

## CU Policy – Rule 03-150-102

# Lease Reporting

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## 1. Summary

- 1.1. The Governmental Accounting Standards Board (GASB) establishes required accounting rules and guidance that govern the development, presentation and reporting of OSU's financial accounting information to external parties. In accordance with its authority, the [GASB issued Statement No. 87 – Leases](#), which became effective for OSU's fiscal year ending June 30, 2022. GASB 87 requires OSU to identify all leases and account for them appropriately.
- 1.2. Under GASB 87, all qualifying leases are capitalized; consequently, the new standard conceptually changes the lease accounting focus to "lessee" and "lessor" leases and moves away from the concept of "operating" and "capital leases". This policy provides guidelines for valuing, accounting and reporting lease agreements and transactions in OSU's financial statements and underlying accounting system as delineated by GASB 87 – Leases.
- 1.3. All budget authorities, managers, supervisors and any employee responsible for establishing or processing leases and lease transactions should be informed and understand this rule.

## 2. Compliance Requirements

- 2.1. **Basic GASB 87 criteria for Right of Use (ROU) lease asset and lease liability recognition include all of the following:**
  - 2.1.1. Exchange Transaction: The [lease](#) must be executed on an exchange or exchange-like basis.
  - 2.1.2. [Noncancelable](#): The lease must be noncancelable for the specified term.
  - 2.1.3. Term: The lease term must be longer than 12 months.
  - 2.1.4. Parties to the agreement: The lease must be between OSU and external legal entities, and not between internal OSU units.
  - 2.1.5. GASB 87 does not apply to agreements related to software, intangible assets, inventory, licenses, biological assets, mineral rights or supply contracts.

**2.2. Lessee leases that meet GASB 87 criteria**

- 2.2.1.** When OSU is the lessee in a [GASB 87 qualifying lease](#), a ROU asset and a lease liability are reported in the university's Statement of Net Position in the financial statements.
- 2.2.2.** ROU assets are recorded at an amount equal to the lease liability plus payments made to the lessor at or before commencement of the lease, less any lease incentives, plus any direct costs necessary to place the leased asset into service.
- 2.2.3.** ROU assets will be amortized to lease expense on a straight-line basis and credited to ROU Lease Accumulated Amortization over the lease term.
- 2.2.4.** Lease liabilities are calculated at the Present Value (PV) of total lease payments required over the term of the lease, based on the [discount rate](#) explicitly stated in the lease agreement or as determined by the OSU [Treasury Office](#).
  - a) Only the [base rent](#) portion of lease payments is included in the PV calculation of the lease liability. [Operating expense](#) payments and variable lease rent are not included in the PV calculation.
- 2.2.5.** Lease payments are recorded as lease expense and lease interest expense over the lease term.
- 2.2.6.** Lease liabilities are reduced over the lease term by the periodic lease expense payment portion.

**2.3. OSU lessor leases that meet GASB 87 criteria**

- 2.3.1.** When OSU is the lessor in a GASB 87 qualifying lease agreement, a lease receivable asset and deferred inflow must be recorded in the university's Statement of Net Position.
- 2.3.2.** Lease Receivables are recorded at the PV of lease payments expected to be received over the lease term. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the lease receivable.
- 2.3.3.** Deferred Inflows are recorded at the initial amount of the lease receivable, adjusted for payments received before commencement and any lease incentives.
- 2.3.4.** Lease Receivables are amortized using the interest method over the lease term.
- 2.3.5.** Deferred Inflow balances are amortized into income over the lease term on a straight-line basis.

## 2.4. Application of GASB 87 criteria

- 2.4.1. Leases cancelable by both parties with less than one year's notice are considered cancelable and therefore do not meet GASB 87 criteria.
- 2.4.2. Leases exclusively cancelable by OSU are generally considered cancelable unless the lease has a sustained history of extensions or renewals, has never been terminated by OSU and the other party is a key partner of the university.
- 2.4.3. Leases exclusively cancelable by the non-OSU party to the lease are considered cancelable unless there is a documented understanding from the other party that the lease will not be cancelled.
- 2.4.4. Leases that meet GASB 87 criteria and have a calculated present value of \$50,000 or greater for Lease Payable (lessee) or \$100,000 or greater for Lease Receivable (lessor) are recorded as assets and reported in the financial statement of Net Position.

## 3. Required Process

### 3.1. Roles and Responsibilities

#### 3.1.1. [Leasing and Strategic Real Property Management](#) (RP)

- a) Facilitates the sale, acquisition and lease of university real property.
- b) Manages the drafting and legal processing of real property lease agreements and related documents.
- c) Administers the lease database and creates lease records for all real property leases.

#### 3.1.2. [Procurement Contracts and Materials Management](#) (PCMM)

- a) Executes non-real property lease contracts/agreements.
- b) Ensures compliance with policy and regulatory procurement governance.
- c) All Equipment lease agreements are maintained in the Benny Buy system.

#### 3.1.3. [Controller's Unit, Financial Accounting and Reporting](#) (FAR)

- a) Administers lease accounting chart in Banner Enterprise Resource Planning (ERP) system.

- b) Ensures lease accounting complies with GASB 87 and Generally Accepted Accounting Principles (GAAP).
- c) Creates and administers lease records for all equipment leases that meet GASB 87 criteria.
- d) Calculates financial statement and note disclosures for all leases that meet GASB 87 criteria.
- e) Reconciles Visual Lease system records to Banner financial entries.

### **3.2. Entering Into New Lease Agreements**

**3.2.1.** OSU units seeking to engage in leasing activities must contact the appropriate units as follows prior to executing any legally binding lease contracts or agreements:

- a) Leasing and Strategic Real Property Management for real property leases.
- b) PCMM contracting for equipment or other non-real property leases.
- c) FAR for guidance on appropriate Banner lease accounting.
  - Determination of whether leases are subject to GASB 87 criteria.
  - To request changes to Banner indexes charged for lease payments on GASB 87 qualifying leases.

### **3.3. Lessee Lease Payments**

#### **3.3.1. Leases that meet GASB 87 Criteria**

- a) The portion of lessee lease payments representing the base rent is posted to lease expense account codes 24201, 24250, 24251, 24252 or 24253 depending on the asset type.
- b) The portion of lease payments that reimburse the lessor for lease operating expenses is posted to account 24204.
- c) The portion of lease payments that represent **variable lease expense** is posted to 24298 – Variable Lease Expense.
- d) Redistributions of lessee lease expense to another index must use the same account codes for the debits and credits.

#### **3.3.2. Leases that do not meet GASB 87 Criteria**

- a) The full payment amount including base rent, lease operating expense, usage charges and variable lease expense is posted to the appropriate rental account code in the 24110 - Rentals roll up series depending on the asset type.
- b) Payments for [internal leases](#) are also posted to the appropriate rental account code in the 24110 - Rentals roll up series.

### 3.4. Lessor Lease Income

#### 3.4.1. Leases that meet GASB 87 Criteria

- a) Payments received are credited to account 06727 – Base Lease Revenue. Lease revenue is not required to be broken out by asset type.
- b) The portion of lease payments received that reimburse OSU for lease operating expenses is posted to account 06773-Other Lease Operating Revenue.
- c) The portion of lease payments representing [variable lease revenue](#) is posted to account 06774-Variable Lease Revenue.
- d) Redistribution of lease income must use the same account codes on both sides of the entry.

#### 3.4.2. Leases that do not meet GASB 87 Criteria

- a) Full payment amounts received are credited to appropriate accounts in the 06701 to 06739 series.
- b) Account codes under 06770 – Lease Revenue should not be used; those accounts are reserved for GASB 87 leases only.

### 3.5. Lease Administration and Accounting Application

- 3.5.1. OSU utilizes Visual Lease (VL) as its lease administration and accounting application.
- 3.5.2. Read only access is available to accountants who perform lease payment or other lease-related functions. Please contact the Director of Financial Accounting and Reporting for access.
- 3.5.3. Lease payments are recorded in Banner and subsequently reconciled to associated Visual Lease records during the fiscal year-end close process.
- 3.5.4. Visual Lease administrator access is provided to both RP and FAR for system management.

## 4. Related Information

- 4.1. Please check with your supervisor for unit-level procedures related to this rule and other resources that may not be listed below.
- 4.2. [University Policy 03-100 Controller's Unit Policy Program Authority](#)
- 4.3. [CU Policy-Rule 03-150-411 Equipment Acquisitions](#)
- 4.4. [Exhibit 003-02 Account Codes](#) (067xx Lease Revenue; 24xxx Lease Expenses; 4xxxx Lease Capitalization Expenses; 80xxx Lease Depreciation and Amortization; A3xxx Lease Receivables; A5009 Prepaid Lease Expense; A8xxx Fixed Assets; B2xxx Lease Liabilities)
- 4.5. [GASB 87](#)
- 4.6. [Definitions of Terminology](#)
- 4.7. [Frequently Asked Questions](#) (FAQs)

## 5. History

- 5.1. Original Issue Date: 07/2022 (*FIS 502 Lease Reporting*)
- 5.2. Previous Versions: 12/2014; 02/2023
- 5.3. Next Scheduled Review Date: 06/2027
- 5.4. Current Review Documentation:
  - Stakeholder Feedback: Financial Reporting Manager; CLA; CUL
  - Policy Steward Approval: 02/24
  - Controller Approval: 02/24

## 6. Contacts

- 6.1. Policy Steward: Director of Financial Accounting & Reporting ([contact info](#))
- 6.2. Program: Fiscal Policy Officer ([contact – for program inquiries only](#))