15,000	44	\$ 14,956	-
36	Last Period	-	\$ -	-	\$ -	-
Total			\$ 540,000	26,598	\$ 513,402	

Lease term: 3 years

Lease Liability measured per GASB 87 \$513,402

RTU lease asset – Building \$513,402\*

\* Ancillary charges necessary to place the lease asset into service should be capitalized and added to the value of the RTU lease asset. See OSC policy [102.1 Statewide Accounting Policy – Capitalization/Classification](#) for examples of ancillary charges.

\* Lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received at or before the commencement of the lease term should be capitalized and added to the value of the RTU lease asset.

Building Useful life: 55 years (per OSC policy)

Principal payment: Monthly, \$124,483 total in FY 22; \$169,083 total in FY 23; continues through September 2024 or FY 2025

Interest payment: Monthly, \$10,517 total in FY 22; \$10,917 total in FY 23; continues through September 2024 or FY 2025

**Fixed Asset System State Agency:**

- Add the Intangible Right to Use (RTU) lease asset to the fixed asset system manually with the date the lease began as the acquisition date, October 1, 2021, in this example. The asset will be added in FAS using the 534xxx account that maps to the 127xxx account. This account will be entered as the object code using the last four digits of the expense account beginning with 4xxx and not the asset account. See the RTU expenditure and lease asset accounts in the chart above (Existing operating lease for governmental fund section) for applicable accounts. The lease asset cost may not equal the lease liability. If lease payments are made prior to the commencement of the lease or ancillary charges are incurred, these will be recorded in NCAS in the 534xxx expenditure accounts and should be capitalized as part of the cost of the lease asset. These costs will interface with FAS from Accounts Payable. If the asset is added without including these costs, a cost adjustment can be done in FAS to capitalize these costs. Guidance on measuring the lease asset is included in the “General Reporting Requirements – Lessee” section of this Financial Reporting Update.

Add RTU Building by entering the following:

- New FAS Asset number
  - Enter object code: 4240
  - Acquisition date: 202204
  - Cost of asset: \$513,402
  - Depreciable asset
- Input the shorter of the useful life or lease term for amortization/depreciation to begin in the FY the lease began. A half year depreciation will be taken in the first and last year and a full year’s depreciation will be taken in all other years based on the number of years input by the agency not the default for useful life. The lease term is three years and is less than the useful life of a building (55 years), the lease term will be input in FAS.  
Enter shorter of lease term or useful life:
    - Enter “useful life”: 3 years
  - Depreciation will be calculated by the OSC technical team based on the information input by the agency. OSC will know to use the useful life input by the agency based on the object code and RTU lease asset in the title.

**Journal Entries:**

The entries below are prepared using the data from the Lease Amortization template spreadsheet screen shots above.

- 1) If any prepayments are made before the lease commences or if ancillary charges are paid at the commencement of the lease that are necessary to place the asset in service, the following entry will be made on a cash basis:

Debit 534240 RTU – Buildings expenditure  
Credit Cash

If lease incentives are received at or before the commencement of the lease, contact OSC for assistance, if needed.

- 2) To book the lease liability at the commencement of the lease term, October 1, 2021. This liability should be measured at the present value of future lease payments per the guidance in “General Reporting Requirements – Lessee” section of this Financial Reporting Update.

Entry in NCAS in GASB 5200, October 1, 2021:

Debit 128100 Amount available and to be provided \$513,402  
Credit 224100 Lease liability – Noncurrent \$513,402

- 3) Cash basis entries:

To record periodic lease payments. Make this entry for the frequency of payments required to be made based on your contractual obligation (i.e., monthly, quarterly, annually, etc.). In this example payments will be made monthly.

October 1, 2021 principal payment:

Debit 535313 Lease Principal Payments expenditure \$15,000  
Credit Cash \$15,000

November 1, 2021 principal and interest payments:

Debit 535313 Lease Principal Payments expenditure \$13,546  
Debit 535323 Lease Interest Payments expenditure \$ 1,454  
Credit Cash \$15,000

Payments will be made each month according to the Lease Amortization schedule (see screen shot above).

Total Principal Payments recorded to account 535313 Lease Principal Payments expenditure at June 30, 2022: \$124,483

Total interest payments recorded to account 535323 Lease Interest expenditure at June 30, 2022: \$10,517

4) To reduce the lease liability by the principal payments made during the year in GASB 5200. Entries can be made each month as principal payments are made or they can be done at year-end.

- If choose to reduce liability as principal payments are made:

Entry in NCAS in GASB 5200, October 2021:

Debit 224100 Lease liability – Noncurrent	\$15,000
Credit 128100 Amount available and to be provided	\$15,000

Entry in NCAS in GASB 5200, November 2021:

Debit 224100 Lease liability – Noncurrent	\$13,546
Credit 128100 Amount available and to be provided	\$13,546

Entries continue in NCAS in GASB 5200 for each month as payments are made.

- If choose to reduce liability for total principal payments made during year:

Entry in NCAS in GASB 5200, June 30, 2022:

Debit 224100 Lease liability – Noncurrent	\$124,483
Credit 128100 Amount available and to be provided	\$124,483

5) To record the new lease in the period the lease is initially recognized as an expenditure and other financing source. The expenditure and other financing source should be measured in accordance with the lease liability guidance, i.e., the other financing source should equal the lease liability at the commencement of the lease.

Entry in NCAS, June 30, 2022 (13<sup>th</sup> period entry):

Debit 534240 RTU – Buildings expenditure	\$513,402
Credit 437213 Proceeds – Leases (OFS)	\$513,402

#### **ACFR Worksheets:**

The NCAS package was prepared using the data from the Lease Amortization template spreadsheet screen shots and journal entries above.

203 Worksheet:

This worksheet will be completed as in the past certifying FAS is correct for all capital assets, including lease assets. If a new lease began during FY 2022 and the RTU lease asset was not added to FAS by the deadline, provide the necessary information in question 3 on the 203 worksheet.

301 Worksheet:

**I. Lessee:**

Complete the following schedule for required lease disclosures:

Lease Payments for Fiscal Year	GovActivities	BusinessActivities	UnivFoundations	
	Governmental Activities	Business-type Activities <sup>(1)</sup>	University Foundations <sup>(1)</sup>	
2023	180,000.00			Y1
2024	180,000.00			Y2
2025	45,000.00			Y3
2026				Y4
2027				Y5
2028 - 2032				Y6-Y10
2033 - 2037				Y11-Y15
2038 - 2042				Y16-Y20
2043 - 2047				Y21-Y25
2048 - 2052				Y26-Y30
2053 - 2057				Y31-Y35
2058 - 2062				Y36-Y39
2063 - 2067				Y40-Y44
2068 - 2072				Y45-Y49
2073 - Beyond				Y50-Beyond
Less: Amount Representing Interest	(16,081.00)			Less: Amount Re
Lease Liability	388,919.00	<b>= June 30 lease liability on 305 WS</b>		

**NOTE:** These balances must agree to LEASES PAYABLE on the balance sheet.

(1) **Universities Only:** Leases of discretely presented component unit foundations should be reported separately in the "University Foundations" column.

The total of the "Business-type Activities" and the "University Foundations" columns must agree to LEASES PAYABLE on the balance sheet.

**Additional disclosures are required in the attached ACFR Package Narratives. 301 Narrative WS is required**

**Questions below (at bottom of WS) required to be answered**

Do you have a lease with a component unit of the State?

Yes \_\_\_\_\_

No \_\_\_\_\_

**Answer Missing**

If yes, provide the component unit the lease is with and the amount of the lease.

Component Unit/ lease amount \_\_\_\_\_

305 Worksheet:

	Balance July 1, 2021	Prior Year Adjustments	Additions	Deletions	Balance June 30, 2022	Due Within One Year
	A	B	C	D	E	F
Bonds and similar debt payable:						
General obligation bonds						
GARVEE bonds						
Direct placements						
Certificates of participation						
Limited obligation bonds						
Issuance discounts						
Issuance premium			= 437213	=535313	=224100	
Arbitrage rebate payable			Proceeds	Lease	Lease	
Death benefit payable			- Leases	principal	liability, on	
Workers compensation			(OFS) on	payments	11 G GASB	
Notes from direct borrowings			52G	on 52G	5200	
Leases payable			513,402.00	(124,483.00)	388,919.00	169,083.00
Pollution remediation payable						
Asset retirement obligation						
Compensated absences (Gen. Assembly only)						
Cost settlement payable						
Other (Call OSC/describe in Explanations tab)						
Accrued interest (Bonds, notes, leases)						

An accrued interest liability may need to be reported on the 305 Worksheet (highlighted above) depending on the timing and frequency of payments. In this example, payments are due monthly at the beginning of the month, so most likely there will be no accrued interest liability at year-end.

**New Leases continued**

**Proprietary Funds (Enterprise and Internal Service Funds):**

**Facts:**

Agency ABC entered into a new lease for equipment on December 1, 2021.

The data for this lease was entered in the Lease Amortization spreadsheet, referred to at the beginning of this Appendix, on the Inventory tab. All columns on the Inventory tab were completed. Here is a screen shot of the first five columns of this inventory tab.

Agreement	Agreement Effective Date	Lessee/Lessor	Governmental/BTA	Underlying Asset Type
New Lease-BTA LESSEE	12/1/2021 Lessee	BTA		Equipment

Once all data is entered on the Inventory tab for this agreement, including a “yes” in the “Preparer Consideration of Materiality” column AN, a “New Lease-BTA LESSEE” tab is generated. Note: a new tab will not be created if “yes” is not selected in column AN. The title of the tab is the Agreement name from the Inventory tab.

AN
Preparer Consideration of Materiality (yes = material, no = not considered)
Yes



Click on this detail tab, "New Lease-BTA LESSEE," to obtain the information for the fixed asset system, journal entries, and ACFR Worksheets as noted in the screen shots below.

**Lease Inputs (input information based on lease inventory tab)**

Lease Commencement Date **12/1/2021**

Lease Term **4.00**

Number of Payments **48.00**

What is the payment frequency? Annual / SemiAnnual / Quarterly / Monthly / Weekly **Monthly**

When are lease payments made? (B)eginning of the period in advance or (E)nd of the period in arrears **Beginning**

Payment #	Date	Lease Liability Opening Balance	Payments	Interest Expense	Principal	Lease Liability Closing Balance
0	12/1/2021	\$ 157,014	\$ 3,500		\$ 3,500	\$ 153,514
1	1/1/2022	153,514	\$ 3,500	448	\$ 3,052	150,462
2	2/1/2022	150,462	\$ 3,500	439	\$ 3,061	147,401
3	3/1/2022	147,401	\$ 3,500	430	\$ 3,070	144,331
4	4/1/2022	144,331	\$ 3,500	421	\$ 3,079	141,252
5	5/1/2022	141,252	\$ 3,500	412	\$ 3,088	138,164
6	6/1/2022	138,164	\$ 3,500	403	\$ 3,097	135,067
7	7/1/2022	135,067	\$ 3,500	394	\$ 3,106	131,961
8	8/1/2022	131,961	\$ 3,500	385	\$ 3,115	128,845
9	9/1/2022	128,845	\$ 3,500	376	\$ 3,124	125,721
10	10/1/2022	125,721	\$ 3,500	367	\$ 3,133	122,588
11	11/1/2022	122,588	\$ 3,500	358	\$ 3,142	119,445
12	12/1/2022	119,445	\$ 3,500	348	\$ 3,152	116,294
13	1/1/2023	116,294	\$ 3,500	339	\$ 3,161	113,133
14	2/1/2023	113,133	\$ 3,500	330	\$ 3,170	109,963
15	3/1/2023	109,963	\$ 3,500	321	\$ 3,179	106,784
16	4/1/2023	106,784	\$ 3,500	311	\$ 3,189	103,595
17	5/1/2023	103,595	\$ 3,500	302	\$ 3,198	100,397
18	6/1/2023	100,397	\$ 3,500	293	\$ 3,207	97,190
19	7/1/2023	97,190	\$ 3,500	283	\$ 3,217	93,974
20	8/1/2023	93,974	\$ 3,500	274	\$ 3,227	90,747

The above schedule continues for each year. A screen shot of the last payments are included below.

46				3,500		3,480	
47	11/1/2025	3,490	\$	3,500	10	\$	3,490
48	Last Period	0	\$	-	0	\$	(0)
Total			\$	168,000	10,986	\$	157,014

Lease term: 4 years

Lease Liability measured per GASB 87 \$157,014

RTU lease asset – Equipment \$157,014\*

\* Ancillary charges necessary to place the lease asset into service should be capitalized and added to the value of the RTU lease asset. See OSC policy [102.1 Statewide Accounting Policy – Capitalization/Classification](#) for examples of ancillary charges.

\* Lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received at or before the commencement of the lease term should be capitalized and added to the value of the RTU lease asset.

Equipment Useful life: 20 years (per OSC policy)

Principal payment: Monthly, \$21,947 total in FY 22; \$37,877 total in FY 23; continues through November 2025 or FY 2026

Interest payment: Monthly, \$2,553 total in FY 22; \$4,123 total in FY 23; continues through November 2025 or FY 2026

**Fixed Asset System State Agency:**

- Add the Intangible Right to Use (RTU) lease asset to the fixed asset system manually with the date the lease began as the acquisition date, December 1, 2021, in this example. The asset will be added in FAS using the 534xxx account that maps to the 127xxx account. This account will be entered as the object code using the last four digits of the expense account beginning with 4xxx and not the asset account. See the RTU expense and lease asset accounts in the chart above (Existing operating lease for governmental fund section) for applicable accounts. The lease asset cost may not equal the lease liability. If lease payments are made prior to the commencement of the lease or ancillary charges are incurred, these will be recorded in NCAS in the 534xxx expenditure accounts and should be capitalized as part of the cost of the lease asset. These costs will interface with FAS from Accounts Payable. If the asset is added without including these costs, a cost adjustment can be done in FAS to capitalize these costs. Guidance on measuring the lease asset is included in the “General Reporting Requirements – Lessee” section of this Financial Reporting Update.

Add RTU Equipment by entering the following:

- New FAS Asset number
- Enter object code: 4560
- Acquisition date: 202206

- Cost of asset: \$157,014
  - Depreciable asset
- Input the shorter of the useful life or lease term for amortization/depreciation to begin in the FY the lease began. A half year depreciation will be taken in the first and last year and a full year's depreciation will be taken in all other years based on the number of years input by the agency not the default for useful life. The lease term is four years and is less than the useful life of equipment (20 years), the lease term will be input in FAS.
  - Enter shorter of lease term or useful life:
    - Enter "useful life": 4 years
- A half year depreciation will be taken in the first year.

**Journal Entries:**

The entries below are prepared using the data from the Lease Amortization template spreadsheet screen shots above.

- 1) If any prepayments are made before the lease commences or if ancillary charges are paid at the commencement of the lease that are necessary to place the asset in service, the following entry will be made on a cash basis:

Debit 534560 RTU – Machinery & Equipment expense  
 Credit Cash

If lease incentives are received at or before the commencement of the lease, contact OSC for assistance, if needed.

- 2) To book the lease liability at the commencement of the lease term, December 1, 2021. This liability should be measured at the present value of future lease payments per the guidance in "General Reporting Requirements – Lessee" section of this Financial Reporting Update.

Entry in NCAS as of December 1, 2021, to be posted with a June 30<sup>th</sup> date/13<sup>th</sup> period entry:

Debit 127350 RTU Lease Asset – Mach. & Equip.	\$157,014*
Credit 214100 Lease liability – current	\$21,947
Credit 224100 Lease liability – Noncurrent	\$135,067
Credit 534560 RTU – Machinery & Equipment expense*	

\*If prepayments are made before the lease commences or ancillary charges paid as noted in entry 1, the RTU asset will be increased by that amount and the RTU expense will be credited for that amount.

- 3) Cash basis entries:

To record periodic lease payments. Make this entry for the frequency of payments required to be made based on your contractual obligation (i.e., monthly, quarterly, annually, etc.). In this example payments will be made monthly. Enterprise and Internal Service Funds must

zero out the Lease Principal Payments at 6/30 by reducing the Lease Liability for the principal payments made during the year.

December 1, 2021 principal payment:

Debit 535313 Lease Principal Payments expense	\$3,500
Credit Cash	\$3,500

January 1, 2022 principal and interest payments:

Debit 535313 Lease Principal Payments expense	\$3,052
Debit 535323 Lease Interest Payments expense	\$ 448
Credit Cash	\$3,500

Payments will be made each month according to the Lease Amortization schedule (see screen shot above).

Total Principal Payments recorded to account 535313 Lease Principal Payments expense at June 30, 2022: \$21,947

Total interest payments recorded to account 535323 Lease Interest expense at June 30, 2022: \$2,553

- 4) To reduce the lease liability by the principal payments made during the year and reduce lease principal payments expense to zero.

13<sup>th</sup> period, June 30, 2022 entry:

Debit 214100 Lease liability – current	\$21,947
Credit 535313 Lease Principal Payments expense	\$21,947

- 5) Establish the current/noncurrent portions of lease liability for next fiscal year.

13<sup>th</sup> period, June 30, 2022 entry:

Debit 224100 Lease liability – Noncurrent	\$37,877
Credit 214100 Lease liability – current	\$37,877

- 6) Record current year depreciation expense (1/2 year) and Accumulated Depreciation:

13<sup>th</sup> period, June 30, 2022 entry:

Debit 535430 Depreciation expense	\$19,626.75
Credit 127972 Accumulated Depreciation RTU M&E	\$19,626.75

**ACFR Worksheets:**

The NCAS package was prepared using the data from the Lease Amortization template spreadsheet screen shots and journal entries above.

**201 Worksheet:**

Description	Balance July 1, 2021	Prior Year Asset Adjustments	Additions		Retirements	Balance June 30, 2022
			Purchased Additions	Donated Additions		
	A	B	E	F	G	I
<b>Right to Use Lease assets, depreciable:</b>						
12. Right to Use Lease Asset- Land and permanent easements						
13. Right to Use Lease Asset- Buildings						
14. Right to Use Lease Asset- Machinery and equipment			157,014.00			157,014.00
15. Right to Use Lease Asset- General Infrastructure						
<b>Total Capital Assets</b>			157,014.00			157,014.00

**210 Worksheet:**

Description	Accumulated Depreciation Balance July 1, 2021	Prior Year Adjustments	Accumulated Depreciation Increases	Accumulated Depreciation Decreases	Accumulated Depreciation Balance June 30, 2022
12. Right to Use Lease Asset- Land and permanent easements					
13. Right to Use Lease Asset- Buildings					
14. Right to Use Lease Asset- Machinery and equipment			19,626.75		19,626.75
15. Right to Use Lease Asset- General Infrastructure					
<b>Total Accumulated Depreciation-Capital Assets</b>			19,626.75		19,626.75

301 Worksheet:

**I. Lessee:**

Complete the following schedule for required lease disclosures:

Lease Payments for Fiscal Year	GovActivities	BusinessActivities	UnivFoundations	
	Governmental Activities	Business-type Activities <sup>(1)</sup>	University Foundations <sup>(1)</sup>	
2023		42,000.00		Y1
2024		42,000.00		Y2
2025		42,000.00		Y3
2026		17,500.00		Y4
2027				Y5
2028 - 2032				Y6-Y10
2033 - 2037				Y11-Y15
2038 - 2042				Y16-Y20
2043 - 2047				Y21-Y25
2048 - 2052				Y26-Y30
2053 - 2057				Y31-Y35
2058 - 2062				Y36-Y39
2063 - 2067				Y40-Y44
2068 - 2072				Y45-Y49
2073 - Beyond				Y50-Beyond
Less: Amount Representing Interest		(8,433.00)		Less: Amount Re
Lease Liability		135,067.00		<b>= June 30 lease liability on 310 WS</b>

**NOTE:** These balances must agree to LEASES PAYABLE on the balance sheet.

(1) **Universities Only:** Leases of discretely presented component unit foundations should be reported separately in the "University Foundations" column. The total of the "Business-type Activities" and the "University Foundations" columns must agree to LEASES PAYABLE on the balance sheet.

**Additional disclosures are required in the attached ACFR Package Narratives. 301 Narrative WS is required Questions below (at bottom of WS) required to be answered**

Do you have a lease with a component unit of the State?

Yes \_\_\_\_\_ No \_\_\_\_\_

**Answer Missing**

If yes, provide the component unit the lease is with and the amount of the lease.

Component Unit/ lease amount \_\_\_\_\_

310 Worksheet:

	Balance July 1, 2021	Prior Year Adjustments	Additions	Deletions	Balance June 30, 2022	Due Within One Year
	A	B	C	D	E	F
Bonds and similar debt payable:						
Revenue bonds						
GARVEE bonds					=214100	
Direct placements					Current	
Certificates of participation					Lease Liab	
Limited obligation bonds					+224100	=214100
Issuance discounts					Noncurrent	Current
Issuance premium					Lease	Lease
Arbitrage rebate payable					liability on	liability
Workers compensation					11P	on 11P
Notes from direct borrowings						
Leases payable			157,014.00	(21,947.00)	135,067.00	37,877.00

An accrued interest liability, account 216220, may need to be recorded in the financial statements depending on the timing and frequency of payments. In this example, payments

are due monthly at the beginning of the month, so most likely there will be no accrued interest liability at year-end.

**Cash Flows Excel Workbook:**

Exh A:

	Comp 11P 2022	Comp 11P 2021	Restatement (Wkst 431BTA)	Comp 11P 2021, Restated	Change
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents				\$ —	\$ —
Pooled cash	(24,500.00)			—	(24,500.00)
Restricted pooled cash				—	—
Net OPEB asset				—	—
Prepaid items				—	—
Total current assets	(24,500.00)	—	—	—	(24,500.00)
Noncurrent assets:					
Designated pooled cash				—	—
Net OPEB asset				—	—
Capital assets – nondepreciable				—	—
Capital assets – depreciable, net	137,387.25			—	137,387.25
Total noncurrent assets	137,387.25	—	—	—	137,387.25
Total assets	112,887.25	—	—	—	112,887.25
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable				—	—
Due to component units				—	—
Obligations under securities lending				—	—
Lease liability (caption title change)	37,877.00			—	37,877.00
Revenue bonds payable				—	—
Revenue bonds payable				—	—
Net OPEB liability				—	—
Unearned revenue				—	—
Total current liabilities	37,877.00	—	—	—	37,877.00
Noncurrent liabilities:					
Advances from other funds				—	—
Notes from direct borrowings				—	—
Lease liability (caption title change)	97,190.00			—	97,190.00
Revenue bonds payable				—	—
Revenue bonds payable				—	—
Net OPEB liability				—	—
Net pension liability				—	—
Total noncurrent liabilities	97,190.00	—	—	—	97,190.00
Total liabilities	135,067.00	—	—	—	135,067.00
<b>NET POSITION</b>					
Total net position	\$ (22,179.75)	\$ —	\$ —	\$ —	\$ (22,179.75)

Exh B:

<b>OPERATING EXPENSES</b>		
Professional services		
Cost of goods sold		
Depreciation		19,626.75
Insurance and bonding		
Other fixed charges		
Other expenses		
Total operating expenses		19,626.75
Operating income (loss)		(19,626.75)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Noncapital grants		
Noncapital gifts, net		
State aid - coronavirus	NEW 2022	
Noncapital contributions		
Lease interest revenue	NEW 2022	
Interest and fees		(2,553.00)
(Loss) on sale of property and equipment		
Miscellaneous operating expenses		
Total Nonoperating revenues (expenses)		(2,553.00)
Income (loss) before other revenues, expenses, and transfers		(22,179.75)
Transfers out		
Increase (decrease) in net position		(22,179.75)
Net position, July 1		
Restatement		—
Net position, June 30		(22,179.75)



Exh C:

	Beginning Balances (1)	Prior Year Adjustments (1)	Additions and Transfers in (1)	Retirements and Transfers out (1)	Ending Balances
<b>Capital assets - depreciable:</b>					
Other intangible assets	—	—	—	—	—
<b>Subtotal</b>	—	—	—	—	—
Right to use lease asset - land	—	—	—	—	—
Right to use lease asset - buildings	—	—	—	—	—
Right to use lease asset - machinery and equipment	—	—	157,014.00	—	157,014.00
Right to use lease asset - general infrastructure	—	—	—	—	—
<b>Subtotal</b>	—	—	157,014.00	—	157,014.00
<b>Total capital assets, depreciable</b>	—	—	157,014.00	—	157,014.00
<b>Less accumulated depreciation for:</b>					
Right to use lease asset - land	—	—	—	—	—
Right to use lease asset - buildings	—	—	—	—	—
Right to use lease asset - machinery and equipment	—	—	19,626.75	—	19,626.75
Right to use lease asset - general infrastructure	—	—	—	—	—
<b>Subtotal</b>	—	—	19,626.75	—	19,626.75
<b>Total accumulated depreciation/amortization</b>	—	—	19,626.75	—	19,626.75
<b>TOTAL CAPITAL ASSETS, DEPRECIABLE, NET</b>	—	—	137,387.25	—	137,387.25
(Note: should equal total on Exhibit A)	OK				OK
<b>TOTAL CAPITAL ASSETS, NET</b>	\$ —	\$ —	\$ 137,387.25	\$ —	\$ 137,387.25
<b>Capital assets - increases:</b>					
Purchased, constructed, and/or developed	—	—	—	—	—
Right to use lease assets (noncash portion)	157,014.00	—	—	—	157,014.00
Right to use lease assets (cash portion)	—	—	—	—	—
Donated / transferred in (noncash)	—	—	—	—	—
Interest expense capitalized	—	—	—	—	—
Less: interest income capitalized (enter as negative)	—	—	—	—	—
Reclassifications - construction in progress	—	—	—	—	—
<b>Total</b>	157,014.00	—	—	—	157,014.00
	OK				
<b>Capital assets - decreases:</b>					
Cost of capital assets sold	—	—	—	—	—
Cost of capital assets written off/ transferred out (noncash)	—	—	—	—	—
Reclassifications - construction in progress	—	—	—	—	—
<b>Total</b>	—	—	—	—	—
	OK				
<b>Accumulated depreciation - increases:</b>					
Depreciation/amortization expense	—	—	19,626.75	—	19,626.75
Acc. deprec. on capital assets transferred in	—	—	—	—	—
<b>Total</b>	—	—	19,626.75	—	19,626.75
	OK				

Exh D:

	Beginning Balances (1)	Prior Year Adjustments (2)	Additions (2)	Reductions (2)	Ending Balances (1)	Due Within One Year	Change
Notes from direct borrowings	—	—	—	—	—	—	—
Lease liability <small>caption title change</small>	—	—	157,014.00	21,947.00	135,067.00	37,877.00	135,067.00
Payable	—	—	—	—	—	—	—
<b>Total long-term liabilities</b>	—	—	157,014.00	21,947.00	135,067.00	37,877.00	135,067.00

Exh F:

<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition and construction of capital assets				
Capital assets - increases: acquisitions purchased/constructed	-		C-1	
Upfront payments - Right to Use Leased Assets <b>NEW 2022</b>	-		C-12	
Change in due from other funds	-		A-17F	
Change in due to other funds	-		A-19F	
Change in accounts payable - capital assets	-		E-22	-
Proceeds from sale of capital assets				
Proceeds from sale of capital assets	-		C-7	-
Transfers from other funds	-		E-54	-
Transfers to other funds	-		E-82	-
Capital grants/contributions				
Capital grants	-		B-19	
Change in unearned revenues - capital grants	-		E-32	
Change in intergovernmental receivable - capital	-		E-8	-
Capital gifts received				
Capital gifts, net	-		B-20	
Change in other receivables - capital gifts	-		E-11	
Change in unearned revenues - capital gifts	-		E-34	
Capital assets - increases: donations and/or transferred in	-		C-3	-
Principal paid on capital debt				
Notes from Direct Borrowings-Reductions	-		D-2A	
Lease liability - reductions	21,947.00		D-4	(21,947.00)
Interest paid on capital debt				
Interest and fees on debt	2,553.00		B-16	
Capital assets - increases: interest expense capitalized	-		C-4	
Change in interest payable	-		A-15	(2,553.00)
Federal subsidy for interest on debt	-		B-22	-
<b>Total</b>	\$ -	\$ 24,500.00		\$ (24,500.00)

Exh G:

<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets		-
Capital gifts		
Principal paid on capital debt		(21,947.00)
Interest paid on capital debt		(2,553.00)
Insurance recoveries		-
Proceeds from lease arrangements <b>NEW 2022</b>		-
Proceeds from capital debt		-
<b>Net cash provided (used) by capital and related financing activities</b>		<b>(24,500.00)</b>
<b>FROM OTHER ACTIVITIES</b>		
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(24,500.00)</b>
Cash and cash equivalents, July 1		-
Cash and cash equivalents, June 30	\$	(24,500.00)

<b>Reconciliation of operating income or loss to net cash used by operating activities:</b>	
Operating income (loss)	\$ (19,626.75)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation expense	19,626.75
Lease revenue (amortized deferred inflow for leases) <i>NEW 2022</i>	-
Change in miscellaneous income (expense)	-
Deferred income taxes	-
Deferred inflows for pensions	-
<b>Total adjustments</b>	<b>19,626.75</b>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ -</b>

<b>Noncash investing, capital, and financing activities:</b>	
Noncash distributions from the State Treasurer Investment Pool and/or other a	\$ -
Donated or transferred assets	-
Capital asset writeoff	-
Change in fair value of investments	-
Increase in receivables related to nonoperating income	-
Change in securities lending collateral	-
<b>Assets acquired through assumption of a liability</b>	<b>157,014.00</b>

**Notes - Noncash Section**

(1) Noncash section - increase in receivables related to nonoperating income	
Increase in accounts receivable - related to nonoperating revenues	-
(2) Noncash section - assets acquired through the assumption of a liability	
Payables at 6/30 - capital assets (capitalized on Exhibit A)	-
<b>Increase in lease liability</b>	<b>157,014.00</b>
<b>Total</b>	<b>157,014.00</b>

# Universities and State Health Plan

## Lessees

In the examples below it has been determined that the lease criteria in GASB Statement 87 and the OSC [capitalization threshold](#) have been met so a lease asset and liability will be reported in FY 2022 based on the GASB 87 requirements. Note: each university may have a different capitalization threshold. For the purposes of these examples, we used the OSC capitalization threshold.

### 1) Previous Operating Leases

#### Facts:

ABC University had an operating lease for equipment as of June 30, 2021.

Since it was reported as an operating lease there is no existing asset or liability in the financial statements.

The data for this lease was entered in the Lease Amortization spreadsheet, referred to at the beginning of this Appendix, on the Inventory tab. All columns on the Inventory tab were completed. Here is a screen shot of the first five columns of this inventory tab.

Agreement	Agreement Effective Date	Lessee/Lessor	Governmental/BTA	Underlying Asset Type
Existing Op Lease-BTA LESSEE	7/1/2021	Lessee	BTA	Equipment

Once all data is entered on the Inventory tab for this agreement, including a “yes” in the “Preparer Consideration of Materiality” column AN, an “Existing Op Lease-BTA LESSEE” tab is generated. Note: a new tab will not be created if “yes” is not selected in column AN. The title of the tab is the Agreement name from the Inventory tab.

The screenshot shows a software interface with a dropdown menu for 'Preparer Consideration of Materiality (yes = material, no = not considered)'. The 'Yes' option is selected and highlighted with a red box. Below this, a navigation bar at the bottom of the screen shows several tabs: 'Inventory', 'Asset Classes', 'Summary Am\_Sch', 'Template', and 'Existing Op Lease-BTA LESSEE'. The 'Existing Op Lease-BTA LESSEE' tab is highlighted with a red box, indicating it is the active tab.

Click on this detail tab, “Existing Op Lease-BTA LESSEE,” to obtain the information for the journal entries and ACFR Worksheets as noted in the screen shots below.

**Lease Inputs (input information based on lease inventory tab)**

Lease Commencement Date

7/1/2021

Lease Term

8.00

Number of Payments

96.00

What is the payment frequency? Annual / SemiAnnual / Quarterly / Monthly / Weekly

Monthly

When are lease payments made? (B)eginning of the period in advance or (E)nd of the period in arrears

Beginning

Payment #	Date	Lease Liability Opening Balance	Payments	Interest Expense	Principal	Lease Liability Closing Balance
0	7/1/2021	\$ 16,774	\$ 200		\$ 200	\$ 16,574
1	8/1/2021	16,574	\$ 200	48	\$ 152	16,422
2	9/1/2021	16,422	\$ 200	48	\$ 152	16,270
3	10/1/2021	16,270	\$ 200	47	\$ 153	16,118
4	11/1/2021	16,118	\$ 200	47	\$ 153	15,965
5	12/1/2021	15,965	\$ 200	47	\$ 153	15,811
6	1/1/2022	15,811	\$ 200	46	\$ 154	15,657
7	2/1/2022	15,657	\$ 200	46	\$ 154	15,503
8	3/1/2022	15,503	\$ 200	45	\$ 155	15,348
9	4/1/2022	15,348	\$ 200	45	\$ 155	15,193
10	5/1/2022	15,193	\$ 200	44	\$ 156	15,037
11	6/1/2022	15,037	\$ 200	44	\$ 156	14,881
12	7/1/2022	14,881	\$ 200	43	\$ 157	14,725
13	8/1/2022	14,725	\$ 200	43	\$ 157	14,567
14	9/1/2022	14,567	\$ 200	42	\$ 158	14,410
15	10/1/2022	14,410	\$ 200	42	\$ 158	14,252
16	11/1/2022	14,252	\$ 200	42	\$ 158	14,094
17	12/1/2022	14,094	\$ 200	41	\$ 159	13,935
18	1/1/2023	13,935	\$ 200	41	\$ 159	13,775
19	2/1/2023	13,775	\$ 200	40	\$ 160	13,615
20	3/1/2023	13,615	\$ 200	40	\$ 160	13,455
21	4/1/2023	13,455	\$ 200	39	\$ 161	13,294
22	5/1/2023	13,294	\$ 200	39	\$ 161	13,133
23	6/1/2023	13,133	\$ 200	38	\$ 162	12,972

The above schedule continues for each year. A screen shot of the last two payments are included below.

95	6/1/2029	199	\$	200	1	\$	199	(0)
96	Last Period	(0)	\$	-	(0)	\$	0	(0)
Total			\$	19,200	2,426	\$	16,774	

Remaining lease term: 8 years

Lease Liability measured per GASB 87 \$16,774

RTU lease asset – Equipment \$16,774

Equipment Useful life: 20 years (per OSC policy)

Principal payment: Monthly, \$1,893 total in FY 22; \$1,910 total in FY 23; continues through FY 2029

Interest payment: Monthly, \$507 total in FY 22; \$490 total in FY 23; continues through FY 2029

**Journal Entries:**

The entries below are prepared using the data from the Lease Amortization template spreadsheet screen shots above.

- 1) To book the lease liability and RTU lease asset as of July 1, beginning balance of RTU lease asset and lease liability. This liability should be measured at the present value of future lease payments per the guidance in “General Reporting Requirements – Lessee” section of this Financial Reporting Update. Since this is an existing lease, the RTU lease asset is equal to the lease liability.

Entry in NCAS as of July 1, 2021, beginning balance, to be posted with a June 30<sup>th</sup> date/13<sup>th</sup> period entry:

Debit 127350 RTU Lease Asset – Mach. & Equip.	\$16,774
Credit 214100 Lease liability – current	\$1,893
Credit 224100 Lease liability – Noncurrent	\$14,881

- 2) Cash basis entries:

To record periodic lease payments. Make this entry for the frequency of payments required to be made based on your contractual obligation (i.e., monthly, quarterly, annually, etc.). In this example payments will be made monthly. Universities must zero out the Lease Principal Payments at 6/30 by reducing the Lease Liability for the principal payments made during the year.

July 1, 2021 principal payment:

Debit 535313 Lease Principal Payments expense	\$200
Credit Cash	\$200

August 1, 2021 principal and interest payments:

Debit 535313 Lease Principal Payments expense	\$152
Debit 535323 Lease Interest Payments expense	\$ 48

Credit Cash \$200

Payments will be made each month according to the Lease Amortization schedule (see screen shot above).

Total Principal Payments recorded to account 535313 Lease Principal Payments expense at June 30, 2022: \$1,893

Total interest payments recorded to account 535323 Lease Interest expense at June 30, 2022: \$507

Since this lease was previously classified as an operating lease, if any payments on the lease were recorded as rent expense (account 5325XX) during the 2022 fiscal year, these expenses will need to be reclassified to lease principal and interest payments.

Debit 535313 Lease Principal Payments expense  
Debit 535323 Lease Interest Payments expense  
Credit 5325XX Rent Expense

- 3) To reduce the lease liability by the principal payments made during the year and reduce lease principal payments expense to zero.

13<sup>th</sup> period, June 30, 2022 entry:

Debit 214100 Lease liability – current	\$1,893
Credit 535313 Lease Principal Payments expense	\$1,893

- 4) Establish the current/noncurrent portions of lease liability for next fiscal year.

13<sup>th</sup> period, June 30, 2022 entry:

Debit 224100 Lease liability – Noncurrent	\$1,910
Credit 214100 Lease liability – current	\$1,910

- 5) Record current year depreciation expense and Accumulated Depreciation:

13<sup>th</sup> period, June 30, 2022 entry:

Debit 535430 Depreciation expense	\$2,096.75
Credit 127972 Accumulated Depreciation RTU M&E	\$2,096.75

**ACFR Worksheets:**

The NCAS package was prepared using the data from the Lease Amortization template spreadsheet screen shots and journal entries above.

201 Worksheet:

**CHAN(201)**

h governmental fund assets (GASB 5100) using NCSys  
Plan

Agency No: 01  
 Agency Name: North Carolina C  
 Preparer/Phone: \_\_\_\_\_  
 Email: \_\_\_\_\_

Function: No Function

GASB Fund No: \_\_\_\_\_

*Place cursor over cell D17 to view comment.*

Description	Balance July 1, 2021 A	Prior Year Asset Adjustments B	Additions		Retirements G	Balance June 30, 2022 I
			Purchased Additions E	Donated Additions F		
11. Other intangible assets						
<b>Right to Use Lease assets, depreciable:</b>						
12. Right to Use Lease Asset- Land and permanent easements						
13. Right to Use Lease Asset- Buildings						
14. Right to Use Lease Asset- Machinery and equipment						16,774.00
15. Right to Use Lease Asset- General Infrastructure						
<b>Total Capital Assets</b>		16,774.00				16,774.00

*FCSS\_OpeningBalanceAdjts\_PurchasedAdditmts\_DonatedAdditioMvmts\_RetirementsP*

210 Worksheet:

**2022 ACFR V**  
**ACCUMULATED DE(210)**

NA - State Health Plan and Agencies with governmenta(SB 5100) using NCAS Fixed Asset System

Description	Accumulated Depreciation Balance July 1, 2021	Prior Year Adjustments	Accumulated Depreciation Increases	Accumulated Depreciation Decreases	Accumulated Depreciation Balance June 30, 2022
11. Other intangible assets					
<b>Right to Use Lease assets, depreciable:</b>					
12. Right to Use Lease Asset- Land and permanent easements					
13. Right to Use Lease Asset- Buildings					
14. Right to Use Lease Asset- Machinery and equipment			2,096.75		2,096.75



301 Worksheet:

	C	D	E	F	G	H	I	J	K	L	AD	AE
21	<b>I. Lessee:</b>											
22	Complete the following schedule for required lease disclosures:											
23					GovActivities	BusinessActivities	UnivFoundations					
24		Lease										
25		Payments			Governmental	Business-type	University					
26		for Fiscal Year			Activities	Activities <sup>(1)</sup>	Foundations <sup>(1)</sup>					
28		2023				2,400.00						Y1
29		2024				2,400.00						Y2
30		2025				2,400.00						Y3
31		2026				2,400.00						Y4
32		2027				2,400.00						Y5
33		2028 - 2032				4,800.00						Y6-Y10
34		2033 - 2037										Y11-Y15
35		2038 - 2042										Y16-Y20
36		2043 - 2047										Y21-Y25
37		2048 - 2052										Y26-Y30
38		2053 - 2057										Y31-Y35
39		2058 - 2062										Y36-Y39
40		2063 - 2067										Y40-Y44
41		2068 - 2072										Y45-Y49
42		2073 - Beyond										Y50-Beyond
44												
45		Less: Amount Representing Interest				(1,919.00)						Less: Amount Re
47		Lease Liability				14,881.00						<b>= June 30 lease liability on 310 WS</b>
48												
49												
49												
50												
51												
52												
53												
54												
55												
56												
57												
58												

**NOTE:** These balances must agree to LEASES PAYABLE on the balance sheet.

(1) **Universities Only:** Leases of discretely presented component unit foundations should be reported separately in the "University Foundations" column. The total of the "Business-type Activities" and the "University Foundations" columns must agree to LEASES PAYABLE on the balance sheet.

**Additional disclosures are required in the attached ACFR Package Narratives. 301 Narrative WS is required**

**Questions below (at bottom of WS) required to be answered**

Do you have a lease with a component unit of the State?

Yes \_\_\_\_\_ No \_\_\_\_\_ **Answer Missing**

If yes, provide the component unit the lease is with and the amount of the lease.

Component Unit/ lease amount \_\_\_\_\_

310 Worksheet:

	Balance July 1, 2021	Prior Year Adjustments	Additions	Deletions	Balance June 30, 2022	Due Within One Year
	A	B	C	D	E	F
Bonds and similar debt payable:						
1 Revenue bonds						
2 GARVEE bonds						
23 Direct placements						
3 Certificates of participation						
4 Limited obligation bonds						
5 Issuance discounts						
6 Issuance premium						
7 Arbitrage rebate payable						
8 Workers compensation						
22 Notes from direct borrowings						
10 Leases payable		16,774.00		(1,893.00)	14,881.00	1,910.00
11 Annuity and life income payable						

**Handwritten notes:**

- Revenue bonds: =214100 Current Lease Liab + 224100 Noncurrent Lease liability on 905
- Workers compensation: =430BTA
- Leases payable: =214100 Current Lease Liab + 224100 Noncurrent Lease liability on 905

An accrued interest liability, account 216220, may need to be recorded in the financial statements depending on the timing and frequency of payments. In this example, payments

are due monthly at the beginning of the month, so most likely there will be no accrued interest liability at year-end.

430BTA Worksheet:

type Activity:	=201 WS	=310 WS			
GASB	Capital	Long-term/Short-term			
Reclassification	Transactions	Transactions	Other		
Change in July 1, 2021 Fund Equity	Change in July 1, 2021 Balances	Change in July 1, 2021 Balances	Change in July 1, 2021 Fund Equity		Explanation
	16,774.00	(16,774.00)			GASB 87 - Restated Right to Use Assets: Operating Leases
					GASB 87 - Restated Lease Liability: Operating Leases
					GASB 87 - Restated Right to Use Assets: Capital Leases
					GASB 87 - Restated Lease Liability: Capital Leases
					GASB 87 - Restated Lease Receivable
					GASB 87 - Restated Deferred Inflow of Resources - Leases
0.00	16,774.00	(16,774.00)	0.00		
0.00	Total restatements should tie back to "restatements" caption on the 53P/905 (does not include GASB reclassifications).				

2) Previous Capital Leases

Facts:

ABC University had a capital lease for a building as of June 30, 2021.

Since it was reported as a capital lease there is an existing tangible capital asset, building, and capital lease liability in the financial statements.

The data for this lease was entered in the Lease Amortization spreadsheet, referred to at the beginning of this Appendix, on the Inventory tab. All columns on the Inventory tab were completed. Here is a screen shot of the first five columns of this inventory tab.

Agreement	Agreement Effective Date	Lessee/Lessor	Governmental/BTA	Underlying Asset Type
Existing Cap Lease BTA LESSEE	7/1/2021	Lessee	BTA	Building

Once all data is entered on the Inventory tab for this agreement, including a "yes" in the "Preparer Consideration of Materiality" column AN, an "Existing Cap Lease BTA LESSEE" tab is generated. Note: a new tab will not be created if "yes" is not selected in column AN. The title of the tab is the Agreement name from the Inventory tab.

Inventory	Asset Classes	Summary Am_Sch	Template	Existing Cap Lease BTA LESSEE
-----------	---------------	----------------	----------	-------------------------------

Click on this detail tab, "Existing Cap Lease BTA LESSEE," to obtain the information for the journal entries and ACFR Worksheets as noted in the screen shots below.

**Lease Inputs (input information based on lease inventory tab)**

Lease Commencement Date

7/1/2021

Lease Term

20.00

Number of Payments

240.00

What is the payment frequency? Annual / SemiAnnual / Quarterly / Monthly / Weekly

Monthly

When are lease payments made? (B)eginning of the period in advance or (E)nd of the period in arrears

Beginning

Payment #	Date	Lease Liability Opening Balance	Payments	Interest Expense	Principal	Lease Liability Closing Balance
0	7/1/2021	\$ 3,112,716	\$ 18,000		\$ 18,000	\$ 3,094,716
1	8/1/2021	3,094,716	\$ 18,000	9,026	\$ 8,974	3,085,742
2	9/1/2021	3,085,742	\$ 18,000	9,000	\$ 9,000	3,076,743
3	10/1/2021	3,076,743	\$ 18,000	8,974	\$ 9,026	3,067,716
4	11/1/2021	3,067,716	\$ 18,000	8,948	\$ 9,052	3,058,664
5	12/1/2021	3,058,664	\$ 18,000	8,921	\$ 9,079	3,049,585
6	1/1/2022	3,049,585	\$ 18,000	8,895	\$ 9,105	3,040,480
7	2/1/2022	3,040,480	\$ 18,000	8,868	\$ 9,132	3,031,348
8	3/1/2022	3,031,348	\$ 18,000	8,841	\$ 9,159	3,022,189
9	4/1/2022	3,022,189	\$ 18,000	8,815	\$ 9,185	3,013,004
10	5/1/2022	3,013,004	\$ 18,000	8,788	\$ 9,212	3,003,792
11	6/1/2022	3,003,792	\$ 18,000	8,761	\$ 9,239	2,994,553
12	7/1/2022	2,994,553	\$ 18,000	8,734	\$ 9,266	2,985,287
13	8/1/2022	2,985,287	\$ 18,000	8,707	\$ 9,293	2,975,994
14	9/1/2022	2,975,994	\$ 18,000	8,680	\$ 9,320	2,966,674
15	10/1/2022	2,966,674	\$ 18,000	8,653	\$ 9,347	2,957,327
16	11/1/2022	2,957,327	\$ 18,000	8,626	\$ 9,374	2,947,952
17	12/1/2022	2,947,952	\$ 18,000	8,598	\$ 9,402	2,938,550
18	1/1/2023	2,938,550	\$ 18,000	8,571	\$ 9,429	2,929,121
19	2/1/2023	2,929,121	\$ 18,000	8,543	\$ 9,457	2,919,665
20	3/1/2023	2,919,665	\$ 18,000	8,516	\$ 9,484	2,910,180
21	4/1/2023	2,910,180	\$ 18,000	8,488	\$ 9,512	2,900,668
22	5/1/2023	2,900,668	\$ 18,000	8,460	\$ 9,540	2,891,129
23	6/1/2023	2,891,129	\$ 18,000	8,432	\$ 9,568	2,881,561
24	7/1/2023	2,881,561	\$ 18,000	8,405	\$ 9,595	2,871,966
25	8/1/2023	2,871,966	\$ 18,000	8,377	\$ 9,622	2,862,342

The above schedule continues for each year. A screen shot of the last two payments are included below.

237				18,000		17,843		
238	5/1/2041	35,843	\$	18,000	105	\$	17,895	17,948
239	6/1/2041	17,948	\$	18,000	52	\$	17,948	0
240	Last Period	0	\$	-	0	\$	(0)	0
Total			\$	4,320,000	1,207,284	\$	3,112,716	

Remaining lease term: 20 years

Lease Liability measured per GASB 87 \$3,112,716

RTU lease asset – Building \$3,112,716

Building Useful life: 55 years (per OSC policy)

Principal payment: Monthly, \$118,163 total in FY 22; \$112,992 total in FY 23; continues through FY 2029

Interest payment: Monthly, \$97,837 total in FY 22; \$103,008 total in FY 23; continues through FY 2029

Prior year, June 30, 2021 financial statement balances:

Building cost at June 30, 2021: \$5,000,000

Building Accumulated Depreciation at June 30, 2021: \$454,545.46

Building Carrying Value at June 30, 2021: \$4,545,454.54

Current Capital lease liability at June 30, 2021: \$200,000

Noncurrent Capital lease liability at June 30, 2021: \$2,800,000

#### Journal Entries:

The entries below are prepared using the data from the Lease Amortization template spreadsheet screen shots above.

- 1) To book the remeasured lease liability and RTU lease asset and remove the tangible capital asset and related accumulated depreciation as of July 1 (beginning balance). The liability should be measured at the present value of future lease payments at July 1, 2021 per the guidance in “General Reporting Requirements – Lessee” section of this Financial Reporting Update. Since this is an existing lease, the remeasured RTU lease asset will be equal to the remeasured lease liability.

Entries in NCAS as of July 1, 2021, beginning balance, to be posted with a June 30<sup>th</sup> date/13<sup>th</sup> period entry:

- a. Reclassify the tangible capital asset building to an intangible RTU lease asset building and remove the related accumulated depreciation of the tangible capital asset.

Debit 127101 RTU Lease Asset – Buildings	\$4,545,454.54	
Debit 127910 Accumulated Depreciation – Buildings	\$454,545.46	
Credit 127100 Buildings		\$5,000,000.00

- b. Remeasure the lease liability and the intangible RTU lease asset building per GASB 87 and restate net position.

Debit 214100 Lease liability – current	\$ 81,837.00	
Debit 330001 Restatement – Net Position	\$1,545,454.54	
Credit 127101 RTU Lease Asset – Buildings		\$1,432,738.54
Credit 224100 Lease liability – Noncurrent		\$ 194,553.00

2) Cash basis entries:

To record periodic lease payments. Make this entry for the frequency of payments required to be made based on your contractual obligation (i.e., monthly, quarterly, annually, etc.). In this example payments will be made monthly. Universities must zero out the Lease Principal Payments at 6/30 by reducing the Lease Liability for the principal payments made during the year.

July 1, 2021 principal payment:

Debit 535313 Lease Principal Payments expense	\$18,000	
Credit Cash		\$18,000

August 1, 2021 principal and interest payments:

Debit 535313 Lease Principal Payments expense	\$8,974	
Debit 535323 Lease Interest Payments expense	\$9,026	
Credit Cash		\$18,000

Payments will be made each month according to the Lease Amortization schedule (see screen shot above).

Total Principal Payments recorded to account 535313 Lease Principal Payments expense at June 30, 2022: \$118,163

Total interest payments recorded to account 535323 Lease Interest expense at June 30, 2022: \$97,837

- 3) To reduce the lease liability by the principal payments made during the year and reduce lease principal payments expense to zero.



210 Worksheet:

Description	Accumulated Depreciation Balance July 1, 2021	Prior Year Adjustments	Transfers In/Out	Accumulated Depreciation Increases	Accumulated Depreciation Decreases	Accumulated Depreciation Balance June 30, 2022
<b>Capital assets, depreciable:</b>						
4. Buildings	454,545.46	(454,545.46)				
Remove A/D for tangible Building						
5. Machinery and equipment						
1. Other intangible assets						
<b>Right to Use Lease assets, depreciable:</b>						
12. Right to Use Lease Asset- Land and permanent easements						
13. Right to Use Lease Asset- Buildings				155,635.80		155,635.80
Include on 430BTA with CA Cost Restatement						
14. Right to Use Lease Asset- Machinery and equipment						
15. Right to Use Lease Asset- General Infrastructure						
<b>Total Accumulated Depreciation-Capital Assets</b>	<b>454,545.46</b>	<b>(454,545.46)</b>		<b>155,635.80</b>		<b>155,635.80</b>

301 Worksheet:

**I. Lessee:**

Complete the following schedule for required lease disclosures:

Lease Payments for Fiscal Year	GovActivities	BusinessActivities	UnivFoundations	
	Government Activities	Business-type Activities <sup>(1)</sup>	University Foundations <sup>(1)</sup>	
	2023		216,000.00	
2024		216,000.00		Y2
2025		216,000.00		Y3
2026		216,000.00		Y4
2027		216,000.00		Y5
2028 - 2032		1,080,000.00		Y6-Y10
2033 - 2037		1,080,000.00		Y11-Y15
2038 - 2042		864,000.00		Y16-Y20
2043 - 2047				Y21-Y25
2048 - 2052				Y26-Y30
2053 - 2057				Y31-Y35
2058 - 2062				Y36-Y39
2063 - 2067				Y40-Y44
2068 - 2072				Y45-Y49
2073 - Beyond				Y50-Beyond
Less: Amount Representing Interest		(1,109,447.00)		Less: Amount Re
<b>Lease Liability</b>		<b>2,994,553.00</b>		<b>= June 30 lease liability on 310 WS</b>

NOTE: These balances must agree to LEASES PAYABLE on the balance sheet.

(1) **Universities Only:** Leases of discretely presented component unit foundations should be reported separately in the "University Foundations" column. The total of the "Business-type Activities" and the "University Foundations" columns must agree to LEASES PAYABLE on the balance sheet.

**Additional disclosures are required in the attached ACFR Package Narratives. 301 Narrative WS is required**  
**Questions below (at bottom of WS) required to be answered**

Do you have a lease with a component unit of the State?

Yes \_\_\_\_\_ No \_\_\_\_\_

Answer Missing

If yes, provide the component unit the lease is with and the amount of the lease.

Component Unit/ lease amount \_\_\_\_\_

Confirm lease liability reported on line 58 above with the Lessor's lease receivable. \_\_\_\_\_

310 Worksheet:

	Balance July 1, 2021	Prior Year Adjustments	Additions	Deletions	Balance June 30, 2022	Due Within One Year
	A	B	C	D	E	F
Bonds and similar debt payable:						
Revenue bonds						
GARVEE bonds					=214100	
Direct placements					Current	
Certificates of participation					Lease Liab	
Limited obligation bonds					+ 224100	
Issuance discounts					Noncurrent	=214100
Issuance premium					Lease	Current
Arbitrage rebate payable					liability on	Lease
Workers compensation					905	liability
Notes from direct borrowings		=430BTA				on 905
Leases payable	3,000,000.00	112,716.00		(118,163.00)	2,994,553.00	112,992.00
Annuity and life income payable						

An accrued interest liability, account 216220, may need to be recorded in the financial statements depending on the timing and frequency of payments. In this example, payments are due monthly at the beginning of the month, so most likely there will be no accrued interest liability at year-end.

430BTA Worksheet:

GASB	Capital	Long-term/Short-term	Other	
Reclassification	Transactions	Transactions	Change in	
Change in	Change in	Change in	July 1, 2021	
July 1, 2021	July 1, 2021	July 1, 2021	Fund Equity	Explanation
Fund Equity	Balances	Balances		
	=201 + 210 WS			GASB 87 - Restated Right to Use Assets: Operating Lease
		=310 WS		GASB 87 - Restated Lease Liability: Operating Leases
	(1,432,738.54)			GASB 87 - Restated Right to Use Assets: Capital Leases
		(112,716.00)		GASB 87 - Restated Lease Liability: Capital Leases
				GASB 87 - Restated Lease Receivable
				GASB 87 - Restated Deferred Inflow of Resources - Leases
0.00	(1,432,738.54)	(112,716.00)	0.00	
	=Restatement on 905 WS			
(1,545,454.54)				Total restatements should tie back to "restatements" caption on the 53P/905 (does not include GASB reclassifications).

3) New Leases

Facts:

ABC University entered into a new lease for equipment on December 1, 2021.

The data for this lease was entered in the Lease Amortization spreadsheet, referred to at the beginning of this Appendix, on the Inventory tab. All columns on the Inventory tab were completed. Here is a screen shot of the first five columns of this inventory tab.



Agreement	Agreement Effective Date	Lessee/Lessor	Governmental/BTA	Underlying Asset Type
New Lease-BTA LESSEE	12/1/2021 Lessee	BTA		Equipment

Once all data is entered on the Inventory tab for this agreement, including a “yes” in the “Preparer Consideration of Materiality” column AN, a “New Lease-BTA LESSEE” tab is generated. Note: a new tab will not be created if “yes” is not selected in column AN. The title of the tab is the Agreement name from the Inventory tab.

AN

**Preparer Consideration of Materiality (yes = material, no = not considered)**

Yes

Inventory | Asset Classes | Summary Am\_Sch | Template | **New Lease-BTA LESSEE**

Click on this detail tab, “New Lease-BTA LESSEE,” to obtain the information for the fixed asset system, journal entries, and ACFR Worksheets as noted in the screen shots below.

**Lease Inputs (input information based on lease inventory tab)**

Lease Commencement Date	12/1/2021
Lease Term	4.00
Number of Payments	48.00
What is the payment frequency? Annual / SemiAnnual / Quarterly / Monthly / Weekly	Monthly
When are lease payments made? (B)eginning of the period in advance or (E)nd of the period in arrears	Beginning

Payment #	Date	Lease Liability Opening Balance	Payments	Interest Expense	Principal	Lease Liability Closing Balance
0	12/1/2021	\$ 157,014	\$ 3,500		\$ 3,500	\$ 153,514
1	1/1/2022	153,514	\$ 3,500	448	\$ 3,052	150,462
2	2/1/2022	150,462	\$ 3,500	439	\$ 3,061	147,401
3	3/1/2022	147,401	\$ 3,500	430	\$ 3,070	144,331
4	4/1/2022	144,331	\$ 3,500	421	\$ 3,079	141,252
5	5/1/2022	141,252	\$ 3,500	412	\$ 3,088	138,164
6	6/1/2022	138,164	\$ 3,500	403	\$ 3,097	135,067
7	7/1/2022	135,067	\$ 3,500	394	\$ 3,106	131,961
8	8/1/2022	131,961	\$ 3,500	385	\$ 3,115	128,845
9	9/1/2022	128,845	\$ 3,500	376	\$ 3,124	125,721
10	10/1/2022	125,721	\$ 3,500	367	\$ 3,133	122,588
11	11/1/2022	122,588	\$ 3,500	358	\$ 3,142	119,445
12	12/1/2022	119,445	\$ 3,500	348	\$ 3,152	116,294
13	1/1/2023	116,294	\$ 3,500	339	\$ 3,161	113,133
14	2/1/2023	113,133	\$ 3,500	330	\$ 3,170	109,963
15	3/1/2023	109,963	\$ 3,500	321	\$ 3,179	106,784
16	4/1/2023	106,784	\$ 3,500	311	\$ 3,189	103,595
17	5/1/2023	103,595	\$ 3,500	302	\$ 3,198	100,397
18	6/1/2023	100,397	\$ 3,500	293	\$ 3,207	97,190
19	7/1/2023	97,190	\$ 3,500	283	\$ 3,217	93,974
	8/1/2023	93,974	\$ 3,500	274	\$ 3,227	90,747

The above schedule continues for each year. A screen shot of the last payments are included below.

46			3,500		3,480	
47	11/1/2025	3,490	\$ 3,500	10	\$ 3,490	0
48	Last Period	0	\$ -	0	\$ (0)	0
Total			\$ 168,000	10,986	\$ 157,014	

Lease term: 4 years

Lease Liability measured per GASB 87 \$157,014

RTU lease asset – Equipment \$157,014\*

\* Ancillary charges necessary to place the lease asset into service should be capitalized and added to the value of the RTU lease asset. See OSC policy [102.1 Statewide Accounting Policy – Capitalization/Classification](#) for examples of ancillary charges.

\* Lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received at or before the commencement of the lease term should be capitalized and added to the value of the RTU lease asset.

Equipment Useful life: 20 years (per OSC policy)

Principal payment: Monthly, \$21,947 total in FY 22; \$37,877 total in FY 23; continues through November 2025 or FY 2026

Interest payment: Monthly, \$2,553 total in FY 22; \$4,123 total in FY 23; continues through November 2025 or FY 2026

**Journal Entries:**

The entries below are prepared using the data from the Lease Amortization template spreadsheet screen shots above.

- 1) If any prepayments are made before the lease commences or if ancillary charges are paid at the commencement of the lease that are necessary to place the asset in service, the following entry will be made on a cash basis:

Debit 534560 RTU – Machinery & Equipment expense  
Credit Cash

If lease incentives are received at or before the commencement of the lease, contact OSC for assistance, if needed.

- 2) To book the lease liability at the commencement of the lease term, December 1, 2021. This liability should be measured at the present value of future lease payments per the guidance in “General Reporting Requirements – Lessee” section of this Financial Reporting Update.

Entry in NCAS as of December 1, 2021, to be posted with a June 30<sup>th</sup> date/13<sup>th</sup> period entry:

Debit 127350 RTU Lease Asset – Mach. & Equip.	\$157,014*
Credit 214100 Lease liability – current	\$21,947
Credit 224100 Lease liability – Noncurrent	\$135,067
Credit 534560 RTU – Machinery & Equipment expense*	

\*If prepayments are made before the lease commences or ancillary charges paid as noted in entry 1, the RTU asset will be increased by that amount and the RTU expense will be credited for that amount.

- 3) Cash basis entries:

To record periodic lease payments. Make this entry for the frequency of payments required to be made based on your contractual obligation (i.e., monthly, quarterly, annually, etc.). In this example payments will be made monthly. Universities must zero out the Lease Principal Payments at 6/30 by reducing the Lease Liability for the principal payments made during the year.

December 1, 2021 principal payment:

Debit 535313 Lease Principal Payments expense	\$3,500
Credit Cash	\$3,500

January 1, 2022 principal and interest payments:

Debit 535313 Lease Principal Payments expense	\$3,052
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Debit 535323 Lease Interest Payments expense	\$ 448
Credit Cash	\$3,500

Payments will be made each month according to the Lease Amortization schedule (see screen shot above).

Total Principal Payments recorded to account 535313 Lease Principal Payments expense at June 30, 2022: \$21,947

Total interest payments recorded to account 535323 Lease Interest expense at June 30, 2022: \$2,553

- 4) To reduce the lease liability by the principal payments made during the year and reduce lease principal payments expense to zero.

13<sup>th</sup> period, June 30, 2022 entry:

Debit 214100 Lease liability – current	\$21,947
Credit 535313 Lease Principal Payments expense	\$21,947

- 5) Establish the current/noncurrent portions of lease liability for next fiscal year.

13<sup>th</sup> period, June 30, 2022 entry:

Debit 224100 Lease liability – Noncurrent	\$37,877
Credit 214100 Lease liability – current	\$37,877

- 6) Record current year depreciation expense (1/2 year) and Accumulated Depreciation:

13<sup>th</sup> period, June 30, 2022 entry:

Debit 535430 Depreciation expense	\$19,626.75
Credit 127972 Accumulated Depreciation RTU M&E	\$19,626.75

**ACFR Worksheets:**

The NCAS package was prepared using the data from the Lease Amortization template spreadsheet screen shots and journal entries above.

201 Worksheet:

Description	Balance July 1, 2021 A	Prior Year Asset Adjustments B	Additions		Retirements G	Balance June 30, 2022 I
			Purchased Additions E	Donated Additions F		
<b>Right to Use Lease assets, depreciable:</b>						
12. Right to Use Lease Asset- Land and permanent easements						
13. Right to Use Lease Asset- Buildings						
14. Right to Use Lease Asset- Machinery and equipment			157,014.00			157,014.00
15. Right to Use Lease Asset- General Infrastructure						
<b>Total Capital Assets</b>			157,014.00			157,014.00

210 Worksheet:

Description	Accumulated Depreciation Balance July 1, 2021	Prior Year Adjustments	Accumulated Depreciation Increases	Accumulated Depreciation Decreases	Accumulated Depreciation Balance June 30, 2022
12. Right to Use Lease Asset- Land and permanent easements					
13. Right to Use Lease Asset- Buildings					
14. Right to Use Lease Asset- Machinery and equipment			19,626.75		19,626.75
15. Right to Use Lease Asset- General Infrastructure					
<b>Total Accumulated Depreciation-Capital Assets</b>			19,626.75		19,626.75

301 Worksheet:

**I. Lessee:**

Complete the following schedule for required lease disclosures:

Lease Payments for Fiscal Year	GovActivities	BusinessActivities	UnivFoundations	
	Governmental	Business-type	University	
	Activities	Activities <sup>(1)</sup>	Foundations <sup>(1)</sup>	
2023		42,000.00		Y1
2024		42,000.00		Y2
2025		42,000.00		Y3
2026		17,500.00		Y4
2027				Y5
2028 - 2032				Y6-Y10
2033 - 2037				Y11-Y15
2038 - 2042				Y16-Y20
2043 - 2047				Y21-Y25
2048 - 2052				Y26-Y30
2053 - 2057				Y31-Y35
2058 - 2062				Y36-Y39
2063 - 2067				Y40-Y44
2068 - 2072				Y45-Y49
2073 - Beyond				Y50-Beyond
Less: Amount Representing Interest		(8,433.00)		Less: Amount Re
Lease Liability		135,067.00		<b>= June 30 lease liability on 310 WS</b>

NOTE: These balances must agree to LEASES PAYABLE on the balance sheet.

(1) **Universities Only:** Leases of discretely presented component unit foundations should be reported separately in the "University Foundations" column.

The total of the "Business-type Activities" and the "University Foundations" columns must agree to LEASES PAYABLE on the balance sheet.

**Additional disclosures are required in the attached ACFR Package Narratives. 301 Narrative WS is required Questions below (at bottom of WS) required to be answered**

Do you have a lease with a component unit of the State?

Yes \_\_\_\_\_

No \_\_\_\_\_

**Answer Missing**

If yes, provide the component unit the lease is with and the amount of the lease.

Component Unit/ lease amount \_\_\_\_\_

310 Worksheet:

	Balance July 1, 2021	Prior Year Adjustments	Additions	Deletions	Balance June 30, 2022	Due Within One Year
	A	B	C	D	E	F
Bonds and similar debt payable:						
Revenue bonds						
GARVEE bonds						
Direct placements						
Certificates of participation						
Limited obligation bonds						
Issuance discounts						
Issuance premium						
Arbitrage rebate payable						
Workers compensation						
Notes from direct borrowings						
Leases payable			157,014.00	(21,947.00)	135,067.00	37,877.00

An accrued interest liability, account 216220, may need to be recorded in the financial statements depending on the timing and frequency of payments. In this example, payments are due monthly at the beginning of the month, so most likely there will be no accrued interest liability at year-end.

# Community Colleges

## Lessees

In the examples below it has been determined that the lease criteria in GASB Statement 87 and the OSC [capitalization threshold](#) have been met so a lease asset and liability will be reported in FY 2022 based on the GASB 87 requirements. Note: each college may have a different capitalization threshold. For the purposes of these examples, we used the OSC capitalization threshold.

### 1) Previous Operating Leases

**Facts:** See the [Universities section above](#).

**Journal Entries:** See the [Universities section above](#). Note: the entries will not be made in NCAS so the account numbers will be different, but the same type of accounts should be used.

#### ACFR Worksheets:

The Community College package was prepared using the data from the Lease Amortization template spreadsheet screen shots and journal entries above in the Universities section.

Capital Assets Worksheet:

<b>CAPITAL ASSETS</b>					
	Beg. Balance July 1, 2021	Prior Year Asset Adjustment	Current Year Additions	Current Year Deletions	End. Balance June 30, 2022
	A	B	C	D	E
	FCCS_OpeningBalance	Adjustments	PurchasesAdditions	Mvmts_Retirements	
<b>Capital assets - nondepreciable:</b>					
Leasehold improvements	\$ 573,899.72		\$ —		\$ 573,899.72
Computer software					
Patents					
Other intangible assets					
<b>Lease assets, depreciable:</b>					
Right to Use Lease Asset - Land					
Right to Use Lease Asset - Buildings					
Right to Use Lease Asset - M&E		= 430 WS \$16,774.00			16,774.00
Right to Use Lease Asset - Gen Infrastructure					
Total capital/lease assets - depreciable	33,239,694.98	16,774.00			33,256,468.98
<b>Less accumulated depreciation for:</b>					
<b>Capital assets, depreciable:</b>					
Buildings	9,955,523.51				9,955,523.51
General Infrastructure	799,252.77				799,252.77
Machinery and equipment	2,952,933.33			+	2,952,933.33
Art, literature, and artifacts					
Computer software					
Patents					
Other intangible assets					
<b>Lease assets, depreciable:</b>					
Right to Use Lease Asset - Land					
Right to Use Lease Asset - Buildings			\$2,096.75		2,096.75
Right to Use Lease Asset - M&E					
Right to Use Lease Asset - Gen Infrastructure					
Total accumulated depreciation	13,707,709.61		2,096.75		13,709,806.36
Total capital assets - depreciable, net	19,531,985.37	16,774.00	(2,096.75)		19,546,662.62
<b>Total Capital assets, net</b>	<b>\$ 20,675,876.95</b>	<b>\$ 16,774.00</b>	<b>\$ (2,096.75)</b>	<b>\$ —</b>	<b>\$ 20,690,554.20</b>

Long-Term Liabilities:

Changes in Long-Term Liabilities							
Description		Balance July 1, 2021	Prior Year Adjustments	Additions	Deletions	Balance June 30, 2022	Current Portion
		[A]	[B]	[C]	[D]	[E]	[F]
Leases Payable	New for FY2022	—	\$ 16,774.00	\$ —	\$ (1,893.00)	\$ 14,881.00	\$ 1,910.00
Compensated Absences		803,064.75	= 430 WS	—	—	= Current	= Current
Notes from direct borrowings		—	—	—	—	= Current	= Current
Net Pension Liability		5,786,068.00	—	—	—	= Current	= Current
Net OPEB Liability		11,129,585.00	—	—	—	= Current	= Current
Annuity and Life Income Payable		—	—	—	—	Lease Liab + Noncurrent Lease Liab on ExhA&B	Lease Liab on ExhA&B
Pollution Remediation Payable		—	—	—	—	—	—
Asset Retirement Obligation		—	—	—	—	—	—
<b>Total Long-Term Liabilities</b>		\$ 17,718,717.75	\$ 16,774.00	\$ —	\$ (1,893.00)	\$ 17,733,598.75	\$ 684,081.27
						In Bal.	In Bal.

An accrued interest liability may need to be recorded in the financial statements depending on the timing and frequency of payments. In this example, payments are due monthly at the beginning of the month, so most likely there will be no accrued interest liability at year-end.

301 Worksheet:

I. Lessee:

Complete the following schedule for required lease disclosures:

Lease Payments for Fiscal Year	Leases
2023	2,400.00
2024	2,400.00
2025	2,400.00
2026	2,400.00
2027	2,400.00
2028 - 2032	4,800.00
2033 - 2037	
2038 - 2042	
2043 - 2047	
	16,800.00
Less: Amount Representing Interest	(1,919.00)
Lease Liability	14,881.00

= June 30 lease liability on Long-term Liabilities WS

NOTE: Lease payments balance must agree to LEASES PAYABLE on the Long-Term Liabilities worksheet.

Additional disclosures required -For lease payments reported above, please provide details of the leases related to the payments.

Please see requirements below: Disclosures listed here required in the box below.

- A general description of leasing arrangements, including (1) the basis, terms, and conditions on which variable payments not included in the measurement of the lease liability are determined and (2) the existence, terms, and conditions of residual value guarantees provided by the lessee not included in the measurement of the lease liability.
- The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the lease liability.
- The amount of outflows of resources recognized in the reporting period for other payments, such as residual value guarantees or termination penalties, not previously included in the measurement of the lease liability.
- Commitments under leases before the commencement of the lease term.

If applicable, please provide the following additional disclosures:

- Sublease transactions- The original lessee (now the lessor in the sublease) includes a general description of the sub leasing arrangement disclosed separately from the lessee transaction related to the original leasing arrangement.
- Sale-leaseback transactions- disclose the terms and conditions of the sale-leaseback transaction along with the required disclosures in a. through d. above.
- Lease-leaseback transactions- disclose the amounts of the lease and the leaseback separately.

Questions under the text box below required to be answered.

Type the Lessee disclosure here and the text will wrap for you.





Capital Assets Worksheet:

CAPITAL ASSETS					
	Beg. Balance July 1, 2021	Prior Year Asset Adjustment	Current Year Additions	Current Year Deletions	End. Balance June 30, 2022
Other intangible assets	—	—	—	—	—
<b>Total capital assets - nondepreciable</b>	6,619,822.55	—	—	—	6,619,822.55
<b>Capital assets, depreciable:</b>					
Buildings <b>For this example, the \$5 million Bldg Cost is included in the July 1 Beg Balance</b>	57,921,469.88	(\$5,000,000.00) <b>Remove tangible Building</b>	—	—	52,921,469.88
General Infrastructure	3,784,929.11	—	—	—	3,784,929.11
Machinery and equipment	7,798,156.31	—	—	—	7,798,156.31
Art, literature, and artifacts	—	—	—	—	—
Computer software	—	—	—	—	—
Patents	—	—	—	—	—
Other intangible assets	—	—	—	—	—
<b>Lease assets, depreciable:</b>					
Right to Use Lease Asset - Land <b>New for FY2022</b>	—	—	—	—	—
Right to Use Lease Asset - Buildings <b>New for FY2022</b>	—	\$3,112,716.00	—	—	3,112,716.00
Right to Use Lease Asset - M&E <b>New for FY2022</b>	—	—	—	—	—
Right to Use Lease Asset - Gen Infrastructure <b>New for FY2022</b>	—	—	—	—	—
<b>Total capital/lease assets - depreciable</b>	69,504,555.30	(1,887,284.00)	—	—	67,617,271.30
<b>Less accumulated depreciation for:</b>					
<b>Capital assets, depreciable:</b>					
Buildings <b>For this example, the \$454,545.46 Bldng A/D is included in the July 1 Beg Balance</b>	18,361,168.69	(\$454,545.46) <b>Remove A/D for tangible Building</b>	—	—	17,906,623.23
General Infrastructure	1,024,224.35	—	—	—	1,024,224.35
Machinery and equipment	3,040,148.27	—	—	—	3,040,148.27
Art, literature, and artifacts	—	—	—	—	—
Computer software	—	—	—	—	—
Patents	—	—	—	—	—
Other intangible assets	—	—	—	—	—
<b>Lease assets, depreciable:</b>					
Right to Use Lease Asset - Land <b>New for FY2022</b>	—	—	—	—	—
Right to Use Lease Asset - Buildings <b>New for FY2022</b>	—	—	\$155,635.80	—	155,635.80
Right to Use Lease Asset - M&E <b>New for FY2022</b>	—	—	—	—	—
Right to Use Lease Asset - Gen Infrastructure <b>New for FY2022</b>	—	—	—	—	—
<b>Total accumulated depreciation</b>	22,425,541.31	(454,545.46)	155,635.80	—	22,126,631.65
<b>Total capital assets - depreciable, net</b>	47,079,013.99	(1,432,738.54)	(155,635.80)	—	45,490,639.65
<b>Total Capital assets, net</b>	\$ 53,698,836.54	\$ (1,432,738.54) = 430 WS	155,635.80	\$ —	\$ 52,110,462.20

Long-Term Liabilities:

Changes in Long-Term Liabilities							
Description	Balance July 1, 2021	Prior Year Adjustments	Additions	Deletions	Balance June 30, 2022	Current Portion	
	[A]	[B]	[C]	[D]	[E]	[F]	
Leases Payable <b>New for FY2022</b>	3,000,000.00	\$ 112,716.00	\$ —	\$ (118,163.00)	\$ 2,994,553.00	\$ 112,992.00	
Compensated Absences	775,860.89	= 430 WS	—	—	—	—	= Current Lease Liab + Noncurrent Lease Liab on ExhA&B
Notes from direct borrowings	—	—	—	—	—	—	= Current Lease Liab on ExhA&B
Net Pension Liability	10,246,742.00	—	—	—	—	—	
Net OPEB Liability	19,024,400.00	—	—	—	—	—	
Annuity and Life Income Payable	—	—	—	—	—	—	
Pollution Remediation Payable	—	—	—	—	—	—	
Asset Retirement Obligation	—	—	—	—	—	—	
<b>Total Long-Term Liabilities</b>	\$ 33,047,002.89	\$ 112,716.00	\$ —	\$ (118,163.00)	\$ 33,041,555.89	\$ 795,163.27	
					In Bal.	In Bal.	

An accrued interest liability may need to be recorded in the financial statements depending on the timing and frequency of payments. In this example, payments are due monthly at the beginning of the month, so most likely there will be no accrued interest liability at year-end.

301 Worksheet:

**I. Lessee:**

Complete the following schedule for required lease disclosures:

Lease Payments for Fiscal Year	Leases
2023	216,000.00
2024	216,000.00
2025	216,000.00
2026	216,000.00
2027	216,000.00
2028 - 2032	1,080,000.00
2033 - 2037	1,080,000.00
2038 - 2042	864,000.00
2043 - 2047	4,104,000.00
Less: Amount Representing Interest	(1,109,447.00)
Lease Liability	<u>2,994,553.00</u>

= June 30 lease liability on Long-term Liabilities WS

NOTE: Lease payments balance must agree to LEASES PAYABLE on the Long-Term Liabilities worksheet.

**Additional disclosures required -For lease payments reported above, please provide details of the leases related to the payments.**

**Please see requirements below: Disclosures listed here required in the box below.**

- a. A general description of leasing arrangements, including (1) the basis, terms, and conditions on which variable payments not included in the measurement of lease liability are determined and (2) the existence, terms, and conditions of residual value guarantees provided by the lessee not included in the measurement of the lease liability.
  - b. The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the lease liability.
  - c. The amount of outflows of resources recognized in the reporting period for other payments, such as residual value guarantees or termination penalties, not previously included in the measurement of the lease liability.
  - d. Commitments under leases before the commencement of the lease term.
- If applicable, please provide the following additional disclosures:
- e. Sublease transactions- The original lessee (now the lessor in the sublease) includes a general description of the sub leasing arrangement disclosed separately from the lessee transaction related to the original leasing arrangement.
  - f. Sale-leaseback transactions- disclose the terms and conditions of the sale-leaseback transaction along with the required disclosures in a. through d. above.
  - g. Lease-leaseback transactions- disclose the amounts of the lease and the leaseback separately.

Questions under the text box below required to be answered.

Type the Lessee disclosure here and the text will wrap for you.

430 Worksheet:

<i>Capital Transactions</i> Change July 1, 2021 Fund Equity	<i>Long Term/Short Term Liability Transactions</i> Change July 1, 2021 Fund Equity	<i>Other</i> Change July 1, 2021 Fund Equity	<b>Explanation</b>
+			
			GASB 87 - Restated Right to Use Assets: Operating Leases
			GASB 87 - Restated Lease Liability: Operating Leases
(\$1,432,738.54)			GASB 87 - Restated Right to Use Assets: Capital Leases
=Capital Assets WS	(\$112,716.00)		GASB 87 - Restated Lease Liability: Capital Leases
	=Long-term Liabilities WS		GASB 87 - Restated Lease Receivable
			GASB 87 - Restated Deferred Inflows Leases
(1,432,738.54)	(112,716.00)		
	<b>Grand Total</b>	(1,545,454.54)	<b>= Restatement on ExhA&amp;B</b>

### 3) New Leases

**Facts:** See the [Universities section above](#).

**Journal Entries:** See the [Universities section above](#). Note: the entries will not be made in NCAS so the account numbers will be different, but the same type of accounts should be used.

#### ACFR Worksheets:

The Community College package was prepared using the data from the Lease Amortization template spreadsheet screen shots and journal entries above in the Universities section.

Capital Assets Worksheet:

<b>CAPITAL ASSETS</b>					
	Beg. Balance July 1, 2021	Prior Year Asset Adjustment	Current Year Additions	Current Year Deletions	End. Balance June 30, 2022
	A	B	C	D	E
Patents		—			
Other intangible assets		—			
<b>Lease assets, depreciable:</b>					
Right to Use Lease Asset - Land		—			
Right to Use Lease Asset - Buildings		—			
Right to Use Lease Asset - M&E		—	\$157,014.00		157,014.00
Right to Use Lease Asset - Gen Infrastructure		—			
<b>Total capital/lease assets - depreciable</b>	33,239,694.98	—	157,014.00	—	33,396,708.98
<b>Less accumulated depreciation for:</b>					
Patents		—			
Other intangible assets		—			
<b>Lease assets, depreciable:</b>					
Right to Use Lease Asset - Land		—			
Right to Use Lease Asset - Buildings		—			
Right to Use Lease Asset - M&E		—	19,626.75		19,626.75
Right to Use Lease Asset - Gen Infrastructure		—			
<b>Total accumulated depreciation</b>	13,707,709.61	—	19,626.75	—	13,727,336.36
<b>Total capital assets - depreciable, net</b>	19,531,985.37	—	137,387.25	—	19,669,372.62
<b>Total Capital assets, net</b>	\$ 20,675,876.95	\$ —	\$ 137,387.25	\$ —	\$ 20,813,264.20

Long-Term Liabilities:

<b>Changes in Long-Term Liabilities</b>						
Description	Balance July 1, 2021	Prior Year Adjustments	Additions	Deletions	Balance June 30, 2022	Current Portion
	[A]	[B]	[C]	[D]	[E]	[F]
Leases Payable	—	—	\$ 157,014.00	(\$21,947.00)	\$ 135,067.00	\$ 37,877.00
Compensated Absences	803,064.75	—	—	—	—	—
Notes from direct borrowings	—	—	—	—	—	—
Net Pension Liability	5,786,068.00	—	—	—	—	—
Net OPEB Liability	11,129,585.00	—	—	—	—	—
Annuity and Life Income Payable	—	—	—	—	—	—
Pollution Remediation Payable	—	—	—	—	—	—
Asset Retirement Obligation	—	—	—	—	—	—
<b>Total Long-Term Liabilities</b>	\$ 17,718,717.75	\$ —	\$ 157,014.00	\$ (21,947.00)	\$ 17,853,784.75	\$ 720,048.27
					In Bal.	In Bal.

An accrued interest liability may need to be recorded in the financial statements depending on the timing and frequency of payments. In this example, payments are due monthly at the beginning of the month, so most likely there will be no accrued interest liability at year-end.

301 Worksheet:

**I. Lessee:**

Complete the following schedule for required lease disclosures:

Lease Payments for Fiscal Year	Leases
2023	42,000.00
2024	42,000.00
2025	42,000.00
2026	17,500.00
2027	
2028 - 2032	
2033 - 2037	
2038 - 2042	
2043 - 2047	
	143,500.00
Less: Amount Representing Interest	(8,433.00)
Lease Liability	135,067.00

**= June 30 lease liability, on Long-term Liabilities WS**

NOTE: Lease payments balance must agree to LEASES PAYABLE on the Long-Term Liabilities worksheet.

**Additional disclosures required - For lease payments reported above, please provide details of the leases related to the payments. Please see requirements below: Disclosures listed here required in the box below.**

- a. A general description of leasing arrangements, including (1) the basis, terms, and conditions on which variable payments not included in the measurement of lease liability are determined and (2) the existence, terms, and conditions of residual value guarantees provided by the lessee not included in the measurement of the lease liability.
  - b. The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the lease liability.
  - c. The amount of outflows of resources recognized in the reporting period for other payments, such as residual value guarantees or termination penalties, not previously included in the measurement of the lease liability.
  - d. Commitments under leases before the commencement of the lease term.
- If applicable, please provide the following additional disclosures:
- e. Sublease transactions- The original lessee (now the lessor in the sublease) includes a general description of the sub leasing arrangement disclosed separately from the lessee transaction related to the original leasing arrangement.
  - f. Sale-leaseback transactions- disclose the terms and conditions of the sale-leaseback transaction along with the required disclosures in a. through d. above.
  - g. Lease-leaseback transactions- disclose the amounts of the lease and the leaseback separately.

**Questions under the text box below required to be answered.**

Type the Lessee disclosure here and the text will wrap for you.

## Nonmajor Component Units

### Lessees

In the examples below it has been determined that the lease criteria in GASB Statement 87 and the OSC [capitalization threshold](#) have been met so a lease asset and liability will be reported in FY 2022 based on the GASB 87 requirements. Note: each nonmajor CU may have a different capitalization threshold. For the purposes of these examples, we used the OSC capitalization threshold.

#### 1) Previous Operating Leases

**Facts:** See the [Universities section above](#).

**Journal Entries:** See the [Universities section above](#). Note: for entities that do not use NCAS, the entries will not be made in NCAS so the account numbers will be different, but the same type of accounts should be used.

**ACFR Worksheets:**

The journal entries will impact the financial statements on the "GASB\_Stmts" or "FASB\_Stmts" and "FASB\_Adj" tabs.

430 Worksheet: Refer to the [430BTA Worksheet above for Universities](#) or the [430 Worksheet above for community colleges](#).

**2) Previous Capital Leases**

**Facts:** See the [Universities section above](#).

**Journal Entries:** See the [Universities section above](#). Note: for entities that do not use NCAS, the entries will not be made in NCAS so the account numbers will be different, but the same type of accounts should be used.

**ACFR Worksheets:**

The journal entries will impact the financial statements on the "GASB\_Stmts" or "FASB\_Stmts" and "FASB\_Adj" tabs.

430 Worksheet: Refer to the [430BTA Worksheet above for Universities](#) or the [430 Worksheet above for community colleges](#). The total restatement will equal the restatement on the "Stmts" tab.

**3) New Leases**

**Facts:** See the [Universities section above](#).

**Journal Entries:** See the [Universities section above](#). Note: for entities that do not use NCAS, the entries will not be made in NCAS so the account numbers will be different, but the same type of accounts should be used.

**ACFR Worksheets:**

The journal entries will impact the financial statements on the "GASB\_Stmts" or "FASB\_Stmts" and "FASB\_Adj" tabs.