

Appendix B: OSC Decision Guide for Lease Identification

Note: This decision chart does not replace reading GASB 87 and related implementation guidance. This chart is meant as a non-authoritative guide for the most common decisions to be made when identifying whether a contract contains a lease.

Instructions: For each contract that is currently reported as an operating or capital lease, OR for any contract that may contain a leasing component, go through this Decision Guide to verify whether you have a lease that needs to be reported under GASB 87.

1a. Is there a contract in existence for a specified period of time with another entity?

***Note:** Answer "no" if this is a lease between agencies or departments of the State (e.g. between DPS and DOT).

(GASB 87, para. 4)

_____ (Go to Question 1b.)
YES

_____ (This contract does not contain a lease.)
NO

1b. Is there an identified non-financial asset?

(GASB 87, para. 7)

_____ (Go to Question 1c.)
YES

_____ (This contract does not contain a lease.)
NO

1c. Does the contract meet any of the exclusions for GASB 87?

(See Chart Below)

GASB 87 does NOT apply to:

- a.) Leases of intangible assets, biological assets, and inventory [GASB 87, para. 8] (e.g. software subscriptions, animals/plants, and finished goods inventory)
- b.) Service concession arrangements [GASB 87, para. 8]
- c.) Leases in which the underlying asset is financed with conduit debt [GASB 87, para. 8]
- d.) Supply contracts; such contracts convey access to output of assets, not control of the right to use the asset [GASB 87, para. 8]
- e.) Leases of financial assets reported as investments [GASB 87, para. 41]
- f.) Short term leases, as defined in GASB 87 paragraph 16 (See Links Below)
- g.) Contracts that transfer ownership at the end of the lease term and do not contain termination options [GASB 87, para. 19]. If termination options exist, regardless of the probability of exercising the options, the transaction should be reported as a lease if all other requirements of GASB 87 are met. (such contracts are considered financed purchases)

_____ (This contract does not contain a GASB 87 lease.)
YES

_____ (Go to Question 1d.)
NO

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1d. Does the contract specify that equal or near-equal value is exchanged for the user's right to use the asset?

(GASB 87, para. 4)

_____ (Go to Question 2a.)
YES

_____ (This contract does not contain a lease.)
NO

2a. Does the user of the asset have the right to obtain the present service capacity from use of the underlying asset throughout the period of use?

(GASB 87, para. 5)

_____ (Go to Question 2b.)
YES

_____ (This contract does not contain a lease.)
NO

2b. Does the user have the right to determine the nature and manner of use of the underlying asset as specified in the contract?

(GASB 87, para. 5)

_____ Primary Government Agencies: This contract may
contain a lease. Go to Question 3.
YES _____ Component Units: This contract contains a lease if it
meets your entity's capitalization threshold for leases.

_____ (This contract does not contain a lease.)
NO

3. *Primary Government Agencies Only* - Does this lease arrangement meet the capitalization threshold set forth in OSC Statewide Accounting Policy 105.7, Leases?

_____ This contract contains a lease.
YES _____ Must report for statewide
accounting and reporting
purposes.

_____ Immaterial for reporting
purposes. Expense payments as
they are made.
NO