

GASB 87

Leases

Presented by:

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GASB 87

- Leases
- Implementation date amended by GASB 95
- For periods beginning after June 15, 2021



Polling Question

What is the first GASB Pronouncement you remember implementing?

- A. GASB 14 (Reporting Entity)
- B. GASB 34 (Reporting Model)
- C. GASB 44 (Stat Tables)
- D. GASB 54 (Fund Balance)
- E. GASB 84 (Fiduciary Activities)

GASB 87

- Establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.



GASB 87

- Requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

Lease Definition



- A lease is defined 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. (GASB 87 ¶4)

Lease Definition

- To determine whether a contract conveys control of the right to use the underlying asset, a government should assess whether it has both of the following:

Lease Definition

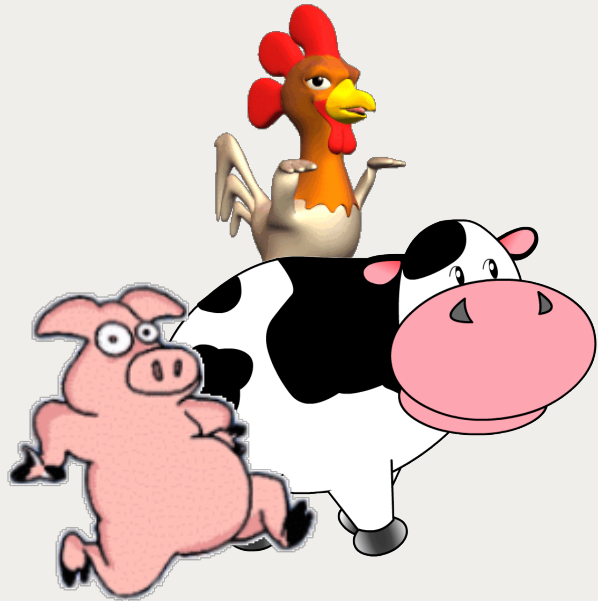
- The right to obtain the present service capacity from use of the underlying asset as specified in the contract
- The right to determine the nature and manner of use of the underlying asset as specified in the contract (GASB 87 ¶5)



Lease Definition

- Some governmental contracts that transfer the right to use an asset require only a nominal amount, such as one dollar per year, to be exchanged for the right to use the underlying asset. GASB believes that the substance of that type of arrangement represents a nonexchange transaction (such as a donation or grant), which is addressed within the scope of GASB Statement No. 33. (IG 4.1)

Does Not Apply



- Leases of intangible assets
- Leases of biological assets, including timber, living plants, and living animals.
- Leases of inventory

Does Not Apply

- Contracts that meet the definition of a service concession arrangement in paragraph 4 of Statement No. 60,
- Leases in which the underlying asset is financed with outstanding conduit debt, unless both the underlying asset and the conduit debt are reported by the lessor.
- Supply contracts, such as power purchase agreements (GASB 87 ¶8)

Lease Term

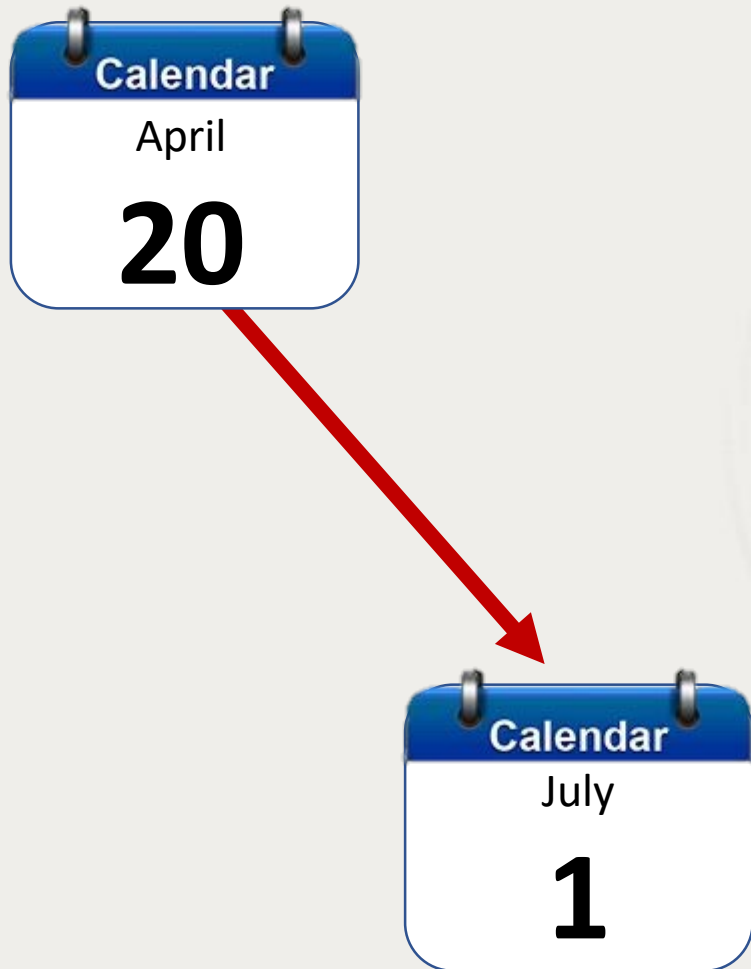
The Lease term is the period during which a lessee has a noncancelable right to use an underlying asset (referred to as the noncancelable period), plus the following periods, if applicable:



Lease Term

- Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option.
- Periods covered by a lessee's option to terminate the lease if it is reasonable certain, based on all relevant factors, that the lessee will not exercise that option

Lease Term



- Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option.
- Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option

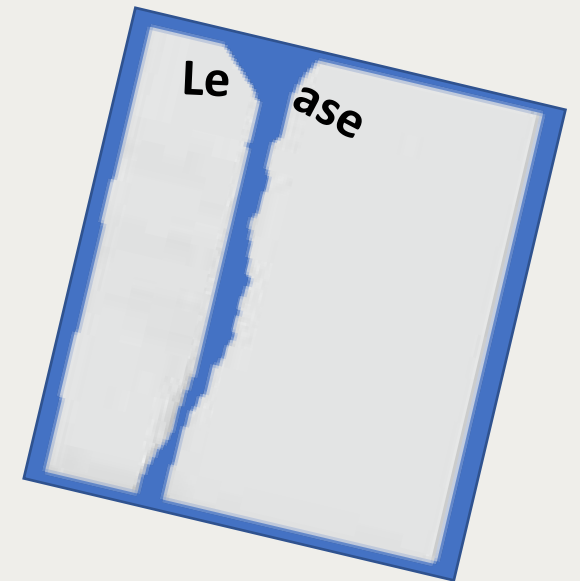
Lease Term

Periods for which both the lessee and the lessor have an option to terminate the lease without permission from the other party (or if both parties have to agree to extend) are cancelable periods and are excluded from the lease term.



Lease Term

For example, a rolling month-to-month lease, or a lease that continues into a holdover period until a new lease contract is signed, would not be enforceable if both the lessee and the lessor have an option to terminate and, therefore, either could cancel the lease at any time.



Lease Term

Provisions that allow for termination of a lease due to:



- Purchase of the underlying asset
- Payment of all sums due, or
- Default on payment

Are not considered termination options
(GASB 87 ¶12)

Lease Term

A fiscal funding or cancellation clause allows governmental lessees to cancel a lease, typically on an annual basis, if the government does not appropriate funds for the lease payments. This type of clause should affect the lease term only if it is reasonably certain that the clause will be exercised. (GASB ¶13)

Polling Question



How far are you in the process of implementing GASB 87?

- A. I have already implemented GASB 87
- B. I have started pulling contracts to review
- C. I have read through GASB 87
- D. I haven't started

Short-Term Lease

SHORT-TERM

A short-term lease has a maximum possible term of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract. (GASB 87 ¶16)

Transfers Ownership

A contract that (a) transfers ownership of the underlying asset to the lessee by the end of the contract and (b) does not contain termination options, but that may contain a fiscal funding or cancellation clause that is not reasonably certain of being exercised, should be reported as a financed purchase of the underlying asset by the lessee or sale of the asset by the lessor. (GASB 87 ¶ 19)

Lease Accounting - Lessee

- Lessee recognizes a lease liability and an intangible right-to-use lease asset
- The lease liability should be measured at the present value of payments expected to be made during the lease term.



Lease Accounting – Lessee

- Future lease payments should be discounted using the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease
- The lease asset should initially be measured as the amount of the initial measurement of the lease liability adjusted as indicated in GASB 87 ¶30.

Lease Accounting - Lessee



- In subsequent periods the lessee should calculate the amortization of the discount on the lease liability.
- A lease asset should be amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.
- GASB 87 ¶ 21 - 39

Lease Accounting - Lessee

Governmental Funds

- An expenditure and OFS should be recognized in period the lease is initially recognized. Subsequent payment should be accounted for consistent with principles for debt service payments on long-term debt
- GASB 87 ¶ 35 and 36

Lease Accounting - Lessor

- Lessor recognizes a lease receivable and a deferred inflow of resources
- The lease receivable should be measured at the present value of payments expected to be received during the lease term.

Lease Accounting - Lessor

- Future lease payments should be discounted using the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease
- The deferred inflow should initially be measured as the amount of the initial measurement of the lease receivable adjusted as indicated in GASB 87 ¶53.

Lease Accounting - Lessor

- In subsequent periods the lessor should calculate the amortization of the discount on the lease receivable.
- The deferred inflow should be amortized in a systematic and rational manner over the term of the lease.
- GASB 87 ¶ 44 - 60

Lease Accounting - Lessor

Governmental Funds

- Recognize a lease receivable and deferred inflow
- Measure deferred inflow at the initial value of the lease receivable (as adjusted)
- Recognize the deferred inflow as inflows of resources, if available, in a systematic and rational manner over the term of the lease. GASB 87 ¶ 56

Polling Question

In order to determine the present value of payments expected to be made during the lease term, the interest rate will need to be identified. Most of our GASB 87 leases:

- A. Include an interest rate
- B. We have an incremental borrowing rate
- C. We will be determining the rate implicit in the lease
- D. Not sure what approach we will use



Lease Accounting - Other

- GASB 87 ¶ 69 – 90
- Contract Combinations
- Lease Modifications and Terminations
- Subleases
- Intra-entity Leases

Lease Accounting - Transition

- Leases should be recognized and measured using the facts and circumstances that existed at the beginning of the period of implementation. (IG 4.76 and 4.77)

GASB 87 Leases

- Our goal is to walk through a GASB 87 example and look at how the GASB 87 contracts were identified and how we opted to track the necessary information.
- GASB 87 can involve a lot of research, so there is benefit in starting early.
- Note: This presentation is an overview of a very straightforward GASB 87 implementation. It is intended to be a starting point as it does not hit on all the complexities that are addressed in GASB 87. You will want to review GASB 87 to ensure you have addressed all your specific GASB 87 issues.

Polling Question

How are you planning to track your GASB 87 leases?

- A. Excel spreadsheet
- B. Lease software
- C. Undecided



Where to Start?

- **GASB 87**
 - Lease Definition (§ 4)
 - Lease Term Definition (§ 12-15)
- **GASB 87 Implementation Guide**
- **Look for contracts**

Lease Definition

- Review agreements where someone else uses your assets or you use their assets
- Examples:
 - Buildings—rentals
 - Vehicles
 - Land (parks, farmland)
 - Easements
 - Equipment
 - Look at the Scope and Applicability of Statement 87 section of the implementation guide for other examples

Where Else to Look?

- Prior year's financial statements
 - Capital Leases
 - Operating Leases
- Receipt ledger—where are lease/rental amounts receipted?

Review of Contracts

- Identify asset (GASB 87 ¶7)
- Convey control (GASB 87 ¶5)
- Identify term—noncancelable period (GASB 87 ¶12)
- Exchange or exchange-like transaction (GASB 33 footnote 1)

How to Track Information?

- Used excel spreadsheet to summarize information—one spreadsheet for receivables and one for payables
 - Name of Lease—lessee/lessor
 - Does lease meet the GASB 87 definition(Yes or No)
 - Lease payment—amount and term
 - Summary of details (see previous slide)
 - Conclusion (Brief explanation of why the lease met or did not meet the GASB 87 definition. In order to leave an audit trail, we opted to include all potential leases evaluated—some were grouped by type.)

Entity					
GASB 87					
Receivable/Liability					
<u>Receivable</u>					
	87				
Name	Lease?	Amount	Summary of Details	Conclusion	Additional Information
<u>Liability</u>					
	87				
Name	Lease?	Amount	Summary of Details	Conclusion	Additional Information

Other Considerations?

- How are new leases and lease modifications going to be identified and captured each year?
- What audit evidence are you going to need?
- What about other GASBs?
 - Subscription-Based Information Technology Arrangements
 - Public-Private and Public-Public Partnerships and Availability Payment Arrangements

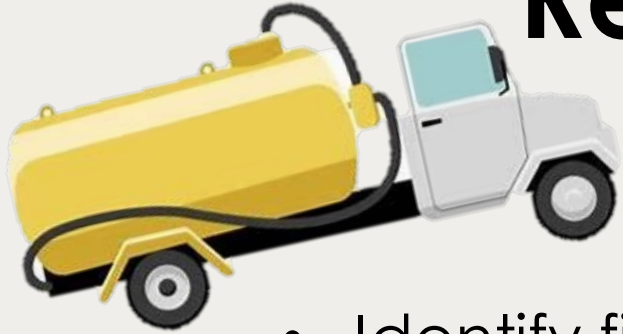
Lessee/Liability Side

In our case, most of the GASB 87 leases on the liability side had previously been identified as operating leases.

Use of Threshold

- When lessee/lease liability, we considered when we were comfortable leaving off both the asset side and the liability side.
- We discussed with audit to make sure they were comfortable with our approach.
- We found a postage machine lease that had been deemed immaterial in the past and we were comfortable with that lease remaining as immaterial.
- (IG 4.23)

Review of Capital Leases



- Identify financed purchases (GASB 87 ¶19)
- City had vehicles that transferred ownership at the end of the term and there were no termination options
- City had GASB 87 financed purchases for
 - Fire truck
 - Sanitation vehicle
 - Sewer vehicle



Review of Operating Leases

- Vacuum truck lease, make annual payments over six years, noncancelable term, truck was not the city's asset at the end of the lease term.
- This lease did meet the GASB 87 definition.

Review of Other Contracts



- Vehicle for undercover police work, monthly payment, new vehicle every 60 to 90 days, no term identified in contract. Rolling month-to-month lease and both parties have the right to cancel.
- Lease of park land from the State for \$1 per year. (IG 4.1)
- These did not meet the GASB 87 definition.

Lessor/Receivable Side

The receivable side seemed to take more work.

Lessor/Receivable Side

- Various leases of office space, making monthly payments, noncancelable term.
 - Most terms were three to five years and qualified as a GASB 87 lease
 - One lease had a maximum term of six months—was considered short-term (GASB 87 ¶16)
 - One lease had a fixed monthly payment plus a percentage of annual receipts. The variable payment was not included in the receivable. (GASB 87 ¶45)

Lessor/Receivable Side

- Lease of farmland at airport, annual payment, two year term, noncancelable. (IG 4.11)
- Lease of softball fields to “District 11” who runs various softball programs including the youth softball program, annual payment, three year term, noncancelable.
- GASB 87 lease

Lessor/Receivable Side

- Oil/Gas Wells—right to explore (IG 4.10)
- Permanent easement—lasts indefinitely without cancellation option (IG 4.5)
- These are not GASB 87 leases

How to Track Information?

- Used an excel template to calculate the present value of lease payments.
 - Fixed Payment (include other payments see GASB 87 ¶21 for liability and ¶44 for receivable)
 - Term (GASB 87 ¶12-15)
 - Interest rate (see GASB 87 ¶23 for liability and ¶47 for receivable)

How to Track Information?

- What do I need in my amortization schedule? Things to consider for journal entries:
 - Identify new leases during year
 - Current year Payments
 - Amount that reduces lease receivable/deferred inflow
 - Amount the reduces lease asset/lease payable
 - Amount that is charged to interest
- Note: See GASB 87 for discussion of lease liability, lease asset, lease receivable and deferred inflow of resources for more specific information.

How to Track Information?

- Things to Consider for Note Disclosure (see GASB 87 ¶37 and ¶57)
 - Future payments
 - Track lease assets and amortization
 - Identify lease assets by major class for note disclosure—disclosed separately from other capital assets

Note: the leases we identified were fairly straightforward, you will need to review GASB 87 for additional information necessary for more complex situations



Next Steps

- Our goal was to discuss how to identify GASB 87 contracts and track the necessary information.
- When GASB 87 is implemented, this information will be the basis for the journal entries, financial statements and note disclosures.

Polling Question

Sometimes implementing new GASB pronouncements requires chocolate, what is your favorite?



- A. M&Ms
- B. Hershey's
- C. Snickers
- D. Reese's

Questions?



Think think think



Think

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