



TEXAS GENERAL LAND OFFICE
COMMISSIONER DAWN BUCKINGHAM, M.D.

**REPORT ON THE AUDIT OF COMPLIANCE WITH
GOVERNMENTAL ACCOUNTING STANDARDS BOARD
STATEMENT NO. 87, LEASES**

JUNE 2023

EXECUTIVE SUMMARY

The Financial Reporting and Accounting section of the Texas General Land Office and Veterans Land Board has implemented the requirements associated with the Governmental Accounting Standards Board, Statement No. 87, Leases (GASB-87). To improve the information needs of financial statement users, GASB-87 seeks to improve accounting and financial reporting for leases by governments.

The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on contract payment provisions. GASB-87 establishes a single model for lease accounting that enhances the relevance and consistency of information about governments' leasing activities by:

- a. Reflecting leases as financings of the right to use an underlying asset
- b. Requiring a lessee to recognize a lease liability and an intangible right-to-use lease asset
- c. Requiring the lessor to recognize a lease receivable and a deferred inflow of resources

Specifically, this review focused on the agency's activities for recognizing and reviewing lease transactions for the implementation of GASB-87. Specific areas reviewed for the implementation of the statement included:

- Completeness and accuracy of data related to agency leases
- Technical challenges of the implementation

As a result of the review, there were no significant areas of risks identified related to the agency's implemented lease recognition processes. An observation to enhance communication and guidance for future identification and capturing of associated leases was presented to management in a separate communication.



ACKNOWLEDGMENTS

We appreciate the assistance and cooperation provided to us by the management and staff of various agency divisions. Additionally, we would like to thank the Financial Reporting and Accounting division for their continuous cooperation and support during this engagement. For questions about this report, please contact Tracey Hall at (512)463-6078.

Tracey Hall, CPA, CISA
Chief Auditor, Office of Audit and Compliance

July 13, 2023

Date

BACKGROUND INFORMATION

GASB Statement No. 87 establishes a uniform approach to accounting for the reporting of leases based on the principle that all leases are (in substance) financings. GASB-87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the lease's guidance unless specifically excluded.

Per the Texas Comptroller's Reporting Requirements for the Annual Financial Reports of State Agencies and Universities guidelines, implementation of GASB-87 was required beginning in fiscal year 2022. The minimum threshold for this requirement is \$100,000 net present value (NPV) of future minimum payments per unit. Additionally, the agency obtained access to the LeaseQuery system to record and maintain all agency lease information.¹

The GLO began gathering information about agency leases in February 2020 and reported applicable leasing activities per GASB-87 requirements in the fiscal year 2022. Most agency-owned sovereign and non-sovereign lands are used for operating leases; commercial leases and easements; coastal easements; coastal leases; and surface leases. These leases are considered as land held as investments for Permanent School Fund (PSF); therefore, are exempt from GASB-87. The requirements were applicable to the agency's agreements and contracts for items such as building, office and warehouse space, printers, and vehicles that were not recognized as leases prior to the GASB-87 leases standards.

The agency modified its existing annual information and data collection procedures to identify all agreements subject to GASB-87 requirements. During the annual process for requesting financial reporting information, the GASB-87 data request document, along with the GASB Decision Tree document, was provided to program areas to assist with the identification of lease information. The lease information obtained was verified and reviewed for completeness and accuracy. Figure 1 depicts the adjustments reported in the agency's fiscal year 2022 financial statement as a result of the implementation of GASB-87, Leases standards.²

Figure 1: FY2022 Financial Statement Adjustments

The following restatements were made to fund balances due to the implementation of GASB-87:

1. Fund 5352, Alamo Economic Stabilization Fund: (\$101,304.99)
2. Fund 0998, Governmental Activities Fund: (\$5,996,226.77)
3. Fund 0997, Governmental Activities Fund: (\$5,460,712.98)

Each of the restatements were presented in the FY2021 comparative total amounts.

Source: GLO FY2022 Unaudited Financial Report

¹ Comptroller's office maintains the LeaseQuery system, and three TXGLO Financial Management personnel have access to the system for lease activity reporting.

² See the fiscal year 2022 annual financial report for the complete list of adjustments and disclosures.

APPENDIX

OBJECTIVE

The objective was to assess the agency's implementation of Governmental Accounting Standards Board Statement No. 87, Leases guidance.

SCOPE & METHODOLOGY

The scope of the audit included processes and policies implemented for identifying, compiling, and reporting lease transactions in accordance with GASB-87 requirements. The scope of the engagement was limited to the agency's lease recognition processes for implementation and compliance with GASB-87 guidance and did not assess the accuracy of the financial reporting of the leases.

The methodology included but was not limited to reviewing relevant rules, guidance, and procedures, interviewing program area personnel, and analyzing and documenting data and reports. The risk assessment procedures included the following steps focusing on the recognition of lease transactions applicable to GASB 87:

1. Review of GASB Statement No. 87, Implementation Guides, Comptroller's Leases Reporting Requirements for Annual Financial Reports, and Agency's Procedures and identifying the applicable requirements.
2. Obtaining an understanding of the agency's information collection and review procedures of leases.
3. Review of documentation of lease identification information, review, measurement procedures, and the agency financial reports.
4. Assessment of program risks and the impact and likelihood of identified concerns.

The audit was conducted in accordance with *Government Auditing Standards* and *International Standards for the Professional Practice of Internal Auditing*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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