**annual comprehensive financial report (ACFR)**

**required Closing Package Survey**

**Leases**

[GASB Standard 87]

GASB 87 was effective beginning with fiscal year 2022. Any leases that are managed by the Bureau of General Services and those associated lease payments that are made to fund 043 do not need to be disclosed in your agency’s closing package since OSC has worked with the General Government Service Center to identify those leases. Any leases and lease payments that are made directly by departments to lessors/vendors should be reported in the closing package using the excel spreadsheet (GASB 87 Leases) listed separately on [OSC's Web Site](https://www.maine.gov/osc/financial-reporting/closing-package-information)).

In general, capital leases under GASB 87 are leases of tangible property for terms of longer than 1 year. Renewal option/periods are added to the lease period. For example, a 1 year lease with 1 year renewal option is considered a two-year lease for GASB 87 reporting purposes. Leases typically and predominantly include buildings, but may also include vehicles, communication towers, land, photocopiers, heavy equipment etc. Note that a right of way lease is considered intangible property and reported under GASB 51. See GASB 51 section.

For the leases that are managed directly with your agency please provide the following information using the excel spreadsheet (GASB 87 Leases) listed separately on [OSC's Web Site](https://www.maine.gov/osc/financial-reporting/closing-package-information)). :

Vendor/Lessor name and Advantage vendor code

Full Contract Number if applicable (include doc code, doc dept, doc id)

Type of leased equipment (ex. printer, copier etc.)

Leased Asset Description

Monthly Payment Amount

Additional expenses incurred to make asset ready for use

Lease period (in months including renewal periods)

Lease commencement date and lease termination date (including renewal periods)

All renewal options associated with individual lease terms

Expense coding associated with each lease - fund, department, appropriation and object code. (If multiple leases are coded to one account just note that and include coding once).

**List Department Codes for which this survey is being submitted: ex:** 01A, 06A, 09A, 13A

**Department or Service Center Attestation:**

After having researched agency records and/or consulted with agency personnel, I am NOT aware of any potential Leases that should be disclosed in the State of Maine’s financial statements.

|  |  |  |
| --- | --- | --- |
|  | **Typed Name** | **Hand-written or Digital Signature (preferred)** |
| **Prepared by:** |  |  |
| **Date:** |  |

**OR – if the above doesn’t apply, sign and date below**

After having researched agency records and/or consulted with agency personnel, I have identified potential Lease Transactions and provided the information in the excel spreadsheet listed separately on [OSC's Web Site](https://www.maine.gov/osc/financial-reporting/closing-package-information)).

|  |  |  |
| --- | --- | --- |
|  | **Typed Name** | **Hand-written or Digital Signature (preferred)** |
| **Prepared by:** |  |  |
| **Date:** |  |

If you have any questions about the interpretation of GASB standard 87 survey, please contact your agency liaison.

**Please return the completed survey to** **Kelli Lascko** [**kelli.lascko@maine.gov**](mailto:kelli.lascko@maine.gov)**.**

# GASB 87 - Leases

GASB 87 defines a lease as a contract that conveys control of the right to use another entity’s non-financial asset as specified in the contract, for a period of time, in an exchange or exchange-like transaction. GASB 87 applies to all contracts meeting this definition of a lease, unless specifically excluded.

**Exclusions:**

* leases of intangible assets
* leases of biological assets
* leases of inventory
* service concession arrangements (as specified in GASB 60)
* leases of assets financed with outstanding conduit debt
* supply contracts
* leases of assets that are investments
* certain leases subject to external laws, regulations, or legal rulings

**GASB 87 requires different accounting treatments for each of the following three categories of contracts:**

1. **Short-term leases:** Defined as 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 option to extend, regardless of their probability of being exercised. For a lease that is cancelable by either the lessees or lessor, the maximum possible term is the amount of time either party is required to notify the other party of the cancellation (notice period). Lessees and lessors should recognize short-term lease payments as outflows or resources or inflows or resources, respectively, based on the payment provisions of the lease contract.
2. **Contracts that transfer ownership (**referred to as **“financed purchases):** A contract that transfers ownership of the underlying asset to the purchaser by the end of the contract and does not contain termination options but may contain a fiscal funding or cancellation clause that is not reasonably certain of being exercised, should be reported as a financed purchase of the underlying asset by the lessee or sale of the asset by the lessor.
3. **Leases other than short-term leases and contracts that transfer ownership** (referred to as **Right to Use (RTU) leases**: All other leases that do not meet the definition of short-term leases or contracts that transfer ownership.

At the commencement of the lease term, a lessee should recognize a lease liability and an intangible RTU lease asset. A lease liability should measure the lease liability at the present value of payments expected to be made during the lease term. Measurement of the lease liability should include items listed in paragraph 21 of GASB 87. As noted in the Paragraph 94 of GASB 87 the lease should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation.

**Lease Asset**

A lessee initially should measure the lease asset as the sum of the following:

1. The amount of the initial measurement of the lease liability (see paragraph 21 of GASB 87).
2. Lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives (as discussed on paragraphs 61 and 62 of GASB 87) received from the lessor at or before the commencement of the lease term.
3. Initial direct costs that are ancillary charges necessary to place the lease asset into service.

A lease asset should be amortized in a systemic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The amortization of the lease asset should be reported as an outflow of resources (amortization exp), which may be combined with depreciation expense related to other capital assets for financial reporting purposes.

If a lease asset contains a purchase option that the lessee has determined is reasonably certain of being exercised, the lease asset should be amortized over the useful life of the underlying asset. In that circumstance, if the underlying asset is non-depreciable, such as land, the lease asset should not be amortized.

A lease asset generally should be adjusted by the same amount as the corresponding lease liability when that liability is remeasured based paragraphs 25-29 of GASB 87. However, if that change reduces the carrying value of the lease asset to zero, any remaining amount should be reported in the resource flows statement (for example, a gain).

**Lease Liability**

The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

The lessee should remeasure the lease liability at subsequent financial reporting dates if one or more of the following changes have occurred at or before that financial reporting date, based on the most recent lease contract before the changes, and the changes individually or in the aggregate are expected to significantly affect the amount of the lease liability since the previous measurement:

* There is a change in the lease term.
* An assessment of all relevant factors indicates that the likelihood of a residual value guarantee being paid has changed from reasonably certain to not reasonably certain, or vice versa.
* An assessment of all relevant factors indicates that the likelihood of a purchase option being exercised has changed from reasonably certain to not reasonably certain, or vice versa.
* There is a change in the estimated amounts for payments already included in the measurement of the lease liability (except as provided in paragraph 26).
* There is a change in the interest rate the lessor charges the lessee, if used as the initial discount rate.

If a lease liability is remeasured for any of the changes above, the liability also should be adjusted for any change in an index or rate used to determine variable payments if that change in the index or rate is expected to significantly affect the amount of the liability since the previous measurement. A lease liability is not required to be remeasured solely for a change in an index or rate used to determine variable payments.

**Lease Term:**

The lease term is the period during which a lessee has a noncancelable right to use an underlying asset (referred to as the noncancelable period), plus the following period, if applicable:

1. Periods covered by a lessee’s option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option.
2. Periods covered by the lessee’s option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will *not* exercise that option.
3. Periods covered by a lessor’s option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option.
4. Periods covered by a lessor’s option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will *not* exercise that option.

Periods for which both the lessee and the lessor have an option to terminate the lease without permission from the other party (or if both parties have to agree to extend) are cancelable periods and are excluded from the lease term.

Lease term should be reassessed if only one or more of the following occur:

1. Lessee or Lessor elects to exercise an option even though previously determined that it was reasonably certain they would not exercise that option.
2. Lessee or Lessor elects not to exercise an option even though it was previously determined that it was reasonably certain they would exercise that option.
3. Event specified in the lease contract that requires an extension or termination takes place.

Lease Modifications - A lease amendment or modification should be accounted for as a separate lease by both the lessee and the lessor if it adds one or more underlying assets that were not included in the original lease contract; and the increase in lease payments for the additional lease asset does not appear to be unreasonable.

Lease Termination - An amendment which results in a decrease of the lessee’s right to use the underlying asset is considered to be a full or partial termination.

1. A lessee should reduce the carrying values of the lease liability and related asset and recognize a gain or loss for the difference.
2. A lessor should reduce the carrying values of the lease receivable and related deferred inflow of resources and recognize a gain or loss for the difference.