SCEIS USER GROUP MEETING – JANUARY 29, 2020

COMPTROLLER GENERAL'S OFFICE

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Last update: 1/28/2020

SCEIS User Group Meeting – Comptroller General's Office

Agenda

I. GASB 87 - Lease Accounting

II. Accounting for Insurance Recoveries

III. Quarterly Policy & General Ledger Update

IV. Questions

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I. GASB 87 - Lease Accounting

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GASB 87 - Lease Accounting

What is GASB 87?

- Establishes a single reporting model for lease accounting based on the foundational principal that leases are financings of the right to use an asset.
- 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-like transaction.

What is the Effective Date?

- For the State of South Carolina, the requirement is effective **July 1, 2020**.
- Early implementation is **NOT** allowed.

Who will be impacted?

- **ALL** state and local governments. There are no exemptions.

NOTE: Guidance is still being crafted by GASB

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GASB 87 - Lease Accounting

The 3 Categories of Leases

- **Short-term leases** have a maximum possible term of 12 months or less.
  - Any clause that might extend the lease past the 12 month period will not be considered a short-term lease.
  - No change in the accounting of short-term leases.
  - There will be very few short-term leases after July 1, 2020

- **Contracts that Transfer Ownership** at the end of the lease period are considered financing agreements.
  - These are known as capital leases
  - No change in the accounting of Master Leases (debt)

- **All Other Leases** will account for 90% of leasing agreements
  - Lease liabilities and lease assets are recognized
  - Lease payments will post to principal and interest general ledger accounts.

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GASB 87 - Lease Accounting

Scope: What's in

- A contract (e.g., an agreement between two or more parties that creates enforceable rights and obligations) 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.
- Contracts that are not specifically identified as a lease, but meet the definition of a lease.
- Embedded leases occurring within service, construction, advertising, transportation agreements…
- Real property leased between the primary government and discretely presented component units (i.e., colleges and universities)
- Real property leased from non-state entities
- Subleases

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GASB 87 - Lease Accounting

Scope: What's out

- Real property leased within the primary government (i.e., Comptroller General's Office renting office space from the Department of Administration)
- Leases of intangible assets (i.e., patents, copyrights, computer software..)
- Leases of biological asset (i.e., timber, living plants, animals…)
- Leases of inventory
- Supply contracts
- Service concession arrangements (i.e., airports, roads, hospitals…)

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GASB 87 - Lease Accounting

Overview of New Accounting Process:

- Agency enters into a lease of more than 12 months for land, buildings, machinery, equipment…
- An amortization schedule is created (if not provided by the lessor).
- The shopping cart is created.
  - Note: the asset is **not** assigned to the shopping cart.
- Procurement creates a PO with **ZCAP** document type.
- The asset shell(s) is created in SCEIS using transaction AS01.
  - The leasing tab must be completed for only the main asset.
- The asset is capitalized using the ABZON transaction.
- Run S_ALR_87010141 to ensure the liability is correct for future years.

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Overview of New Accounting Process (continued):

- The agency **invoice** approver (not in SCEIS) should provide the PO and amortization schedule when routed to AP.
- Pay invoices as set in the agreement ensuring there are at least two lines, one for principal and one for interest.
- Monitoring of open PO's will be necessary to ensure assets are created in a timely manner, the correct PO document type is being used and the proper amounts are coded to principal and interest
- Assets will need to be retired if not retained by the agency at the end of the lease.

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Key Points:

- This is going to be a collaborative process what will include **<u>many</u>** areas within an agency.
- A leased asset should be recognized at the **<u>commencement</u>** of the lease term.
- Assets should be depreciated over the **<u>shorter</u>** of the lease term or the system default for the asset class.
  - Low value assets are an exception to the rule since they depreciate fully when depreciation is run at month-end.
- Leases with multiple assets can be created as 1 main asset with multiple sub assets as long as they have the same term and asset class.
- Payments will post as an expense for the principal and interest general ledger accounts.
  - This will **<u>not</u>** change the payment amount.
- Amortization schedules will be required for voucher approval.

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Key Points (continued) :

- Intent on retaining the asset at the end of the term will determine how the asset will be classified. "Equipment and Machinery" verses "Leased Equipment and Machinery"
- Liabilities will be reported at year-end via a reporting package to the CG's office
- The GL will need to be scanned for similar payments for possible unidentified leases.
- Agency AP staff is going to be extremely helpful in identifying payments subject to the new requirements.
- The contingent portion of invoice will remain the same as today.
- Guidance will be provided as to what interest rate will be used when not provided in the lease agreement.

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GASB 87 - Lease Accounting

What will Implementation look like?

- IMPORTANT – This is not effective until **JULY 1, 2020.** Early implementation is not allowed.
- The CG's office will work with agencies one-on-one to gather data elements required to create a "Lease Master Data" worksheet.
- Tools will be available for creating amortization schedules.
- Templates will be used to create AND capitalize assets
  - These will be loaded by the asset team at SCEIS
- New GL's will be create to accommodate these changes while not losing transparency needed in reporting.

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QUESTIONS

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