

2021-22 GASB 87



GASB 87 Leases Workshop Agenda

1. Background, Implementation & Definitions
2. Identify Key Elements
3. Lease Activity & Reporting
4. Lessee Accounting
5. Lessor Accounting
6. Examples
7. Other Lease Scenarios
8. F/S Disclosures
9. Documentation Considerations

What is GASB 87 & What Do I Need to Know?

Section 1

Background, Implementation & Definitions

Background and Implementation

- Effective for 2021-22 fiscal year
- Establishes a single lease accounting model
 - No longer distinction between capital and operating leases
- Apply to new leases AND apply retro-actively to existing leases

What is a Lease?

- **“New” Definition** – A lease is a contract that conveys control of the “right-to-use” another entity’s nonfinancial asset (underlying asset) as specified in the contract for a period of time in exchange for exchange-like kind transaction, with the exception of short-term leases.
- **Four Key Elements:**
 - Control
 - Period of time or lease term
 - Exchange or exchange-like transaction
 - Nonfinancial asset (underlying asset)

Exclusions

- The following are outside of the scope of GASB 87:
 - Intangible assets (mineral rights, patents, software, copyrights), except for the sublease of an intangible right-to-use asset
 - Biological assets (living animals, plants etc.)
 - Inventory
 - Service Concession arrangements (Statement No. 60)
 - Arrangements associated with conduit debt obligations (Statement No. 91)
 - Supply contracts (purchase power agreements that do not convey control of the right to use the underlying generating facility)
 - Contracts that transfer ownership at the end of the contract without termination options – Financed Purchase
 - Short-Term Leases

Financed Purchase (NOT a lease)

- A contract that transfers ownership by the end of the contract AND does not contain a termination clause
- Reported as a financed purchase of the underlying asset by the lessee (notes payable/other general LT debt) or a sale of the asset by the lessor (notes receivables rather than a lease receivable)
- Financed purchase (lessee side) – recognize the purchased asset (expense) and the proceeds financed at the NPV of the asset purchased; DR. 06000s Asset & CR. All Other Financing Sources.
- Financed sale (seller side) – show capital assets as deletions from capital asset listing, along with corresponding depreciation etc. Treat as being sold.

Short-Term Leases

- Defined as a lease that, at the commencement of the lease term, has a maximum possibly term under the lease contract of 12 months or less, including any options to extend, regardless of their probability of being exercised
- Excluded from GASB 87; no balance sheet reporting

Accounting for short-term leases

- Can be reported using existing SACS object codes
 - Object 5600, Rentals, Leases, Repairs, and Noncapitalized Improvements, for lease expenditures
 - Object 8650, Leases and Rentals, for lease revenues.



Section 2

Identify Key items

Where to Find Your Leases

- Common leases may include land, buildings, vehicles and equipment
- Evaluate based on the new definition and the 4 key elements. The word “Lease” need NOT be in the contract/agreement in order to qualify as a lease if criteria is met.



Items to Consider

- Avoid using terminology on a particular document to define nature of the contract, such as, lease contract, finance agreement, lease purchase, capital lease, lease contract etc. Instead evaluate components.
- Create an inventory of existing leases and other contracts and agreement for review
- Determine which leases, contracts, or agreements meet the new definition of a lease and which can be excluded
- Separate contracts into lease and non-lease components
- Review rent agreements, service contracts that include use of an asset, operating lease agreements

Note: The aggregation of the liability for all lease contracts should be evaluated for materiality. Consider revised capitalization policy for lease assets if significant amount of assets below capitalization threshold. Document and get buy-in from auditors.

Determine Key Elements

- Payment Provisions
 - Lease Term (renewals/extensions/termination provisions)
 - Determine discount rate
 - Lease Incentives
- Transfers of ownership/purchase options
- Multiple components (i.e. service contracts with leased asset)
- Initial direct costs and other payments
- Asset class and useful life of asset
- Determine present value of lease payments

Key Information & Payment Provision

Identify Key Lease Information				
<u>Description of Lease</u>	<u>Lease Start</u> <u>Date</u>	<u>Lease End</u> <u>Date</u>	<u>Payment Term</u> <u>(Monthly, Semi-</u> <u>Annual, Annual)</u>	<u>Payment</u> <u>Amount</u>

Note: Make note if payments are made at Beginning of the Period vs End of the Period

Lease Term

Determine Lease Term					
<u>Noncancelable</u> <u>Period (Years)</u>		<u>Period Covered by</u> <u>Options to Terminate</u> <u>when it's NOT Certain</u> <u>to be Exercised (in</u> <u>Years)</u>		<u>Period Covered by</u> <u>Option to Extend</u> <u>when it's Reasonably</u> <u>Certain to be</u> <u>exercised</u>	
	Plus (+)		Plus (+)		Equals (=)
					<u>Total Lease Term</u> <u>(in Years)</u>

- Starts with the noncancelable period, plus options to:
 - Extend the lease if option is reasonably certain of being exercised
 - Terminate the lease if option is reasonably certain of NOT being exercised
- Excludes “cancellable” periods
 - Periods of which either party have the option to terminate or both parties have to agree to extend
 - Rolling month-to-month leases
 - A lease that continues into holdover period until a new lease contract is signed
- Fiscal funding/cancellation clauses ignored unless reasonably certain of being exercised

Lease Term

- Lease term should be reassessed only if one of the following apply:
 - Either party elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option
 - Either party elects not to exercise that option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option
 - An event specified in the lease contract that requires an extension or termination of the lease takes place

Lease Modifications

Amendments to a lease contract (not from exercising options in the contract) and may include the following:

- A change in contract price
- A change in lease term
- Adding or removing the underlying right to use assets

Modifications: considered lease modification unless lessee's right-to-use asset decreases

- Report as a ***new lease*** by both lessor and lessee if: 1) New assets are added and 2) Not unreasonably priced.
- Otherwise, ***remeasure***

Lease Terminations

Can be considered partial or full lease termination if lessee's right-to-use asset decreases

Lessees:

- For partial/full lease termination, other than purchases, lessees reduce/remove the lease asset and lease obligation
- Recognize any difference as a gain or loss
- If lessee purchases the underlying asset, reclassify to the appropriate asset class

Lessors:

- For partial/full lease terminations, other than sales, lessors reduce/remove the lease receivable and related deferred inflow of resources
- Recognize any difference as a gain for loss
- If the lessor sells the underlying asset, derecognize the underlying asset

Discount Rate

- Lessees should **discount lease payments** using the interest rate at which the transaction is made; the rate the lessor charges the lessee, which may be implicit in the lease. If the interest rate implicit in the lease is not readily determinable, the lessee's **estimated incremental borrowing rate** should be used. Determining the incremental borrowing rate requires estimating the interest rate the lessee would be charged for borrowing the lease payment amounts during the lease term.

Determine Rate	
<u>Rate Lessee</u> <u>Being Charged</u> <u>by Lessor (If</u> <u>Available)</u>	<u>Incremental</u> <u>Lessee</u> <u>Borrowing</u> <u>Rate</u>

- Use rate included in agreement
- If no rate provided, inquire with vendor
- Use professional judgement to determine rate if none can be provided

Contracts with Multiple Components

Evaluate contracts with multiple components:

- May contain both a lease component and a non-lease component
- May contain multiple underlying assets

Contracts with Multiple Components			
<u>Does the Lease include Supplies or Services, Separate from Lease Asset</u>	<u>Portion of the Lease Cost related to Supplies</u>	<u>Portion of the Lease Cost related to Services (Maintenance, Repairs, etc.</u>	<u>Does the contract involve multiple underlying assets?</u>

- If a contract contains both a lease component and a non-lease component, evaluate as separate contracts
- If a contract involves multiple underlying assets, account for each underlying assets as separate lease components (i.e. different lease terms or different major asset classes for disclosure)

Lease Incentive

Lease Incentives are:

- Payments made to, or on behalf of, the lessee, for which the lessee has the right to offset with its obligation to the lessor, or
- Other concessions granted to the lessee

Examples:

- Rebate/discount and includes assumption of lessee's preexisting lease obligations to a 3rd party
- Other reimbursement of lessee costs
- Rent holidays
- Reductions of interest or principal charges by the lessor
- Payments provided at or before inception of the lease: report as a direct reduction of a lessee's lease asset
- Payments provided after inception of the lease: report as a reduction of payments for period provided and reduce PV of lease liability (and lessor's receivable)

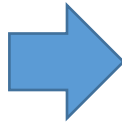
Incentives

Incentives
Received or
Due from
Lessor

Determine PV of Lease Payment

Example: A photocopy machine used in the accounting department is leased for a five-year period, which is the useful life of the equipment. The lease is signed on June 30, 2022, and beginning on this date, five annual payment of \$50,000 will be made. Implicit interest rate = 10%.

Calculating PV using sample PV Calculator



Sample PV calculator:

<https://leasequery.com/project/present-value-calculation-tool/>

Number of Periods:

Refresh

Annual Rate:

Periods in

Payments Made at of Period

Period	Cash	Present Value
0	\$50,000.00	\$50,000.00
1	\$50,000.00	\$45,454.55
2	\$50,000.00	\$41,322.31
3	\$50,000.00	\$37,565.74
4	\$50,000.00	\$34,150.67
5	\$50,000.00	\$0.00
TOTAL		\$208,493.27

Present Value is \$208,493

Determine PV of Lease Payment

Example: A photocopy machine used in the accounting department is leased for a five-year period, which is the useful life of the equipment. The lease is signed on June 30, 2022, and beginning on this date, five annual payment of \$50,000 will be made. Implicit interest rate = 10%.

fx **=PV(10%/1,5,-50000,0,1)**

Calculating PV using Excel PV Formula



- Rate = Interest rate per period.
For example, use 10%/1 for annual payments at 10% APR.
- Nper = Number of payment periods
- Payment = Payment made each period (enter as a negative, represents negative cash flow)
- FV = Future value (residual value)
- Type = payment at the beginning of the period = 1; payment at the end of the period = 0

Function Arguments

PV			
Rate	10%/1		= 0.1
Nper	5		= 5
Pmt	-50000		= -50000
Fv	0		= 0
Type	1		= 1
			= 208493.2723

Determine PV of Lease Payment

Based on SACS Forum 11/2/21 Meeting (Slides 23 – 26)

Example: A photocopy machine used in the accounting department is leased for a five-year period, which is the useful life of the equipment. The lease is signed on June 30, 2022, and beginning on this date, five annual payment of \$50,000 will be made. Implicit interest rate = 10%.

Date	Lease Payment	Interest Expenditure @ 10%	Principal Expenditure	Principal Balance of Leases Payable
6/30/2022	\$0	\$0	\$0	\$208,493
6/30/2022	\$50,000	\$0	\$50,000	\$158,493
6/30/2023	\$50,000	\$15,849	\$34,151	\$124,342
6/30/2024	\$50,000	\$12,434	\$37,566	\$86,776
6/30/2025	\$50,000	\$8,678	\$41,322	\$45,454
6/30/2026	\$50,000	\$4,545	\$45,454	\$0
Total	\$250,000	\$41,507	\$208,493	--

For lessee:

At the lease commencement date (that is, 6/30/2022 is the date on which the lessor makes the underlying asset available for use by the lessee)

Dr. Lease Assets (Object 6600)	\$208,493	
Cr. Proceed from Leases (Object 8972)		\$208,493

Note: If Lessor, PV entry at commencement is a DR. Lease Receivable (O9380) and CR. Deferred Inflow of Resources (O9690)



Section 3

Lease Activity and Reporting

New SACS Object Codes

- New capital outlay expenditure object codes
 - Object 6600, Lease Assets (used in governmental funds only)
 - Object 6910, Amortization Expense–Lease Assets*
 - New asset object codes
 - Object 9380, Lease Receivable
 - Object 9460, Lease Assets*
 - Object 9465, Accumulated Amortization–Lease Assets*
- * For proprietary and fiduciary funds (except custodial funds) only

Lease Activity and Reporting

- Lessee:
 - Leased Asset (offset to Proceeds from Leases)
 - Lease Liability
 - Interest/Principal Expense
 - Amortization of Right to Use
- Lessor:
 - Lease Receivable
 - Deferred Inflow of Resources
 - Interest Revenue
 - Lease Revenue

Initial Recognition and Measurement

- Initial recognition and measurement (**at the commencement of a lease**)

Lessee	Lessor
Initial Recognition & Measurement	Initial Recognition & Measurement
Report an expenditure and other financing source in the period the lease is initially recognized	Recognize a Lease Receivable and a Deferred Inflow of Resources for a lease
Measure the expenditure and other financing source - GASB 87, Paragraph 21-33	Measure the Lease Receivable - GASB 87, paragraph 44
Recognize the right-to-use of the leased asset under Leased Asset - Object 6600	Measure the Deferred Inflow of Resources at the initial value of the Lease Receivable <u>plus</u> payments received at or before the commencement that relate to future periods
Other Financing Sources recognized under Proceeds from Leases - Object 8972	Lease Receivable - Object 9380 Deferred Inflow of Resources - Object 9690

GASB 87 SACS Forum Summary - October 2020

Subsequent recognition and measurement

Lessee	Lessor
Subsequent Recognition & Measurement	Subsequent Recognition & Measurement
<ul style="list-style-type: none"> Subsequent lease payments are accounted for consistent with the principles for debt service payments on long-term debt. 	<ul style="list-style-type: none"> Reduce the lease receivable by lease payments and recognize interest income (a non-operating revenue) <ul style="list-style-type: none"> Object 8660, Interest
<ul style="list-style-type: none"> Object 7439, Other Debt Service – Principal Object 7438, Debt Service - Interest 	<ul style="list-style-type: none"> Recognize the deferred inflow of resources as revenue over the lease term in a systematic and rational manner. <ul style="list-style-type: none"> Object 8650, Lease and Rentals



Section 4

Lessee Accounting

Lease Accounting

- Commencement of Lease Term & Subsequent Recognition:

Commencement of Lease Term:

Recognize **lease liability** AND **lease asset** (except for short-term leases)

- DR. Object 6600 Leased Asset
- CR. Object 8972 Proceeds from Leases

Lease liability – measured at PV of payments over term

- Form DEBT (pending SACS software update)

Lease asset – measured at amount of liability + any payments made to lessor at or before commencement - incentives received

- From ASSET (pending SACS software update)
- Amortize leased asset (recognize as a conversion entry)
 - Note: Amortize the shorter of the lease term or the useful life

Subsequent Recognition/Lease Payments:

- DR. Object 7439 Debt Service -Principal
- DR. Object 7438 Debt Service – Interest
- CR. CASH Offset

- Note: Reduce liability on Form Debt accordingly for principal

Lease Accounting

Amortization Schedule - Lessee

		(1)	(2)	(3)	(4)	(5)	(6)
Year	Month	Cash	Interest Expense	Liab. Reduction	Lease Liability	Amort. Expense	Net Lease Asset Bal.
					328,710		328,710
PV of the lease payments: =PV(6%/12,36,-10000,0,0)				\$328,710.16	Plus: prepayments		-
					Less: Incentives		-
					328,710		328,710
2021	July	10,000	1,644	8,356	320,354	9,131	319,579
2021	August	10,000	1,602	8,398	311,955	9,131	310,448
2021	September	10,000	1,560	8,440	303,515	9,131	301,318
2021	October	10,000	1,518	8,482	295,033	9,131	292,187
2021	November	10,000	1,475	8,525	286,508	9,131	283,056
2021	December	10,000	1,433	8,567	277,941	9,131	273,925
2022	January - June	\$\$	\$\$	\$\$	\$\$	\$\$	\$\$
			9,230	50,770		54,785	

Lease Terms - Example:

3 year lease

Monthly payments of \$10K

Discount rate of 6%

Payments received at the end of the period

Lease Liab = Measure at the "PV of payments expected to be made during the lease term"

Leased Asset = Measure at the lease liability value plus prepayments made less incentives received

- (1) Payment Frequency
- (2) Object 7438 Debt Service Interest
- (3) Object 7439 Debt Service Principal. Reduces Total lease Liability on Form DEBT.
- (4) Lease Liability - Reconcile to Form DEBT
- (5) Amortize the shorter of the lease term or useful life. Decreases the Lease Asset Net Balance on Form ASSET
- (6) Leased Asset - Reconcile to Form ASSET

Initial Recording

Object 6600 Leased Asset
Object 8972 Proceeds from Leases

DR

328,710

CR

328,710

Subsequent Recording

Object 7438 Debt Service Interest
Object 7439 Debt Service Principal
Object 9110 CASH

July Sample Entry

DR

CR

1,644

8,356

10,000

Lease Accounting

- **Apply Retroactively to Leases**
- Calculate the initial ***Lease Liability***: the PV of future ***remaining lease payments*** as of the transition date.
- ***Leased Assets*** – generally measured at the amount of the liability but may not be the same.
- **Record initial JE at Transition Date (July 1, 2021):**
 - DR. Object 6600 Leased Asset
 - CR. O8972 Proceeds from Operating Leases
- Apply subsequent recognition per GASB 87
- Note: Capital leases already recorded in PY fund statements; initial JE above NOT required. Do calculate new carrying values for leased asset/lease liability. Any difference between the leased asset/liability, if any, should be included as a *restatement to beginning balance*

Lease Accounting

- Example – Apply retroactively to a operating lease

4.76. Q—For leases that were reported as operating leases prior to the implementation of Statement 87, should a government determine what the lease asset would have been on the date of implementation if it initially had been recognized and amortized in prior periods as a lease under the provisions of Statement 87?

A—No. Paragraph 94 of Statement 87 states that leases should be measured using the facts and circumstances that existed at the beginning of the period of implementation. The government is not required to estimate what the lease asset would have been if it initially had been recognized and amortized in prior periods as a lease under the provisions of Statement 87. The lease liability should be measured using the remaining lease term and discount rate as of the beginning of the earliest period restated. The right-to-use asset should be measured based on the lease liability at that date and no restatement of beginning net position would be required because the lease asset and the lease liability would be the same.

Lease Accounting

- Example – Apply retroactively to a capital lease

4.77. Q—In a period prior to the implementation of Statement 87, a government entered into a capital lease with an interest rate of 5 percent and recognized a capital asset and a liability of \$45,600. At the beginning of the earliest period restated, the carrying value of the capital asset is \$20,900, and the liability (principal outstanding) is \$21,500. The government determines that the liability at that date should be \$22,500 under Statement 87 due to a change in the assessment of the lease term. For leases that were reported as capital leases prior to the implementation of Statement 87, can the government use the carrying value of the capital lease asset at the beginning of the earliest period restated as the measure of the lease asset?

A—Paragraph 94 of Statement 87 states that leases should be measured using the facts and circumstances that exist at the beginning of the period of implementation. This allows for use of the carrying value of the existing capital lease asset, adjusted to the new carrying value of the lease liability under Statement 87. In this example, the government should report a \$1,000 increase in the lease liability to \$22,500 due to the reassessment of the lease term. Accordingly, the lease asset should be increased by \$1,600 to \$22,500. The \$600 difference should be included in the restatement of beginning net position.

Lease Accounting

Recognition at Commencement of Capital Lease in Previous Years 20XX:

Initial Recognition	DR	CR
Object 6XXX Capital Asset	45,600	
Object 8972 Proceeds from Leases		45,600

	<u>Leased Liability</u>	<u>Leased Asset</u>
At Implementation - July 1, 2021 Remaining Carrying Value:	21,500	20,900
Remeasured Value due to GASB 87	22,500	22,500
	1,000	1,600
Difference between Leased Asset & Liability		600

GASB 87 Implementation: 2021-22

Initial Recognition	DR	CR
Object 6600 Leased Asset		
Object 8972 Proceeds from Leases		

to account for lease asset increase over liability:	DR	CR
Object 6600 Leased Asset	600	
Object 9795 Restatement to Beginning Balance		600

Subsequent Recognition/Leased Payment	DR	CR
Object 7438 Debt Service Interest	XX	
Object 7439 Debt Service Principal	XX	
Object 9110 CASH		XX

Adjust carrying value on Form Debt/From Asset

Note: A higher leased asset increases fund balance, while a higher lease liability decreases fund balance.

Note: Initial recognition already recorded in previous years fund statements for Capital Leases; thus, entry not required. However, do calculate new carrying values for leased asset/liability. Any difference between the leased asset/liability, if any, should be included as a restatement to beginning balance.



Section 5

Lessor Accounting

GASB 87 Lessor Accounting

- Commencement of Lease Term & Subsequent Recognition:

Commencement of Lease Term:

Recognize **lease receivable** AND **deferred inflow of resources** (except for short-term leases). Record any difference as a gain or loss.

- DR. Object 9380 Lease Receivable
- CR. Object 9690 Deferred Inflow of Resources

Lease Receivable – measured at PV of payments over the term

Deferred inflow of resources – measured at the lease receivable plus prepayments received less incentives paid out

Subsequent Recognition/Payments Received:

Reduce the Lease Receivable by lease payments and recognize interest

- DR. CASH Offset
- CR. Object 9380 Lease Receivable
- CR. Object 8660 Interest

Recognize the deferred inflow of resources as revenue over the lease term

- DR. Object 9690 Deferred Inflow of Resources
- CR. Object 8650 Leases and Rentals

GASB 87 Lessor Accounting

Amortization Schedule - Lessor

		(1)	(2)	(3)	(4)	(5)	(6)
Year	Month	Cash	Interest Revenue	Receivable Reduction	Total Lease Receivable	Rental Income	Def. Inflow of Resource
					328,710		328,710
PV of the lease payments: =PV(6%/12,36,-10000,0,0)					\$328,710.16	Plus:	
						prepayments	-
						Less: Incentives	-
					328,710		328,710
2021	July	10,000	1,644	8,356	320,354	9,131	319,579
2021	August	10,000	1,602	8,398	311,955	9,131	310,448
2021	September	10,000	1,560	8,440	303,515	9,131	301,318
2021	October	10,000	1,518	8,482	295,033	9,131	292,187
2021	November	10,000	1,475	8,525	286,508	9,131	283,056
2021	December	10,000	1,433	8,567	277,941	9,131	273,925
2022	January - June	\$	\$	\$	\$	\$	\$
			9,230	50,770		54,785	

PV of the lease payments: =PV(6%/12,36,-10000,0,0)

\$328,710.16

Lease Terms - Example:

3 year lease

Monthly payments of \$10K

Discount rate of 6%

Payments received at the end of the period

Lease Receivable = Measure at the "PV of payments expected to be made during the lease term"

Def. Inflow of Resources = Measure at the lease receivable value plus prepayment received less incentives paid out

- (1) Payment Frequency
- (2) Object 8660 Interest Revenue
- (3) Object 9380 Lease Receivable
- (4) Lease Receivable Balance
- (5) Recognize O8650 Leases and Rental Income and Reduces O9690 Def. Inflow of Resources
- (6) Deferred Inflow of Resources Balance

Initial Recording

	DR	CR
Object 9380 Leased Receivable	328,710	
Object 9690 Def. Inflow of Resources		328,710

Subsequent Recording

Object 9110 CASH
 Object 8660 Interest Revenue
 Object 9380 Leased Receivable
 Object 9690 Def. Inflow of Resources
 Object 8650 Leases and Rentals

July Sample Entry

DR	CR	
10,000		Cash Deposit
	1,644	Cash Deposit
	8,356	Cash Deposit
9,131		JE
	9,131	JE
19,131	19,131	

GASB 87 Lessor Accounting

- ***Apply Retroactively to Leases***
- Calculate the initial Lease Receivable: the PV of future **remaining** lease payments expected to be made as of the transition date.
- Deferred Inflow of resources – generally measured at the amount of the lease receivable
- Record initial JE at Transition Date (July 1, 2021):
 - DR. Object 9380 Lease Receivable
 - CR. 09690 Deferred Inflow of Resources
- Apply subsequent recognition per GASB 87

Section 6

Examples

Lessee Example

Identify Key Lease Information

<u>Description of Lease</u>	<u>Lease Start Date</u>	<u>Lease End Date</u>	<u>Payment Term (Monthly, Semi-Annual, Annual)</u>	<u>Payment Amount</u>	<u>Total Yearly Payment Amount</u>
Contract for 5 buses	1/1/2022	12/31/2026	Monthly; Due at the 1st of each month	4,000.00	48,000.00
No provision for transfer of ownership exists in the lease (only a purchase price option for each bus, if lessee chooses to purchase at end.					

Determine Lease Term

<u>Noncancelable Period (Years)</u>	<u>Plus (+)</u>	<u>Period Covered by Options to Terminate when it's NOT Certain to be Exercised (in Years)</u>	<u>Plus (+)</u>	<u>Period Covered by Option to Extend when it's Reasonably Certain to be exercised</u>	<u>Equals (=)</u>	<u>Total Lease Term (in Years)</u>	<u>Total Lease Term (in Months)</u>	<u>Remaining Lease Term (in Months) as of Implementation at 7/1/2021</u>
3		2		N/A		5	60	60
		School District may cancel contract; but has no intent to terminate early at the start of the lease term						
		Reasonably Certain - School District (lessee) will not exercise the termination option.						

Lessee Example

Contracts with Multiple Components				Determine Rate		Incentives
<u>Does the Lease include Supplies or Services, Separate from Lease Asset</u>	<u>Portion of the Lease Cost related to Supplies</u>	<u>Portion of the Lease Cost related to Services (Maintenance, Repairs, etc.)</u>	<u>Does the contract involve multiple underlying assets?</u>	<u>Rate Lessee Being Charged by Lessor (If Available)</u>	<u>Incremental Lessee Borrowing Rate</u>	<u>Incentives Received or Due from Lessor</u>
NO	N/A	N/A	NO	6% rate (annual)	N/A	None

Lessee Example

Calculate PV of Lease Payments				
<u>Fixed</u> <u>Payments</u> <u>(discounted</u> <u>by the</u> <u>Lessor Rate</u> <u>1st)</u>	OR	<u>Variable</u> <u>Payments</u> <u>that</u> <u>Depend on</u> <u>an Index or</u> <u>Rate</u>	OR	<u>Variable</u> <u>Payments</u> <u>that are</u> <u>Fixed in</u> <u>Substance</u>
207,937				

PV				
Rate	0.06/12		=	0.005
Nper	60		=	60
Pmt	-4000		=	-4000
Fv	0		=	0
Type	1		=	1
				= 207936.7542

f_x =PV(0.06/12,60,-4000,0,1)

Lessee Example

Lease Liability

Measured as the **present value of future lease payments** (fixed payments, some variable payments, other know amounts).
Discount using rate lessor charges the lessee or incremental lessee borrowing rate (if lessor rate cannot be determined)

Lease Asset

Value of the initial Lease Liability

Add: prepayments at or before the beginning of the lease

Add: initial direct costs if ancillary charges to place the leased asset in use

Less: any incentives received from the lessor at/or before the beginning of the lease

Plus (+)	Plus (+)	Plus (+)	Plus (+)	Less (-)	Equals (=)	Plus (+)	Plus (+)	Less (-)	Equals (=)
Determine Total Lease Liability						Determine Total Lease Asset			
<u>Amounts that are reasonably certain of being required to be paid by the lessee under Residual Value Guarantees</u>	<u>Exercise Price of Purchase Option if Reasonably Certain that the Lessee will Exercise Option</u>	<u>Penalty Payments for Terminating the Lease, if the Lease Term Reflects the Lessee Exercising Option to Terminate</u>	<u>Other Payments that are Reasonably Certain of Being Required Based on An Assessment of All Relevant Factors</u>	<u>Lease Incentive(s) Receivable from the Lessor</u>	<u>Total Lease Liability</u>	<u>Prepayments at or before Beginning of Lease</u>	<u>Initial Direct Costs if Ancillary Charges to Place Leased Asset in Use</u>	<u>Lease Incentive(s) Received from Lessor at or before the Beginning of Lease</u>	<u>Total Lease Asset</u>
-	-	-	-	-	207,937	-	-	-	207,937
Purchase option available, but lessee reasonable certain that it will not exercise option, thus, exclude.		Lease Term does not reflect the Lessee exercising the option to terminate lease.							

Example #1 Bus Lease

	ENTER VALUES
Lease Term in Years	5
Lease Term in Months	60
Remaining Lease Term in Months	60
Total Payment Amount	240,000
Payment Amount (Months)	4,000
Payment Due at Beginning or End of Each Period	Beginning
Interest rate	6%
Useful Life of Underlining Asset	8
Amortization of Underlining Asset	Straight-Line

	ENTER VALUES
PV of the Lease Payments*:	207,937
*Use PV value formula or PV Calculator	
Total Lease Liability:	207,937
Total Net Lease Asset:	207,937

FISCAL YEAR #1:								2021-22	
LEASED ASSET	MONTH	PAYMENT #	(1) CASH PAYMENT	(2) INTEREST EXPENSE	(3) LIABILITY REDUCTION/ PRINCIPAL	(4) LEASE LIABILITY	(5) AMORTIZATION EXPENSE	(6) NET LEASE ASSET	
PV of the Lease Payments at Implementation:						207,937	207,937		
Example #1 Bus Lease	July								
Example #1 Bus Lease	August								
Example #1 Bus Lease	September								
Example #1 Bus Lease	October								
Example #1 Bus Lease	November								
Example #1 Bus Lease	December								
Example #1 Bus Lease	January	1	\$ 4,000	\$ -	\$ 4,000	\$ 203,937	\$ 3,466	\$ 204,471	
Example #1 Bus Lease	February	2	\$ 4,000	\$ 1,020	\$ 2,980	\$ 200,956	\$ 3,466	\$ 201,006	
Example #1 Bus Lease	March	3	\$ 4,000	\$ 1,005	\$ 2,995	\$ 197,961	\$ 3,466	\$ 197,540	
Example #1 Bus Lease	April	4	\$ 4,000	\$ 990	\$ 3,010	\$ 194,951	\$ 3,466	\$ 194,074	
Example #1 Bus Lease	May	5	\$ 4,000	\$ 975	\$ 3,025	\$ 191,926	\$ 3,466	\$ 190,609	
Example #1 Bus Lease	June	6	\$ 4,000	\$ 960	\$ 3,040	\$ 188,885	\$ 3,466	\$ 187,143	
TOTAL FY 2021-22:			\$ 24,000	\$ 4,949	\$ 19,051	\$ 188,885	\$ 20,794	\$ 187,143	

Lease Liab = Measure at the "PV of payments expected to be made during the lease term"

Leased Asset = Measure at the lease liability value plus prepayment less incentives received

- (1) Payment Frequency
- (2) Object 7438 Debt Service Interest
- (3) Object 7439 Debt Service Principal. Reduces Total lease Liability on Form DEBT.
- (4) Lease Liability - Reconcile to Form DEBT
- (5) Amortize the shorter of the lease term or useful life. Decreases the Lease Asset Net Balance on Form ASSET
- (6) Leased Asset - Reconcile to Form ASSET

Lessee Example

Governmental Fund Journal Entries

Year 1 Recognition: 2021-22

Initial Recognition	DR	CR
Object 6600 Leased Asset	207,937	
Object 8972 Proceeds from Leases		207,937

Subsequent Recognition/Leased Payment	DR	CR	
Object 7438 Debt Service Interest	4,949		col (2)
Object 7439 Debt Service Principal	19,051		col (3)
Object 9110 CASH		24,000	col (1)

Lessor Example

Facts and Assumptions

A utility enters into a lease for a building for a noncancellable term of 10 years. Fixed payments of \$15,000 are due at the beginning of each year. At the end of the first year, the utility is entitled to a rebate (a lease incentive) of \$5,000. The discount rate is 6 percent.

Identify Key Lease Information								
Description of Lease		Lease Start Date	Lease End Date	Revenue/Receipt	Revenue Receipt Amount	Total Yearly Revenue Amount		
				Term (Monthly, Semi-Annual, Annual)				
Building lease with a lease incentive provided at end of year 1		7/1/2021	6/30/2031	Yearly, Due at the 1st of each year	15,000.00	15,000.00		
Determine Lease Term								
Noncancelable Period (Years)	Plus (+)	Period Covered by Options to Terminate when it's NOT Certain to be Exercised (in Years)	Plus (+)	Period Covered by Option to Extend when it's Reasonably Certain to be exercised	Equals (=)	Total Lease Term (in Years)	Total Lease Term (in Months)	Remaining Lease Term (in Months) as of Implementation at 7/1/2021
10		N/A		N/A		10	N/A	10
		Noncancelable lease						

Lessors Example

Contracts with Multiple Components				Determine Rate		Incentives
<u>Does the Lease include Supplies or Services, Separate from Lease Asset</u>	<u>Portion of the Lease Cost related to Supplies</u>	<u>Portion of the Lease Cost related to Services (Maintenance, Repairs, etc.)</u>	<u>Does the contract involve multiple underlying assets?</u>	<u>Rate Lessee Being Charged by Lessor (If Available)</u>	<u>Incremental Lessee Borrowing Rate</u>	<u>Incentives Payable to the Lessee</u>
NO	N/A	N/A	NO	6% rate (annual)		\$5,000

Lessors Example

Calculate PV of Lease Payments

<u>Fixed</u> <u>Payments</u> <u>(discounted</u> <u>by the</u> <u>Lessor Rate</u> <u>1st)</u>	OR	<u>Variable</u> <u>Payments</u> <u>that</u> <u>Depend on</u> <u>an Index or</u> <u>Rate</u>	OR	<u>Variable</u> <u>Payments</u> <u>that are</u> <u>Fixed in</u> <u>Substance</u>
---	----	--	----	--

Function Arguments

PV

Rate	0.06/1		= 0.06
Nper	10		= 10
Pmt	-15000		= -15000
Fv	0		= 0
Type	1		= 1

= 117025.3841

 =PV(0.06/1,10,-15000,0,1)

Lessors Example

Lease Receivable									
	Measured as the present value of future lease payments (fixed payments, some variable payments, other know amounts).								
	Discount using rate lessor charges the lessee								
Deferred Inflow of Resources									
	Value of the initial Lease Receivable								
	Add: prepayments at or before the beginning of the lease								
	Less: any incentives received from the lessor at/or before the beginning of the lease								

	Plus (+)	Plus (+)	Plus (+)	Plus (+)	Less (-)	Equals (=)	Plus (+)	Less (-)	Equals (=)
PV Lease Pymt	Determine Total Lease Receivable						Determine Total Deferred Inflow of Resources		
Fixed Payments (discounted by the Lessor Rate 1st)	<u>Amounts that are reasonably certain of being required to be paid by the lessee under Residual Value Guarantees</u>	<u>Exercise Price of Purchase Option if Reasonably Certain that the Lessee will Exercise Option</u>	<u>Penalty Payments for Terminating the Lease, if the Lease Term Reflects the Lessee Exercising Option to Terminate</u>	<u>Other Payments that are Reasonably Certain of Being Required Based on An Assessment of All Relevant Factors</u>	<u>Lease Incentive(s) Payable due to Lessee</u>	Total Lease Receivable	<u>Lease Prepayments Received at or before Beginning of Lease</u>	<u>Incentive(s) Paid to or on behalf of the Lessee at or before the Beginning of Lease</u>	Total Deferred Inflow of Resources - Lease Revenue
\$117,025	-	-	-	-	\$4,716.98	\$112,308	-	-	112,308
		No purchase option.	No termination option.						

Example #3 Building Lease

	ENTER VALUES
Lease Term in Years	10
Lease Term in Months	
Remaining Lease Term in Months	
Total Payment Amount	
Payment Amount (Annual)	15,000
Payment Due at Beginning or End of Each Period	Beginning
Interest rate	6%
Useful Life of Underlining Asset	50
Amortization of Underlining Asset	Straightline

	ENTER VALUES
PV of the Lease Payments*:	117,025
*Use PV value formula or PV Calculator	
Total Lease Receivable:	112,308
Total Deferred Inflow of Resources:	112,308

FISCAL YEAR #1:								
LEASED ASSET	MONTH	PAYMENT #	(1) CASH COLLECTED PAYMENT	(2) INTEREST REVENUE	(3) RECEIVABLE REDUCTION/PRINCIPLE COLLECTED	(4) LEASE RECEIVABLE	(5) RENTAL INCOME	(6) DEFERRED INFLOW OF RESOURCES
PV of the Lease Payments at Implementation :						112,308		112,308
Example #3 Building Lease	7/1/2021	1	\$ 15,000	\$ 6,480	\$ 8,520	\$ 103,788	\$ 11,231	\$ 101,078
Example #3 Building Lease	7/1/2022	2	\$ 15,000	\$ 5,968	\$ 9,032	\$ 94,756	\$ 11,231	\$ 89,847
Example #3 Building Lease	7/1/2023	3	\$ 15,000	\$ 5,426	\$ 9,574	\$ 85,183	\$ 11,231	\$ 78,616
Example #3 Building Lease	7/1/2024	4	\$ 15,000	\$ 4,852	\$ 10,148	\$ 75,034	\$ 11,231	\$ 67,385
Example #3 Building Lease	7/1/2025	5	\$ 15,000	\$ 4,243	\$ 10,757	\$ 64,278	\$ 11,231	\$ 56,154
Example #3 Building Lease	7/1/2026	6	\$ 15,000	\$ 3,598	\$ 11,402	\$ 52,875	\$ 11,231	\$ 44,923
Example #3 Building Lease	7/1/2027	7	\$ 15,000	\$ 2,913	\$ 12,087	\$ 40,789	\$ 11,231	\$ 33,693
Example #3 Building Lease	7/1/2028	8	\$ 15,000	\$ 2,188	\$ 12,812	\$ 27,977	\$ 11,231	\$ 22,462
Example #3 Building Lease	7/1/2029	9	\$ 15,000	\$ 1,420	\$ 13,580	\$ 14,396	\$ 11,231	\$ 11,231
Example #3 Building Lease	7/1/2030	10	\$ 15,000	\$ 604	\$ 14,396	0	\$ 11,231	\$ 0
Example #3 Building Lease			\$ -		\$ -	0	\$ -	\$ 0
Example #3 Building Lease			\$ -		\$ -	\$ -	\$ -	\$ 0
TOTAL FY :			\$ 150,000	\$ 37,692	\$ 112,308	\$ -	\$ 112,308	\$ 0

Lease Receivable = Measure at the "PV of payments expected to be made during the lease term"

Def. Inflow of Resources = Measure at the lease receivable value plus prepayment less incentives paid out

- (1) Payment Frequency
- (2) Object 08660 Interest Revenue
- (3) Object 9380 Lease Receivable for principal collected. Reduces the Lease Receivable balance.
- (4) Lease Receivable Balance
- (5) Amortize the shorter of the lease term or useful life. Recognize 08650 Leases & Rental Income and Reduces 09690 Def. Inflow of Res.
- (6) Deferred Inflow of Resources Balance

Lessor Example

Governmental Fund Journal Entries

Year 1 Recognition:

2021-22

Initial Recognition

DR

CR

Object 9380 Leased Receivable

112,308

Object 9690 Deferred Inflow of Resources

112,308

Subsequent Recognition/Leased Payment Received

DR

CR

col (1) Object 9110 CASH

15,000

Cash Deposit

col (2) Object 8660 Interest Revenue

6,480

Cash Deposit

col (3) Object 9380 Lease Receivable

8,520

Cash Deposit

col (5) Object 9690 Def. Inflow of Resources

11,231

Manual Journal

col (5) Object 8650 Leases and Rentals

11,231

Manual Journal

26,231

26,231



SCENARIOS

Section 7

Other Lease Scenarios

Subleases

GASB Statement No. 87 Guide:

Subleases should be treated as transactions separate from the original lease. The original lessee that becomes the lessor in a sublease should account for the original lease and the sublease as separate transactions, as a lessee and lessor, respectively.

Subleases

80. A sublease involves three parties: the original lessor, the original lessee (who also is the lessor in the sublease), and the new lessee. The original lessor should continue to apply the general lessor guidance. The government that is the original lessee and becomes the lessor in the sublease should account for the original lease and the sublease as two separate transactions, as a lessee and a lessor, respectively. Those two separate transactions should not be offset against one another. The new lessee should apply the general lessee guidance.

81. The original lessee (now the lessor in the sublease) should include the sublease in its disclosure of the general description of lease arrangements. Its lessor transactions related to subleases should be disclosed separately from its lessee transactions related to original leases.

Lessee is also now a lessor

- Treat as separate transactions. Do not offset or net transactions.
- Original lessee record both:
 - a) Right-to-use asset and liability for original lease
 - b) Receivable and deferred inflow of resources for the sublease

Sale-Leaseback Transactions

- Involves the sale of an underlying asset by the owner and a lease of the property back to the seller (original owner); account separately.
- If no qualifying sale included, treat as borrowing activity by the seller-lessee and lending activity by the buyer-lessor.

GASB Statement No. 87 Guide:

A transaction qualifies for sale-leaseback accounting only if it includes a sale. Otherwise, it is a borrowing. The sale and lease portions of a transaction should be accounted for as separate sale and lease transactions, except that any difference between the carrying value of the capital asset that was sold and the net proceeds from the sale should be reported as a deferred inflow of resources or a deferred outflow of resources and recognized over the term of the lease.

82. Sale-leaseback transactions involve the sale of an underlying asset by the owner and a lease of the property back to the seller (original owner). A sale-leaseback should include a transaction that qualifies as a sale (see paragraphs 287–319 and 321–323 of Statement 62) to be eligible for sale-leaseback accounting. A sale-leaseback transaction that does not include a qualifying sale should be accounted for as a borrowing activity by the seller-lessee and a lending activity by the buyer-lessor.

Lease-Leaseback Transactions

- Each party is both a lessor and a lessee
- Account as a Net Transaction

GASB Statement No. 87 Guide:

87. In a lease-leaseback transaction, an asset is leased by one party (first party) to another party and then leased back to the first party. The leaseback may involve an additional asset (such as leasing a school building that has been constructed by a developer on land owned by and leased back to a school district) or only a portion of the original asset (such as leasing back only one floor of a building to the owner). A lease-leaseback transaction should be accounted for as a net transaction. Both parties to a lease-leaseback transaction should disclose the amounts of the lease and the leaseback separately in the notes to financial statements.

B113. In a lease-leaseback transaction, each party is both a lessor and a lessee. Because each portion of the transaction is with the same counterparty, a right of offset exists. The Board believes that disclosure of the gross amounts of the lease and leaseback would provide users with essential information about the magnitude of each portion of the transaction.

Lease between Related Parties

GASB Statement No. 87 Guide:

Leases between Related Parties

B115. Leases between related parties are subject to the requirements in Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, to report the substance of the transaction, if significantly different from its form. This Statement carries forward related application guidance for leases between related parties previously included in Statement 62. The Board considered whether to provide an exception to the requirements in those Statements for leases because of the emphasis in this Statement on legally enforceable rights and obligations stemming from a lease contract. However, the Board believes that the substance of a lease arrangement with a related party should be the basis for financial statement recognition because of the potential for structuring a lease contract in a manner that might distort the substance of the transaction

90. In the separate financial statements of the related parties, the classification and accounting should be the same as for similar leases between unrelated parties, except in cases in which it is clear that the terms of the transaction have been significantly affected by the fact that the lessee and lessor are related. In such cases, the classification and accounting should be modified as necessary to recognize the substance of the transaction rather than merely its legal form. For example, if the lease contract is structured to meet the definition of a short-term lease but the related parties have a mutual understanding that the lease contract will stay in effect for several more years, that lease should not be accounted for as a short-term lease. The nature and extent of leasing transactions with related parties should be disclosed.

91. In financial statements for which an interest in an investee is accounted for using the equity method, any inflow of resources or outflow of resources (for example, gain or loss) on a leasing transaction with the related party should be accounted for in accordance with the principles set forth in paragraphs 202–210 of Statement 62 and paragraph 77 of Statement 72.

Footnotes



Section 8

Financial Statement Disclosures

Financial Statement Disclosures

Disclosures - Lessees

- Description of leasing arrangement
- Total amount of lease assets (by major classes of underlying assets), and related accumulated amortization
- Amount of outflows of resources recognized for variable payments and other payments (i.e. residual value guarantees or penalties) not previously included in the measurement of the liability
- Principal and interest requirements to maturity for each of the next 5 fiscal years and in 5-year increments thereafter
- Commitments under leases that have not yet began (other than ST leases)
- Components of any impairment loss recognized on the lease asset during the period.

Financial Statement Disclosures

Disclosures – Lessors

- Description of leasing arrangement
- Total amount of inflows of resources (i.e. lease revenue and interest revenue) if not otherwise displayed
- Amount of inflows of resources recognized for the period of variable payments and other payments (i.e. residual value guarantees or penalties) not previously included in the measurement of the lease receivable
- The existence, terms, and conditions of the options by the lessee to terminate the lease or abate payments if the lessor government has issued debt for which the principal and interest payments are secured by the lease payments

Section 9

Documentation Considerations

Documentation Considerations

- Establish a capitalization policy for leases, similar to capital assets
- Document your process and review for compliance with GASB 87
- Items to consider:
 - Who is reviewing your agreement to see if they qualify as a lease?
 - How is your purchasing department working with your accounting department to review and record leases?
 - What is the district's process for reviewing for any future lease modifications?
 - Review agreements under Object 5600 or Object 5800 to see if any agreements qualify as a lease under the new criteria?
 - Review district's rental agreements/income accounts? District may be a lessor.
 - Review your prior year audit report. Does the district have any operating leases that now need to be capitalized or capital leases that need to be evaluated?
 - Ensure to document your review procedures and determinations

Thank you!