

Office of Statewide Reporting and Accounting Policy

State of Louisiana

Division of Administration

JOHN BEL EDWARDS
GOVERNOR



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COMMISSIONER OF ADMINISTRATION

February 24, 2022

MEMORANDUM OSRAP 22-11

TO: Fiscal Officers
All State Entities

FROM: Lindsay Schexnayder, CPA
State Accounting Systems Director

SUBJECT: Implementation of Governmental Accounting Standards Board (GASB) Statement No. 87, Leases (GASB 87) – Lease Landscape Assessment

PURPOSE

The purpose of this bulletin is to provide State Entities with a recommended methodology and procedures to be performed in completion of a **lease landscape assessment**, the objectives of which include:

- i. Identification of a complete population of contracts that fall within the scope of GASB 87 as of July 1, 2021;
- ii. Understanding of the nature and mix of contracts involved in the State's transition population (i.e., complexity of such population, long vs. short term separation, types of underlying assets); and
- iii. Refinement of the State's implementation plan based on such understanding to ensure relevant risks are addressed and a transition adjustment can be quantified on a timely basis.

It is expected that **all State Entities** will participate in the **lease landscape assessment**. Subsequent to completion of applicable lease landscape assessment procedures, State Entities must respond to the GASB 87 Lease Landscape Survey linked below. Also, OSRAP will require disclosures in accordance with GASB 87 in the AFR or indication that your agency does not have any contracts that qualify as GASB 87 leases.

BACKGROUND

For general background on the State's GASB 87 Implementation Initiative and expected timelines, please refer to [OSRAP Memo 22-07, Implementation of Governmental Accounting Standards Board \(GASB\) Statement No. 87, Leases \(GASB 87\)](#). In addition, refer to the GASB 87 Lease Guidance section in the AFR portal at <https://wwwcfprd.doa.louisiana.gov/osrapPortal/login.cfm> for further documentation pertaining to GASB 87 technical guidance, training decks, recordings from training sessions, memos, etc.

RELEVANT WORKING PAPERS

The following templates/working papers are available to the State Entities to facilitate implementation of the Lease Landscape Assessment methodology prescribed within this memo:

- State of Louisiana Initial Lease Inventory Template
- Lease Reporting Cycle Walkthrough Template
- GASB 87 Lease Landscape Assessment - Recommended Procedures
- GASB 87 Lease Identification Decision Tree

These templates may be obtained from the GASB 87 Lease Guidance section within the AFR portal.

METHODOLOGY

Transition date and method

The State's GASB 87 transition date is **July 1, 2021**¹. GASB 87 will be implemented **prospectively** by the State and State Entities, whereby all leases in effect as of transition date (July 1, 2021) will be measured in compliance with GASB 87, using facts and circumstances in effect as of such date².

Transition population

Identification of a transition population is the first step to implementing a new standard. The State's GASB 87 transition population is defined as those contracts that:

- (a) Meet the definition of a lease within GASB 87; and
- (b) Have a lease term that has already "commenced"³ prior to **July 1, 2021** and remains in effect as of July 1, 2021.

The following represents a 3-step landscape assessment approach recommended for identification of the State Entities' GASB 87 transition population:

A. Identify "legacy leases" (known leases) as of June 30, 2021

- Legacy leases (or "known leases") represent the population of transactions/contracts that **have been reported by the State Entities as "leases" in compliance with GASB 62, within the audited Annual Comprehensive Financial Report (ACFR) of the State for the fiscal year ended June 30, 2021.**
- Given consistencies between the definition of a lease under GASB 62⁴ and GASB 87, it is expected that most contracts reported as leases under GASB 62 will also be deemed leases under the GASB 87 model.
- An inventory of legacy leases will be used as a "starting point" that will be subject to further assessment and refinement to build the GASB 87 transition population.

¹ GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance has deferred the effective date of GASB 87 to fiscal years beginning after June 15, 2021.

² Resulting adjustments will be recorded to the "**Net Position - Beginning of the Period**" line item within the State's statement of activities. The State's or State Entities' historical financial statements will **not** be subject to any restatement.

³ A lease term is considered commenced on the date lessee is given non-cancellable rights (i.e., access to and control over) to the underlying asset. Control over underlying asset is defined as the right to obtain the present service capacity from the use of the underlying asset and the right to determine the nature and manner of its use. In cases whereby access by the lessee to the underlying asset is contingent on certain conditions/events (e.g., issuance of occupancy certificate following a construction period), lease term is not assumed to have commenced until such contingency is cleared and lessee has gained control over the underlying asset.

⁴ GASB 62. 211 defines as lease as "*An agreement conveying the right to use capital assets (land and/or depreciable assets) usually for a stated period of time.*" Such definition of a lease under GASB 62 is substantially consistent with that of GASB 87 "*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.*"

METHODOLOGY (Continued)

B. Identify “unknown leases” as of June 30, 2021

- Unknown leases represent contracts that represent a lease under GASB 62 but have been scoped out of the legacy lease reporting process (i.e., not reported as rent expense/revenue or capital lease obligation within the State’s ACFR for the year ended June 30, 2021) due to materiality considerations, short term nature of the contract, and/or other reasons (e.g., errors).
- It is possible that contracts deemed “immaterial” in the past may be deemed material under the new classification and measurement models of GASB 87.
- It is therefore important to obtain an understanding of the legacy lease reporting process to determine whether such contracts reported as part of non-lease expense or revenue cycles need to be transitioned to GASB 87 lease reporting processes.

C. Identify “embedded leases” as of June 30, 2021

- Embedded leases represent elements of a lease that reside in contracts seemingly structured as service arrangements, supply contracts, licensing agreements, or other type of arrangements (i.e., contracts not labelled as “leases” or “rent agreements”). Upon closer assessment of such contracts, it may be noted that they host multiple components, one of which may be deemed a lease-in-substance. In fact, it is not uncommon for some service arrangements to contain a right to control the use of an asset, which may represent a lease in substance.
- Accordingly, it is required that the Entities complete an assessment of their material revenue and expense streams (those not reported as leases under GASB 62) to determine whether they host components that may be deemed leases under GASB 87.

PROCEDURES

Detailed procedures that are *recommended* for the identification of the State Entities’ GASB 87 transition population will be provided (**GASB 87 Lease Landscape Assessment - Recommended Procedures**) and made available in the GASB 87 Lease Guidance section in the AFR portal at <https://wwwcfprd.doa.louisiana.gov/osrapPortal/login.cfm>.

Note that it is the responsibility of each State Entity to determine the scope and extent of their procedures based on their unique nature of business-type and governmental activities, volume of their “known leases”, lease reporting processes, risks of misstatement, and history of deficiencies/errors.

TIMELINE & NEXT STEPS

A training session was held by the GASB 87 team at 11 am CDT (12pm ET) on February 21, 2022 as it relates to the lease landscape assessment. Recording and materials from this session will be available in the AFR portal.

Each agency is required to respond to the GASB 87 Lease Landscape Survey linked below relating to their implementation of GASB 87. The due date for the completion this survey is **March 7, 2022**.

<https://www.surveymonkey.com/r/GPZHCDL>

TIMELINE & NEXT STEPS (Continued)

If your agency has not already completed the State of Louisiana Initial Lease Inventory Template, this is already past due.

As noted above, the referenced templates are available in the GASB 87 Lease Guidance section in the AFR portal at <https://wwwcfprd.doa.louisiana.gov/osrapPortal/login.cfm>.

Each State Entity with a “reportable” lease volume is expected to move on to *data abstraction process*⁵, following compilation of the Entity’s *GASB 87 Transition Population*. The State’s overall GASB 87 implementation approach assumes an *April 2022* timeline for commencement of execution phase, which is heavily comprised of GASB 87 lease data abstraction to be performed by each State Entity. Note however, certain procedures (particularly the search for embedded leases) may take several weeks depending on complexity and volume of relevant transactional population. It is recommended that State Entities consider commencing data abstraction efforts in phases and execute such efforts in parallel with remainder of the lease landscape assessment procedures.

For those State Entities deploying Lease Controller, OSRAP will perform the “close books” function within LeaseController on the following dates:

Transactions to be Closed	Date of Close	Implications
<u>GASB 87 Transition Population</u> ~All leases existing as of July 1, 2021	May 27, 2022	Data for all GASB 87 transition contracts to be uploaded into LeaseController, reviewed and approved by this date
<u>FY 2022 Q1 Lease Transactions</u> ~All new leases/modifications that have commenced between the dates of July 1, 2021 through Sept 30, 2021	June 10, 2022	Data for all Q1 2022 GASB 87 transactions to be uploaded into LeaseController, with records reviewed and approved by this date
<u>FY 2022 Q2 Lease Transactions</u> ~All new leases/modifications that have commenced between the dates of Oct 1, 2021 through Dec 31, 2021	June 24, 2022	Data for all Q2 2022 GASB 87 transactions to be uploaded into LeaseController, with records reviewed and approved by this date
<u>FY 2022 Q3 Lease Transactions</u> ~All new leases/modifications that have commenced between the dates of Jan 1, 2022 through Mar 31, 2022	Jul 8, 2022	Data for all Q3 2022 GASB 87 transactions to be uploaded into LeaseController, with records reviewed and approved by this date
<u>FY 2022 Q4 Lease Transactions</u> ~All new leases/modifications that have commenced between the dates of Apr 1, 2022 through June 30, 2022	Jul 29, 2022	Data for all Q4 2022 GASB 87 transactions to be uploaded into LeaseController, with records reviewed and approved by this date

INQUIRIES

Any question concerning this bulletin should be directed to Rhonda Coston at (225) 342-1093 or Mark Rhodes at (225) 342-0711 or via email at rhonda.coston@la.gov or mark.rhodes@la.gov.

⁵ Process of extracting necessary data from underlying contracts. Refer to LeaseController or LeaseController data upload template for a list of data points required to facilitate GASB 87 reporting of lease.