

Leases

30.20.30

Capital lease – a lease that transfers substantially all the benefits and risks inherent in the ownership of property to the state. Must meet criteria to qualify as a capital lease.

Operating lease – a rental of an asset with a term of more than one year, where the payments are chargeable as rent or lease expenditures.



Capital Lease definition 30.20.30

Must meet one or more of the following criteria:

- Ownership transfers to the state by the end of the lease term
- Lease contains a bargain purchase option
- Lease term is equal to 75% or more of the useful life of the leased property
- If, at the beginning of the lease, the present value of the future minimum payments, less executory costs, is 90% or more of the fair value of the leased property
 - However, if the beginning of the lease term falls within the last 25 % of the total estimated economic life, then you would not use this criterion.

Lease Accounting

GASB Preliminary Views – Project No. 3-24P

- Definition of a Lease:
 - Defined as a contract that conveys the right to use a nonfinancial asset for a period of time in an exchange or exchange-like transaction.
- Leases that contain a bargain purchase option or transfer ownership would be accounted for as financed purchases and would not follow the new guidance.
- Contracts that contain both lease and service components generally would be separated so that each component is accounted for on its own.
- Contracts that contain multiple lease components with different terms should be separated and each component accounted for separately.
- Additional disclosures will be required.



Lease Accounting

GASB Preliminary Views – Project No. 3-24P

- Lessee Accounting:
 - Recognize a lease liability and an intangible lease asset at the beginning of a lease, unless it is a short-term lease.
- Lessor Accounting:
 - Recognize a lease receivable and a deferred inflow of resources at the beginning of a lease, unless it is a short-term lease.
- Short-term Lease Exception:
 - A short-term lease would be defined as a lease that, at the beginning of the lease, has a maximum possible term under the contract, including any options to extend, of 12 months or less.

Deadline for submitting written comments: March 6, 2015

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