

OHIO AUDITOR OF STATE  
KEITH FABER

## GASB Update

Presented by:

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Chief Technical Specialist  
Local Government Services

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## GASB 87 Guidance

Effective for fiscal years beginning after June 15, 2021, and all financial reporting periods thereafter

- Statement No. 87, *Leases*
  - 94 paragraphs
- Implementation Guide No. 2019-3, *Leases*
  - 77 Q&As
- Implementation Guide No. 2020-1, *Update - 2020*
  - 12 Q&As



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## GASB 87 Guidance



Effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter

- Implementation Guide No. 2021-1, *Update - 2021*
  - 19 Q&As
- GASB Statement No. 99, *Omnibus 2022*
  - 7 paragraphs

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## GASB 87

### Underlying Asset

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



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## GASB 87

Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.



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## 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)

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### Lease Definition



A financial asset is either cash, something that will convert to cash in due course (receivables, investments, inventories held for sale), or something that avoids the need for a near-term cash outlay (prepaid items and supplies inventories). 2020 GAAFR pg 7-2

*GASB 87 footnote 2 defines financial asset*

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### Lease Definition



Examples of nonfinancial assets include land, buildings, vehicles, and equipment (GASB 87 ¶7)

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### 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:

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### 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)



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### Lease Definition



## 2028

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)

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### Lease Definition



Some respondents to the Preliminary Views questioned the exclusion of nonexchange transactions from the definition of a lease, citing concerns about how to account for those transactions. The Board acknowledges that the existing guidance for nonexchange transactions in Statement 33 does not specifically address the right to use nonfinancial assets in nonexchange transactions, such as the free use of office space. The Board noted that those nonexchange transactions, although not in the scope of this Statement, are expected to be addressed as part of the GASB's project on revenue and expense recognition. GASB 87 ¶B10

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### Lease Definition

**Lease Agreement**

A lease agreement is a contract between a lessor and a lessee to pay the lessor for the use of an asset.

Leases include contracts that, although not explicitly identified as leases, meet the definition of a lease. This definition excludes contracts for services except those contracts that contain *both* a lease component and a service component. GASB 87 ¶6

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### Does Not Apply





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

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### 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)

N/A

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### 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:



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### 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 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.

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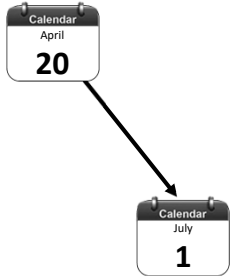
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### Lease Term



- 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

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### 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.



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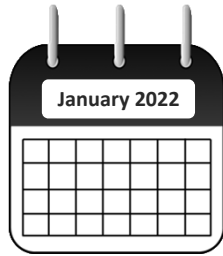
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### Lease Term

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.



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### 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)

Note: the above only applies to contracts that transfer ownership

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## 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)

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## Lease Term

An option to terminate is an unconditional right that exists within the lease contract. A provision that gives a lessee or lessor the right to terminate the lease only in certain circumstances or upon the occurrence of certain events, such as the action or inaction of the other party to the lease contract, should not be considered an option to terminate the lease for purposes of determining the lease term. For example, provisions that allow for the termination of a lease due to a violation of lease terms and conditions, such as a default on payments, are not considered options to terminate the lease. (GASB 99 ¶11a)

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## Lease Term

Noncancellable period(s)

- + Periods covered by either party's option to extend if, based on all relevant factors, it is reasonably certain *to be* exercised (extended)
- + Periods covered by one party's sole, unconditional\* option to terminate if, based on all relevant factors, it is reasonably certain *not to be* exercised (not terminated)
- Periods after a purchase option is reasonably certain to be exercised<sup>†</sup>

= Lease term

Note: If both parties have the option to terminate, only the required notice period, if any, is included in the lease term

<sup>†</sup>GASB Statement No. 99, *Omnibus 2022 (above table generated by GFOA)*

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**SHORT TERM Short-Term Lease**

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)

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**SHORT TERM Short-Term Lease**

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)

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**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)



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## Interest Rate Definitions

- Stated rate – identified
- Implicit rate – rate calculated
- Imputed rate – rate
- Incremental rate – rate

The screenshot shows a multi-step calculator interface. Step 1: Initial Investment is \$100,000. Step 2: Monthly Contribution is \$500. Step 3: Estimated Interest Rate is 4%. Step 4: Compounded Frequency is Monthly. Buttons for CALCULATE and RESET are visible at the bottom.

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SB 62

milar borrowings.

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## Interest Rate

- ...Some respondents to the Preliminary Views questioned that presumption, citing examples of leases in which lease payments are set using a method that does not involve an interest rate (for example, comparison of market rents for similar pieces of real estate). Nevertheless, the Board believes that a discount rate can be imputed on any future payment stream, even if it was not explicitly factored into the determination of the payment amounts.
- GASB 87 ¶ B69

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## Lease Accounting - Lessee

- At the commencement of the lease term, 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.

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### 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.

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### Lease Accounting - Lessee



- In subsequent periods the lessee should calculate the amortization of the discount on the lease liability. (interest method)
- 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

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### Lease Accounting - Lessee

Consistent with the foundational principle that a lease is a financing, this Statement requires that a lessee recognize interest expense related to the amortization of the discount on the lease liability. A lessee also should recognize amortization expense related to the lease asset, representing the decrease in the useful life of the right to use the underlying asset over the lease term. The interest expense and amortization expense are reported in the resource flows statements with other interest and depreciation or amortization expense amounts.




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**Lease Accounting - Lessee**

<b>INTEREST</b>	<b>AMORTIZATION</b>
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The Board considered whether the interest and *amortization* expenses related to a lease could be combined and reported as a single rent expense amount, so that the expense could be classified as an operating expense, consistent with the manner in which expenses for operating leases were classified in Statement 62. However, the Board believes that presentation would be inconsistent with the foundational principle that a lease is a financing.

**RENT OPERATING EXPENSE**

- GASB 87 ¶ B54

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**Lease Accounting - Lessee**

The Board concluded that amortization of the lease asset should be calculated in a systematic and rational manner to be consistent with depreciation and amortization of other capital assets. Amortization in a systematic and rational manner does not necessarily mean the same amount would be amortized in each period. For example, a calculation that results in a constant total lease cost (the total of the separately determined interest and amortization) could be considered systematic and rational in some cases.



- GASB 87 ¶ B56

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**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

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### Lease Accounting - Lessor

**VALUE**



- At the commencement of the lease term, 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.

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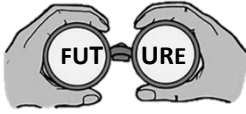
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### Lease Accounting - Lessor

- 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.



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### Lease Accounting - Lessor

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



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## Lease Accounting - Lessor

### Underlying Asset

A lessor should not derecognize the asset underlying the lease. A lessor should continue to apply other applicable guidance to the underlying asset, including depreciation and impairment. However, if the lease contract requires the lessee to return the asset in its original or enhanced condition, a lessor should not depreciate the asset during the lease term. GASB 87 ¶ 55

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## Lease Accounting - Lessor

- ...Some respondents to the Preliminary Views questioned that presumption, citing examples of leases in which lease payments are set using a method that does not involve an interest rate (for example, comparison of market rents for similar pieces of real estate). Nevertheless, the Board believes that a discount rate can be imputed on any future payment stream, even if it was not explicitly factored into the determination of the payment amounts.



- GASB 87 ¶ B69

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## 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



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### Lease Accounting - Other

- GASB 87 ¶ 69 – 90
- Contract Combinations
- Lease Modifications and Terminations
- Subleases
- Sale-Leaseback Transactions
- Lease-Leaseback Transactions
- Intra-entity Leases
- Leases between Related Parties

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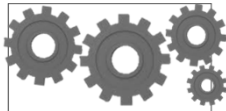
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### Lease Accounting - Transition

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)

CIRCUMSTANCES



FACTS

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44

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**SOFTWARE**

### GASB 96 - SBITA

For purposes of applying this Statement, a SBITA is a contract that conveys control of the right to use another party's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB 96 ¶6

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**GASB 96 - SBITA**

**D N A**

**O O P**

**E T P**

**S L Y**

This Statement does not apply to:

Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets that meets the definition of a lease in Statement No. 87, Leases, in which the software component is insignificant when compared to the cost of the underlying tangible capital asset (for example, a computer with operating software or a smart copier that is connected to an IT system)

Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs

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**GASB 96 - SBITA**

*Public* *Publite*



- Contracts that meet the definition of a public-private and public-public partnership in paragraph 5 of Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements
- Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software, which are subject to Statement No. 51, Accounting and Financial Reporting for Intangible Assets, as amended.
- GASB 96 ¶4

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**GASB 96 - SBITA**

One example of a typical SBITA is a cloud computing arrangement. The three most common deployment models for cloud computing are Software as a Service (SaaS), Platform as a Service (PaaS), and Infrastructure as a Service (IaaS). All three models involve a SBITA vendor providing the customer with the right to use the SBITA vendor's IT resources, including its software application and cloud infrastructure (including network, servers, operating systems, storage, and other tools). SaaS provides a customer with the ability to use a SBITA vendor's applications (software) through a cloud infrastructure.

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**GASB 96 - SBITA** **96**

PaaS allows a customer to use a SBITA vendor's tools or coding language (software) to create applications that will run on the SBITA vendor's cloud infrastructure. IaaS allows a customer to remotely access the SBITA vendor's network, server, and other fundamental computing tools to process, store, and operate the customer's data. Although those cloud computing deployment models are referred to by many as "as a Service," the economic substance of those arrangements is, in fact, the right to use vendors' IT assets. The reference to "services" in those models highlights the fundamental difference between the subscription models and the traditional purchasing and perpetual licensing models.

GASB 96 ¶B14

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**87**

**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.

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**Where to Start?**

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



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## Lease Definition

Review agreements where someone else uses your assets or you use their assets

• Examples:

- Buildings—rentals
- Vehicles
- Land (parks, farmland, ball fields)
- Easements (check IG)
- Equipment
- Cell Tower (check IG)
- Look at the Scope and Applicability of Statement 87 section of the implementation guide for other examples




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## Where Else to Look?

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




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## 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)

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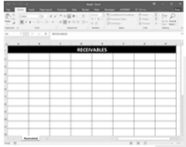
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### How to Track Information?



Used Excel spreadsheet to summarize information— one spreadsheet for receivables and one for payables



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### 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



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### Lessee/Liability Side

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

## LIABILITY



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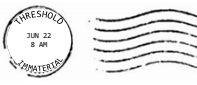
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## Use of Threshold



- When lessee/lease liability, we discussed with fiscal officer when we were comfortable leaving off both the asset side and the liability side.
- 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)

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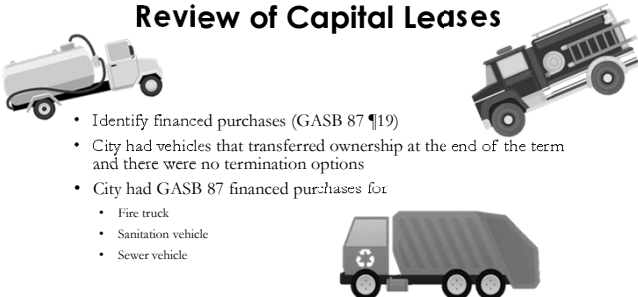
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## Review of Capital Leases



- 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

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## 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.

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### 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.




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### Lessor/Receivable Side

## RECEIVABLE

The receivable side seemed to take more work.




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### Lessor/Receivable Side

## RECEIVABLE

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 also had a maximum term of six months - was considered short-term (GASB 87 #45)

3 to 5 years  
 • One lease had a fixed monthly payment plus a variable payment of annual expenses. The variable payment was not included in the receivable. (GASB 87 #45)

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**Lessor/Receivable Side**

**RECEIVABLE**

- Lease of farmland at airport, annual payment, two year term, noncancelable. (IG 4.11)
- Lease of softball fields to outside group who runs various softball programs including the youth softball program, annual payment, three year term, noncancelable.



**GASB 87 Lease**

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**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

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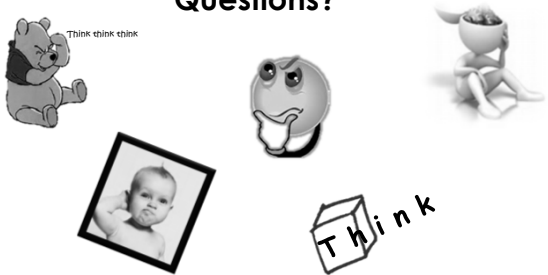
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**Questions?**



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OHIO AUDITOR OF STATE  
KEITH FABER 

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