



Lease Accounting (Previously Accounting for Leases)

Policy Revision Date: 07/01/2022

Category	Current Policy (revision date 07/01/2014)	Changes to Policy (revision date 07/01/2022)	Effect
General		Includes the definition of a lease	Largely clarification only, however also expands policy to apply to agreements that contain embedded leases (not only just straightforward lease agreements)
General		Retroactive to comply with new FASB regulations. Most changes are at the University level and a historical review by FAR shows no leases were impacted with the 7/1/22 effective date.	
Lease Types	Focus on lease types for lessee arrangements - operating and capital	Expands lease types - There are two types of lease classifications for a lessee: finance and operating. There are three types of leases for a lessor: direct financing, sales-type, and operating leases.	Minimal impact to lessee distinctions. Provides guidelines specific to lessor accounting arrangements.
Lessee Accounting - Operating Leases	Not capitalized to the balance sheet	Specify that operating leases are required to be recorded on the balance sheet	FAR will record a journal entry at year end to add "right of use" asset and lease liability to the tub balance sheet for corresponding amounts. This is based on data provided in the Commitments and Contingencies request from tubs.
Lessee Terminology	Terminology - Capital Leases	Terminology - Finance Leases	None, terminology change only
Finance Lease Assessment Threshold	Leases with annual lease year cash payments between \$250,000-999,999 that met finance lease criteria could be treated as finance lease at the discretion of the tub.	Cannot be considered a finance lease unless annual lease cash payments are $\geq 1M/\text{year}$ or $>10M$ for the life of the lease.	None - no finance leases currently recorded within this dollar range.
Finance Lease Accounting	Capital Leases - 4 criteria; if any of the criteria are met then a lease gets treated as a capital lease	Finance Leases - 5 criteria, in substance the same as the original 4 criteria for a capital lease, plus a 5th specifying that customized assets with no use to the lessor at the end of the lease must be treated as a finance lease.	Any leased assets that are customized only to HU's use and need will be treated as finance leases, not operating leases. Estimated to be very rare circumstances that these types of leases occur, potential to see with leases of scientific equipment.
Finance Lease Accounting	Capital Leases - depending on which criteria are met to classify the lease as a capital lease, the useful life of the asset is either the life of the lease or dependent on the asset category.	Finance Lease useful life is the lesser of the lease term or the asset category useful life. This corresponds with the Fixed Asset policy.	No impact - this is already in practice due to the guidelines laid out in the Fixed Asset policy.
Lessee Accounting	Leasehold improvements - silent on improvements that are a condition of the lease and owned by the lessor	Leasehold improvements - where these are stipulated in the lease agreement and owned by the lessor, please consult with FAR	Could potentially impact lease classification (if significant) or result in a lease modification (if occurring subsequent to the lease commencement), but anticipated to be rare
Lessee Accounting	Executory Costs - Excluded from lease classification calculation	Executory costs, if significant and explicit in the lease agreement, are included in lease classification calculation.	Minor impact to lease classification calculation



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Actual vs Straight-Line Lease Amounts	Straight-line lease accounting was required when the difference between cash payments and straight line accounting was \$500K for large schools and \$250K for small schools on an annual basis	One threshold for University of \geq \$500,000 or more annually	Minor impact expected as very few leases are recognized on a straight-line basis by the University
Lessee Accounting - Lease prepayments and incentives at lease inception	Silent in existing policy	If lease payments are made or lease incentives received prior to the lease commencement, such as the lease inception date, they should be recorded as prepaid asset/rent.	Minor impact expected to lease classification calculation. Additionally, Appendix B Leases involving land and buildings has been removed.
Lessee Accounting - Lease involving land & building	When the lease involves land and buildings, tubs must first calculate each asset's relative fair value and then answer a series of questions to determine the proper treatment.	A lessee should account for land and buildings as separate lease components unless the accounting effect of doing so would be insignificant (e.g., there would be no impact on lease classification or the amount recognized for the land component would be insignificant)	Minor impact expected to lease classification calculation
Disclosures (C&C Request)	C&C Request - report all leases $>$ \$500k.	C&C Request - report all leases $>$ \$100k.	The \$100k threshold was already implemented in previous periods, therefore no current impact of this threshold change
Lessor Accounting	Silent in existing policy	Defines criterion for determining sales-type, direct financing or operating lease, describes accounting impact, and establishes thresholds for evaluation	Minor impact, as very few leases are expected to be sales-type or direct financing leases. No change to accounting for operating leases, but has formalized the accounting policy