



Practical Implementation of

GASB 87

Leases

October 22, 2019 Webinar

Presented in association with



Presented by:



Stephen W. Blann, CPA, CGFM, CGMA
Director of Governmental Audit Quality
Rehmann

GASB 87

Session Outline

- Existing GAAP for leases
- GASB's lease project overview
- Leases
- Example transactions
- Developing a plan for implementation
- Other observations

GASB 87

Existing GAAP for Leases

- GASB Codification Section L20 - Leases
 - NCGA Statement 5, *Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments*
 - GASB Statement 13, *Accounting for Operating Leases with Scheduled Rent Increases*
 - GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

GASB 87

Existing GAAP for Leases

- Classification of leases (**lessee perspective**)
 - Capital leases (meet one of four criteria)
 1. Transfer of ownership at conclusion
 2. Bargain purchase option
 3. Lease term \geq 75% of economic life of asset
 4. PV of future minimum lease payments \geq 90% of FMV
 - Operating leases (all other leases)

GASB 87

Existing GAAP for Leases

- Classification of leases (**lessor perspective**)
 - Sales-type leases
 - Direct financing leases
 - Leveraged leases
 - Operating leases

GASB 87

Existing GAAP for Leases

- Accounting for leases (**lessee perspective**)
 - Capital leases
 - Debit capital assets and credit long-term debt for PV
 - Disclose future minimum payments
 - Operating leases
 - Expense payments as made *
 - Disclose future minimum payments (if noncancelable)

GASB 87

GASB's Lease Project Overview

- 2011 – added to research agenda
- 2013 – added to current agenda
- 2014 – preliminary views issued
- 2015 – field test / public hearings
- 2016 – exposure draft issued / public hearing
- 2017 – final standard released in June
- Effective: 12/15/2020

GASB 87

Leases

- Key provisions
 - Single model for lease accounting
 - Foundational principle: leases are **financings** of the **right to use** an underlying asset
 - Lessees recognize a lease liability and an intangible right-to-use lease asset
 - Lessors recognize a lease receivable and a deferred inflow of resources

GASB 87

Leases

- Lease definition
 - 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

Leases

- Control of the right to use
 - The right to obtain the present service capacity from use of the underlying asset as specified in the contract; *and*
 - The right to determine the nature and manner of use of the underlying asset as specified in the contract

GASB 87

Leases

- Nonfinancial assets
 - Assets that are not “financial assets”, as defined by GASB 72, *Fair Value*
 - Examples: land, buildings, vehicles, and equipment

GASB 87

Leases

- Lease definition
 - Includes contracts not explicitly defined as “leases” but that otherwise meet the definition
 - Excludes contracts for services (except those contracts that contain *both* a lease component and a service component)

GASB 87

Leases

- Excluded from the scope of this statement
 - Leases of intangible assets (e.g., mineral rights, movie rights, computer software licenses)
 - Leases of biological assets (e.g., timber, animals)
 - Leases of inventory
 - Service concession arrangements
 - Conduit debt arrangements
 - Supply contracts (e.g., purchased power)

GASB 87

Leases

- Excluded from the scope of this statement
 - Short-term leases
 - Contracts that transfer ownership

CPE Prompt (1 of 6)

- Which of the following is not an element of a lease?
 - A. A contract
 - B. An underlying asset
 - C. Control of the right to use
 - D. A nonexchange transaction

GASB 87

Leases

- Short-term leases
 - If the *maximum possible* lease term is 12 months or less at inception:
 - Recognize expense (lessees) or revenue (lessors) in accordance with lease contract
 - No intangible lease asset or lease liability
 - For rolling (month-to-month/year-to-year) leases, the maximum possible lease term is the noncancelable portion (including notice period)

GASB 87

Leases

- Contracts that transfer ownership
 - Transfer ownership of the underlying asset to the lessee at or before the end of the contract; *and*
 - Do not contain termination options (other than fiscal funding or cancelation clauses not reasonably certain of being exercised)
 - Report as a financed purchase, rather than as a lease

GASB 87

Leases

- Contracts that transfer ownership

“At the end of such term LESSEE shall acquire legal title to the Vehicles and terminate this Lease with respect thereto by paying to LESSOR all amounts that are due and unpaid hereunder and the remaining principal balance with respect to such Vehicles as shown on the Schedule relating thereto.”

3. TERM AND RENT: The Lease term shall commence as of the date that the Vehicles are delivered to LESSEE, or LESSEE's Agent (the "Commencement Date") and shall continue for the term shown on the attached Schedule relating thereto, unless Lessee notifies LESSOR that an Event of Non-appropriation (described below) has occurred or LESSEE exercises its option under Section 18. At the end of such term LESSEE shall acquire legal title to the Vehicles and terminate this Lease with respect thereto by paying to LESSOR all amounts then due and unpaid hereunder and the remaining principal balance with respect to such Vehicles as shown on the Schedule relating thereto. In lieu of such payment LESSOR hereby grants LESSEE the option to renew this Lease with respect to such Vehicles for the additional period as shown on the Schedule relating thereto, provided that the rate of interest applicable to such additional period shall be mutually agreed upon by LESSOR and LESSEE. LESSEE shall give written notice to LESSOR at least ninety (90) days prior to the end of the Lease term as to whether it will terminate this Lease and acquire the Vehicles or exercise its option to renew in accordance with this Section 3. LESSOR shall endeavor to give written notice to LESSEE at least sixty (60) days prior to the end of the Lease term if no such notice has been received from LESSEE. The rent under this Lease shall be payable in lawful money of the United States of America, from any and all legally available funds, and at the times and in the amounts as indicated on each attached Schedule. In lieu of cash, LESSOR will accept payment by check or wire transfer of immediately available funds only. Each payment will consist of a principal and interest component.

GASB 87

Leases

- Old types
 - Operating lease
 - Capital lease
- New types
 - Short-term lease (just expense)
 - Financed purchase (capital asset/LTD)
 - **Lease** (record lease asset/liability)

GASB 87

Leases

- Valuing a lease asset / liability
 - Present value of payments expected to be made for the **lease term**

GASB 87

Leases

- Lease term
 - Period during which a lessee has a noncancelable right to use an underlying asset
 - Plus:
 - Periods covered by either the lessee's or lessor's option to extend (if reasonably certain to be exercised)
 - Periods covered by either the lessee's or lessor's option to terminate (if reasonably certain *not* to be exercised)

GASB 87

Leases

- Lease term
 - Periods for which both the lessee *and* the lessor have an option to terminate the lease (or if both parties have to agree to extend) are cancelable periods and are excluded from the lease term
 - Examples: rolling month-to-month leases

GASB 87

Leases

- Lease term
 - Fiscal funding or cancelation clauses only should affect the lease term when it is reasonably certain they will be exercised

GASB 87

Leases

- Lease term
 - At the beginning of a lease, the lessor and the lessee should assess all factors relevant to the likelihood that the lessee or the lessor will exercise options
 - Examples: economic incentives/disincentives; lessee's history of exercising similar options; how essential the underlying asset is to the provision of governmental services

GASB 87

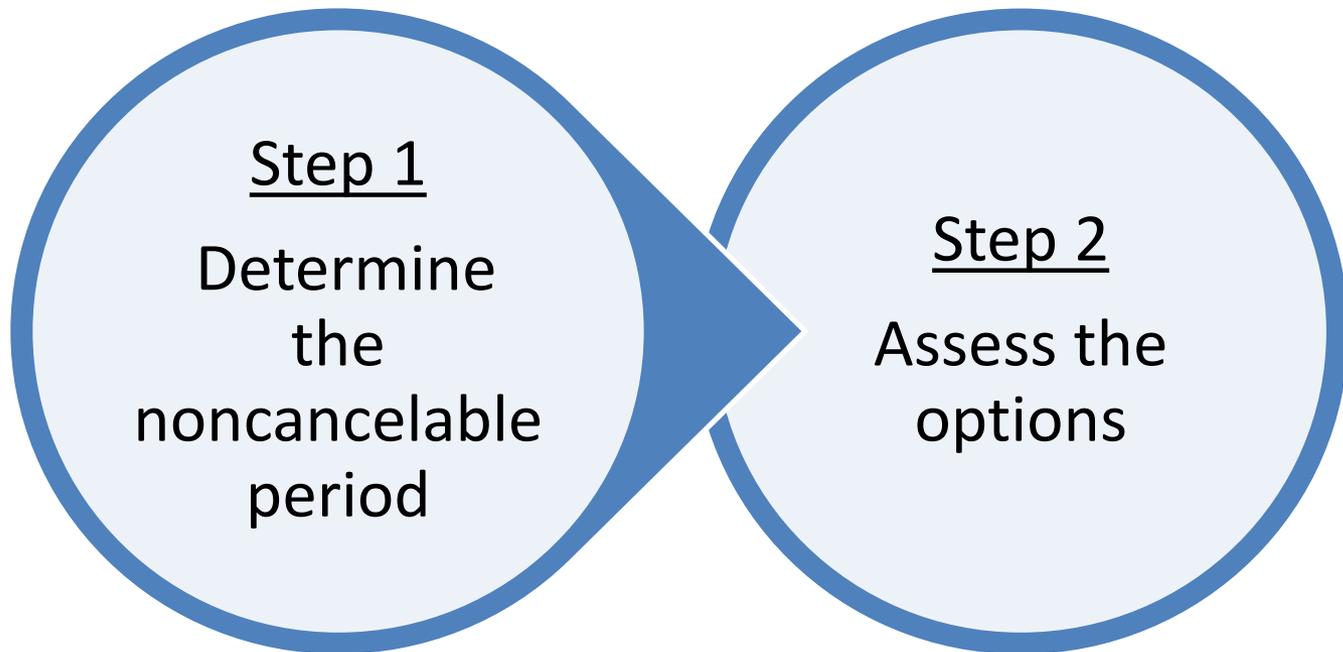
Leases

- Lease term
 - Reassess the term only if:
 - Lessee or lessor exercises an option not expected
 - Lessee or lessor fails to exercise an option expected
 - An event specified in the contract that requires an extension or termination of the lease actually occurs

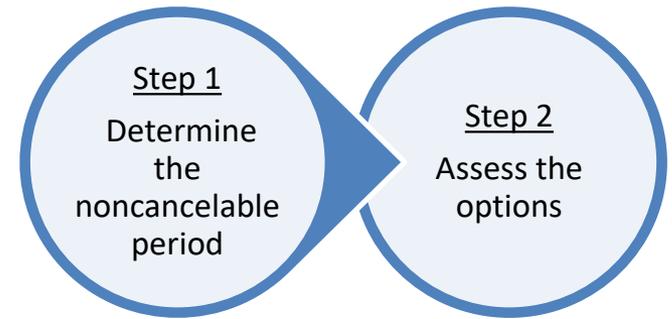
GASB 87

Leases

- Lease term example

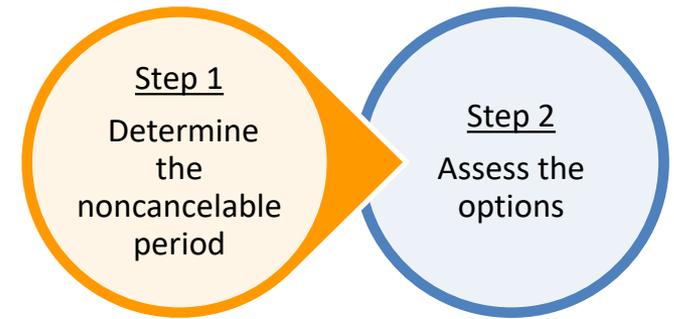


GASB 87 Leases



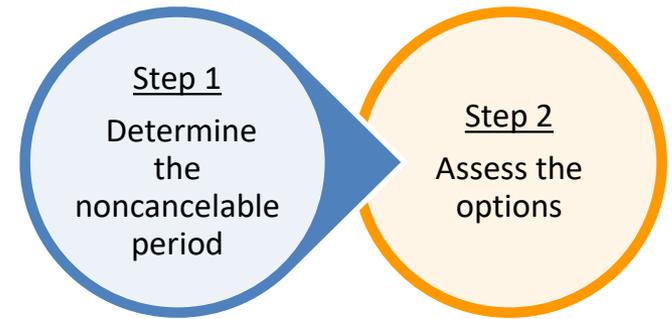
- Lease term example
 - A contract provides the government control of the right-to-use a bus for three years
 - After two years, the government can terminate the lease
 - After three years, there is an option to extend for two years

GASB 87 Leases



- Lease term example
 - A contract provides the government control of the right-to-use a bus for three years
 - After two years, the government can terminate the lease [noncancelable period]
 - After three years, there is an option to extend for two years

GASB 87 Leases

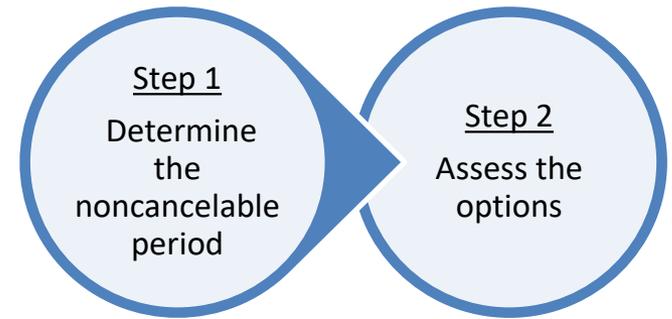


- Lease term example
 - A contract provides the government control of the right-to-use a bus for three years
 - After two years, the government **can terminate** the lease [**not reasonably certain**]
 - After three years, there is an **option to extend** for two years [**reasonably certain**]

CPE Prompt (2 of 6)

- How long is the lease term?
 - A. 2 years
 - B. 3 years
 - C. 5 years
 - D. Not enough information provided

GASB 87 Leases



- Lease term example

Noncancelable period	Years 1-2
+ Period covered by option to terminate, not reasonably certain to be exercised	Year 3
+ Period covered by option to extend, reasonably certain to be exercised	Years 4-5
Total lease term	5 Years

GASB 87

Leases

- Lessee recognition and measurement (lessee)
 - Lease liability
 - Intangible right-to-use asset (“lease asset”)

GASB 87

Leases

- Lease liability (lessee)
 - Present value of payments expected to be made for the lease term
 - Fixed payments
 - Variable payments (dependent on index/rate) using current rates at inception
 - Amounts that are reasonably certain of being paid (e.g., residual value guarantees, purchase options, termination penalties)

GASB 87

Leases

- Lease liability (lessee)
 - Present value of payments expected to be made for the lease term
 - Discounted at the rate the lessor charges the lessee (implicit rate), or the lessee's incremental borrowing rate (if the implicit rate is not readily determinable)
 - In future periods, recognize an outflow (e.g., interest expense) for the amortization of the discount

GASB 87

Leases

- Remeasuring the lease liability (lessee)
 - If one or more factors are expected to significantly affect the liability:
 - Change in lease term
 - Options have changed from being reasonably certain to not reasonably certain (or vice versa)
 - Change in the rate charged
 - Amounts previously contingent become reasonably certain

GASB 87

Leases

- Remeasuring the lease liability (lessee)
 - If remeasuring for another reason (as required on the prior slide), then also update for any variable components
 - A lease liability is not required to be remeasured solely for a change in an index or rate used to determine variable payments

GASB 87

Leases

- Remeasuring the lease liability (lessee)
 - If remeasuring for another reason (as required on the prior slide), then also update the discount rate if one or both factors are expected to significantly affect the liability:
 - There is a change in the lease term
 - Options have changed from being reasonably certain to not reasonably certain (or vice versa)

GASB 87

Leases

- Remeasuring the lease liability (lessee)
 - A lease liability is not required to be remeasured, nor is the discount rate required to be reassessed, solely for a change in the lessee's incremental borrowing rate

GASB 87

Leases

- Lease asset (lessee)
 - Initially measured the same as the lease liability
 - Add: lease payments made to lessor at or before the beginning of the lease term; initial direct costs necessary to place the lease asset into service
 - Deduct: lease incentives received from the lessor

GASB 87

Leases

- Lease asset (lessee)
 - Amortized (i.e., depreciated) in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset
 - If the lease includes a purchase option that is reasonably certain of being exercised, then amortize over the useful life of the asset (unless the underlying asset is nondepreciable, then do not amortize)

GASB 87

Leases

- Remeasuring the lease asset (lessee)
 - Lease assets should generally be adjusted by the same amount as lease liabilities when they are remeasured
 - Do not reduce the lease asset below zero (recognize a gain)

GASB 87

Leases

- Lease asset impairments (lessee)
 - If the underlying asset is impaired (see GASB 42), then the lease asset should be adjusted accordingly
 - First offset against any changes in the lease liability
 - Then recognize an impairment

GASB 87

Leases

- Accounting in governmental funds (lessee)
 - Inception: debit expenditure (capital outlay); credit other financing source (proceeds from long-term debt)
 - Lease payments: debit expenditure (debt service); credit cash

CPE Prompt (3 of 6)

- Which of the following statements are true?
 - A. Lease assets typically equal lease liabilities at the inception of a lease
 - B. Governmental funds do not record lease assets or lease liabilities
 - C. Lease assets cannot be impaired
 - D. Only A and B are true
 - E. A, B, and C are true

GASB 87

Leases

- Notes to financial statements (lessee)
 - Disclose:
 - General description (basis, terms, conditions)
 - Total lease assets and accumulated depreciation (separate from other capital assets)
 - Amount of lease assets by major class of underlying assets (separate from other capital assets)
 - Any current year outflows (expenses) for variable payments not previously included in the lease liability

GASB 87

Leases

- Notes to financial statements (lessee)
 - Disclose:
 - Any current year outflows (expenses) for other payments not previously included in the lease liability
 - Principal and interest requirements to maturity (presented separately) for the lease liability for the first 5 years and in 5-year increments thereafter
 - Commitments under leases that have not yet begun
 - Components of any current year impairment loss

GASB 87

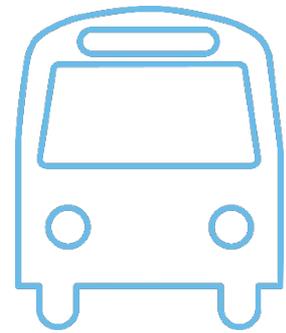
Leases

- Notes to financial statements (lessee)
 - Disclose:
 - Sublease transactions
 - Sale-leaseback transactions
 - Lease-leaseback transactions



GASB 87

Lessee Example – Bus Lease

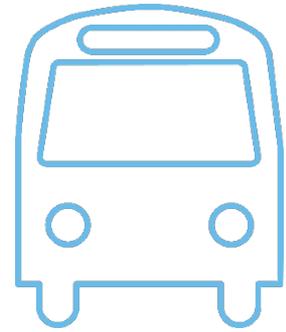


- The government has a long-standing process of leasing its buses
 - On January 1, 2021, the government enters into a contract for five buses. The contract states the term is 5 years, with monthly payments of \$2,000 due on the last day of the month. Lessor provided the borrowing rate of 6%.



GASB 87

Lessee Example – Bus Lease

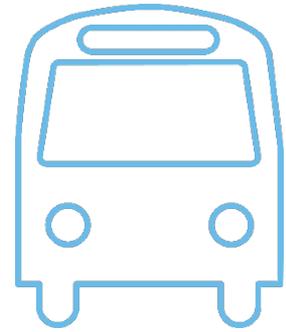


- The government has a long-standing process of leasing its buses
 - After three years, the government may cancel the contract.
 - After the fifth year, the purchase price for each bus is \$12,000.



GASB 87

Lessee Example – Bus Lease

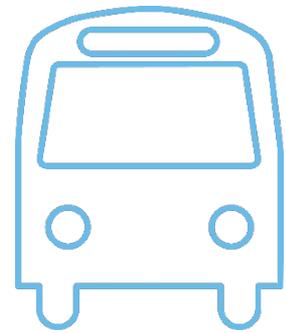


- The government has a long-standing process of leasing its buses
 - The government regularly leases buses and has historically utilized the buses for the full term of the contract and have never terminated early.
 - The contract does not provide the lessor an option to terminate.



GASB 87

Lessee Example – Bus Lease

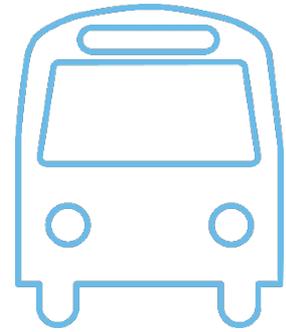


- The government has a long-standing process of leasing its buses
 - At the date of the contract, the government does not have any intent to terminate early.
 - At the end of the lease, the government intends to return the buses, there is no transfer of ownership provision.



GASB 87

Lessee Example – Bus Lease

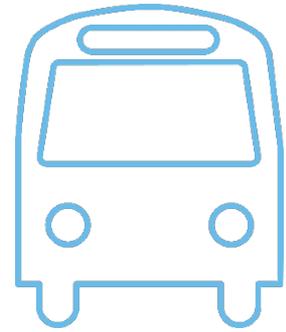


- The government has a long-standing process of leasing its buses
 - Does this meet the definition of a lease?

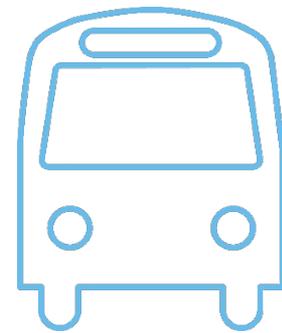


GASB 87

Lessee Example – Bus Lease



- The government has a long-standing process of leasing its buses
 - Does this meet the definition of a lease? **Yes**
 - ✓ contract
 - ✓ five buses
 - ✓ 5 years term
 - ✓ monthly payments



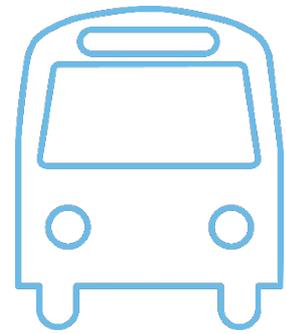
GASB 87

Lessee Example – Bus Lease

- Identifying the Lease Term

	Lessee options		Lessor options	
	Terminate	Extend	Terminate	Extend
Year 1	N/A	N/A	N/A	N/A
Year 2	N/A	N/A	N/A	N/A
Year 3	N/A	N/A	N/A	N/A
Year 4	Reasonably certain will not exercise	N/A	N/A	N/A
Year 5	Reasonably certain will not exercise	N/A	N/A	N/A

- What is the term of the lease?
- Should the purchase price be considered in the lease liability?



GASB 87

Lessee Example – Bus Lease

- Identifying the Lease Term

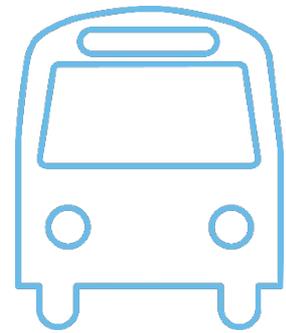
	Lessee options		Lessor options	
	Terminate	Extend	Terminate	Extend
Year 1	N/A	N/A	N/A	N/A
Year 2	N/A	N/A	N/A	N/A
Year 3	N/A	N/A	N/A	N/A
Year 4	Reasonably certain will not exercise	N/A	N/A	N/A
Year 5	Reasonably certain will not exercise	N/A	N/A	N/A

- What is the term of the lease? **[5 years]**
- Should the purchase price be considered in the lease liability? **[No]**



GASB 87

Lessee Example – Bus Lease

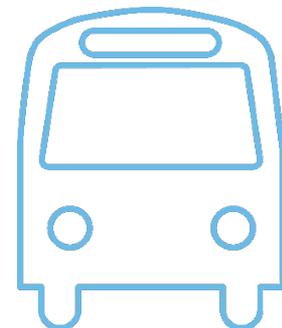


- Assumptions for lease liability calculation
 - Buses are delivered on January 1, 2021
 - First payment is due at month-end
 - Payment schedule 5 years (60 months)
 - 6% interest rate
 - Purchase price, not certain of being exercised (exclude)



GASB 87

Lessee Example – Bus Lease



- Assumptions for lease liability calculation

- Present value (in Excel):

- rate = (6% per year / 12 months to get rate per month)
- nper (number of payments) = 60
- pmt (monthly payment) = 2,000
- fv (future value) = 0
- type = 0 (payments are made at end of period)

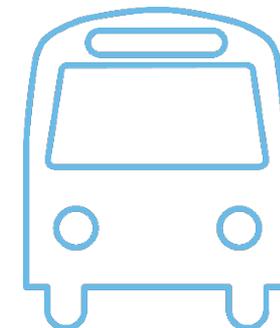
$$=PV(6\%/12,60,-2000,0,0)$$

PV = \$103,451



GASB 87

Lessee Example – Bus Lease



Annualized Payment Schedule			
	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
2021	18,290	5,710	24,000
2022	19,419	4,581	24,000
2023	20,616	3,384	24,000
2024	21,888	2,112	24,000
2025	<u>23,238</u>	<u>762</u>	<u>24,000</u>
	103,451	16,549	120,000

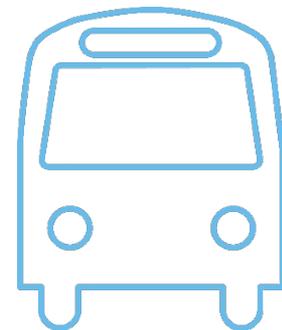
Amortization	
2021	20,690
2022	20,690
2023	20,690
2024	20,690
2025	<u>20,691</u>
	103,451

CPE Prompt (4 of 6)

- What is the relationship between lease principal payments and amortization of the lease asset?
 - A. They will always be the same each year
 - B. They will sometimes be the same in a given year
 - C. Over time, they will total the same amount
 - D. The amortization will always be larger than the total principal payments

GASB 87

Lessee Example – Bus Lease

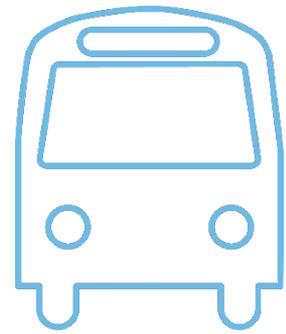


Governmental Fund - Initial Journal Entry	Debit	Credit
Capital outlay	103,451	
Other financing sources - lease proceeds		103,451
<i>To record capital expenditure and related proceeds from lease of buses</i>		

Entity-wide - Initial Journal Entry	Debit	Credit
Other financing sources - lease proceeds	103,451	
Lease liability – due within one year		18,290
Lease liability – due beyond one year		85,161
Intangible lease asset - vehicles	103,451	
Capital outlay		103,451
<i>To record intangible asset and related liability from lease of buses</i>		

GASB 87

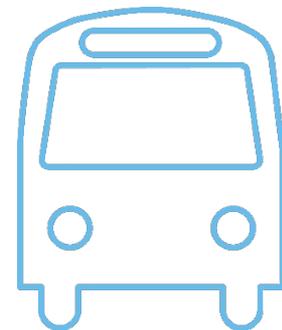
Lessee Example – Bus Lease



<u>Enterprise funds - Initial Journal Entry</u>	<u>Debit</u>	<u>Credit</u>
Intangible lease asset - vehicles	103,451	
Lease liability – due within one year		18,290
Lease liability – due beyond one year		85,161

GASB 87

Lessee Example – Bus Lease

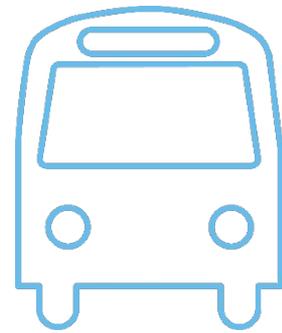


<u>Governmental Fund - Year 1 Journal Entry</u>	<u>Debit</u>	<u>Credit</u>
Interest expense	5,710	
Lease principal payment expenditure	18,290	
Cash		24,000
<i>To record 12 monthly lease payments for first year</i>		

<u>Entity-wide - Year 1 Journal Entries</u>	<u>Debit</u>	<u>Credit</u>
Lease liability – due within on year	18,290	
Lease principal payment expenditure		18,290
Amortization expense	20,690	
Accumulated amortization		20,690
<i>To eliminate fund level activity for first year</i>		

GASB 87

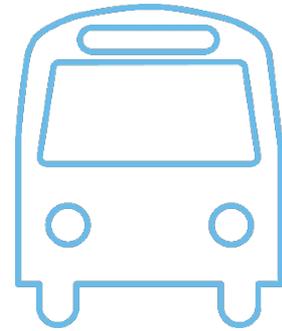
Lessee Example – Bus Lease



<u>Enterprise funds - Year 1 Journal Entry</u>	<u>Debit</u>	<u>Credit</u>
Lease liability – due within one year	18,290	
Interest expense	5,710	
Cash		24,000
<i>To record 12 monthly lease payments for first year</i>		
Amortization expense	20,690	
Accumulated amortization		20,690
<i>To record annual amortization expense</i>		

GASB 87

Lessee Example – Bus Lease



Enterprise funds and Entity-wide Year 1 Journal Entry

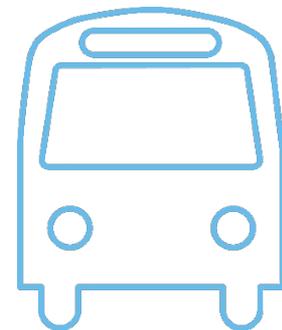
	Debit	Credit
Lease liability – due beyond one year	19,419	
Lease liability – due within one year		19,419

To adjust due within one year liability

Tip: Consider the need for accrued interest based on the payment schedule.

GASB 87

Lessee Example – Bus Lease



Governmental Fund - Year 2 Journal Entry	Debit	Credit
Interest expense	4,581	
Lease principal payment expenditure	19,419	
Cash		24,000

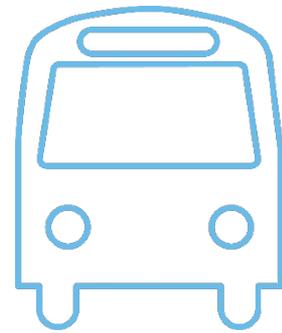
To record 12 monthly lease payments for second year

Entity-wide - Year 2 Journal Entries	Debit	Credit
Lease liability – due within one year	19,419	
Lease principal payment expenditure		19,419
Amortization expense	20,690	
Accumulated amortization		20,690

To eliminate fund level activity for second year

GASB 87

Lessee Example – Bus Lease



<u>Enterprise funds - Year 2 Journal Entry</u>	<u>Debit</u>	<u>Credit</u>
Interest expense	4,581	
Lease liability – due within one year	19,419	
Cash		24,000

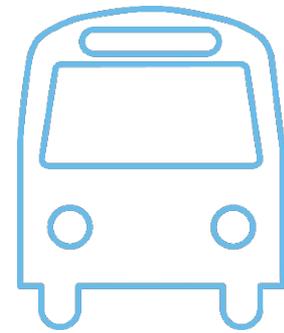
To record 12 monthly lease payments for second year

Amortization expense	20,690	
Accumulated amortization		20,690

To record annual amortization expense

GASB 87

Lessee Example – Bus Lease



Enterprise funds and Entity-wide Year 2 Journal Entry

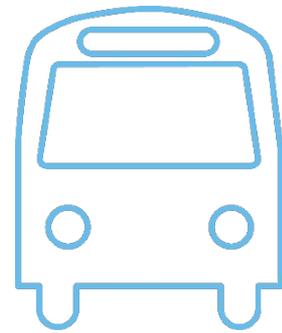
	Debit	Credit
Lease liability – due beyond one year	20,616	
Lease liability – due within one year		20,616

To adjust due within one year liability

Tip: Consider the need for accrued interest based on the payment schedule.

GASB 87

Lessee Example – Bus Lease

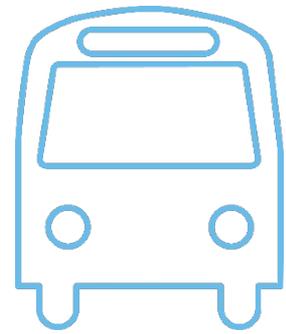


End of year 2 balances (three years remaining on bus lease)

Lease liability – due within one year	\$ 20,616
Lease liability – due beyond one year	<u>45,126</u>
Total	65,742
Vehicle - leased asset	\$ 103,451
Accumulated amortization - Vehicle - leased asset	<u>(41,380)</u>
Vehicle NBV	62,071

GASB 87

Lessee Example – Bus Lease

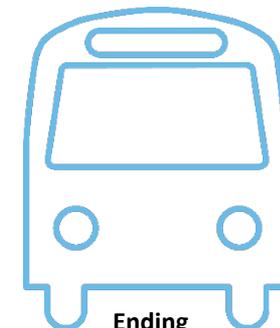


- Disclosure:

“The government is leasing five buses for five years, starting January 1, 2021, with monthly payments of \$2,000 and an interest rate of 6%.”

GASB 87

Lessee Example – Bus Lease

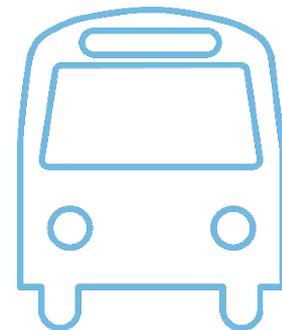


- Disclosure:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets				
Capital assets not being depreciated				
Land	\$ 1,000,000	\$ -	\$ -	\$1,000,000
Total Capital Assets not being depreciated	1,000,000	-	-	1,000,000
Capital assets being depreciated / amortized				
Building	5,000,000	500,000	-	5,500,000
Equipment	400,000	36,000	10,000	426,000
Leased Building (Intangible asset)	500,000	100,000	-	600,000
Leased Vehicles (Intangible asset)	103,451	-	-	103,451
Total capital assets being depreciated / amortized	6,003,451	636,000	10,000	6,629,451
Less: Accumulated depreciation for				
Building	3,300,000	110,000	-	3,410,000
Equipment	340,800	28,400	10,000	359,200
Less: Accumulated amortization for				-
Leased building	20,000	20,000	-	40,000
Leased vehicles	20,690	20,690	-	41,380
Total depreciation and amortization	3,681,490	179,090	10,000	3,850,580
Net capital assets being depreciated and amortized	<u>2,321,961</u>	<u>456,910</u>	<u>-</u>	<u>2,778,871</u>
Total, net of accumulated depreciation	<u>\$ 3,321,961</u>	<u>\$ 456,910</u>	<u>\$ -</u>	<u>\$3,778,871</u>

GASB 87

Lessee Example – Bus Lease



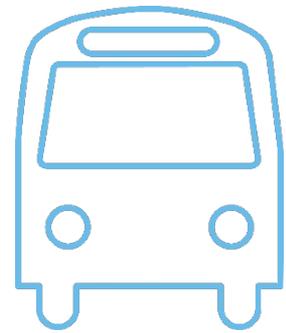
- Disclosure:

Future Lease Payment Maturity Schedule

	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2023	\$ 20,616	\$ 3,384	\$ 24,000
2024	21,888	2,112	24,000
2025	23,238	762	24,000
2026	-	-	-
2027	-	-	-
2028 - 2032	-	-	-
	<u>\$ 65,742</u>	<u>\$ 6,258</u>	<u>\$ 72,000</u>

GASB 87

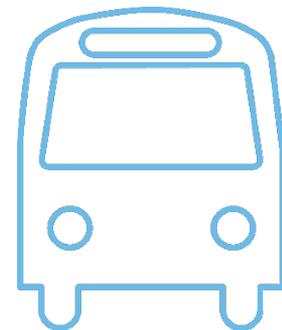
Lessee Example – Bus Lease



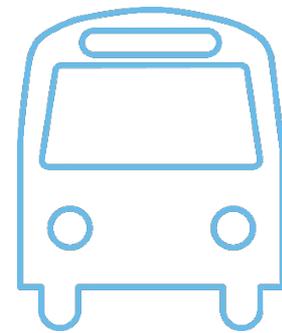
- Multiple components:
 - What if the lease agreement requires the government to pay an additional \$500 per quarter for maintenance, including oil change, tune ups, etc. for each bus?
 - Should that be included in the lease liability? [No]

GASB 87

Lessee Example – Bus Lease



- Multiple components:
 - What if the lease agreement requires the government to pay \$50 per month per bus for mileage, plus \$1 dollar per mile for every mile over 500 miles each month.
 - What should be included in the lease liability?
 - Is a piece of the contract “fixed in substance”? [Yes]
 - Is a piece of the contract excluded from the lease liability? [Yes]



GASB 87

Lessee Example – Bus Lease

- Multiple components:

Payments		Annualized Payment Schedule			
			<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
Monthly payment	2,000	2021	18,748	5,852	24,600
Fixed in substance	50	2022	19,904	4,696	24,600
Variable mileage*	<u>0</u>	2023	21,132	3,468	24,600
	2,050	2024	22,435	2,165	24,600
12 months	<u>12</u>	2025	<u>23,819</u>	<u>781</u>	<u>24,600</u>
Annual payment	24,600		106,038	16,962	123,000

* Expense monthly, as incurred

CPE Prompt (5 of 6)

- When a contract includes both a lease and related maintenance:
 - A. They should be treated like separate contracts
 - B. The maintenance costs should be included in the lease liability
 - C. The entire contract should be treated as a maintenance agreement
 - D. The maintenance costs should be amortized

GASB 87

Leases

- Lease recognition and measurement (lessor)
 - Lease receivable
 - Deferred inflow of resources
 - Do not derecognize the underlying asset

GASB 87

Leases

- Leases of assets that are investments (lessor)
 - If the underlying asset meets the GASB 72 definition of an investment carried at fair value, then do not record a receivable or deferred inflow
 - Disclose the terms for terminating the lease

GASB 87

Leases

- Lease receivable (lessor)
 - Present value of lease payments to be received
 - Fixed payments
 - Variable payments that depend on an index/rate
 - Residual guarantee payments
 - Reduced by any provision for uncollectable amounts
 - Exclude variable payments based on lessee usage (recognized as inflows as incurred)

GASB 87

Leases

- Lease receivable (lessor)
 - Present value of lease payments to be received
 - Discounted using the rate the lessor charges the lessee (implicit rate)
 - In future periods, recognize an inflow (e.g., interest revenue) for the amortization of the discount, calculated to provide a constant periodic rate of return on the receivable

GASB 87

Leases

- Remeasuring the lease receivable and discount rate (lessor)
 - If one or more factors are expected to significantly affect the receivable:
 - Change in lease term
 - Change in the rate charged
 - Amounts previously contingent become reasonably certain

GASB 87

Leases

- Remeasuring the lease receivable and discount rate (lessor)
 - If remeasuring for another reason (as required on the prior slide), then also update for any variable components
 - A lease receivable is not required to be remeasured solely for a change in an index or rate used to determine variable payments

GASB 87

Leases

- Deferred inflow of resources (lessor)
 - Initially measured the same as the lease receivable
 - Add: lease payments received at or before the beginning of the lease term that relates to future periods (e.g., last month's rent)

GASB 87

Leases

- Deferred inflow of resources (lessor)
 - Recognized in a systematic and rational manner over the lease term
 - Generally adjusted by the same amount as the lease receivable if remeasured

GASB 87

Leases

- Underlying asset (lessor)
 - Do not derecognize underlying asset
 - Continue to apply depreciation and impairment guidance during the lease term
 - If the lease requires the asset to be returned in its original (or enhanced) condition, then do not depreciate during the lease term

GASB 87

Leases

- Accounting in governmental funds (lessor)
 - Inception: debit lease receivable; credit deferred inflow
 - Lease payments received: debit cash; credit lease receivable
 - Systematically over lease term: debit deferred inflow; credit revenue

GASB 87

Leases

- Notes to financial statements (lessor)
 - Disclose:
 - General description (basis, terms, conditions)
 - Amount of inflows recognized during the year from leases
 - Lease termination provisions if the government used lease receivables as collateral

GASB 87

Leases

- Notes to financial statements (lessor)
 - Disclose (if applicable):
 - Leases of assets that are investments
 - Certain regulated leases
 - Sublease transactions
 - Sale-leaseback transactions
 - Lease-leaseback transactions

GASB 87

Leases

- Notes to financial statements (lessor)
 - Disclose (if leasing is the government’s principal activity):
 - Schedule of future payments included in the measurement of the lease receivable showing principal and interest for each of the next 5 years and in 5-year increments thereafter

GASB 87

Leases

- Lease incentives
 - A payment made to, or on behalf of, the lessee, for which the lessee has a right of offset with its obligation to the lessor; or
 - An other concession granted to the lessee
 - Rebates, assumption of pre-existing lease obligations to a third-party, rent holidays, etc.
 - Include in the initial measurement

GASB 87

Leases

- Contracts with multiple components
 - Contracts may include:
 - Both a lease and a non-lease component
 - Multiple underlying assets
 - Treat as separate contracts (use professional judgment to estimate amounts)
 - If not practical to separate components, may treat as a single lease unit

GASB 87

Leases

- Contract combinations
 - If multiple contracts are entered into at or near the same time, treat as one if:
 - Negotiated as a package; or
 - Price of one contract is dependent on another

GASB 87

Leases

- Lease modifications
 - Treat as a separate lease if:
 - Modification provides a separate lease asset by lengthening the lease term or adding underlying assets
 - Increase in lease payments does not appear unreasonable based on contract terms and professional judgment
 - Otherwise, remeasure lease liability/receivable

GASB 87

Leases

- Lease terminations
 - Decrease in the right to use the underlying asset
 - Can be partial or full termination

GASB 87

Leases

- Lease terminations (lessee)
 - Reduce carrying values of lease asset and lease liability (recognize gain/loss, if any)
 - If terminated by purchasing the asset, transfer value of the lease asset to capital assets, and increase by reduction in lease liability

GASB 87

Leases

- Lease terminations (lessor)
 - Reduce carrying values of lease receivable and deferred inflow (recognize gain/loss, if any)
 - If terminated by selling the asset, derecognize the asset and include in the calculation of any gain/loss

GASB 87

Leases

- Subleases
 - Treat initial lease and sublease as separate transactions
 - Apply lessee and lessor guidance, as appropriate

GASB 87

Leases

- Sale-leaseback transactions
 - Treat as two separate transactions
 - Any difference between the carrying value of the sold asset and the proceeds from sale should be deferred and amortized over the lease term
 - Disclose the terms/conditions

GASB 87

Leases

- Lease-leaseback transactions
 - Treat as a net lease transaction

GASB 87

Leases

- Intra-entity leases
 - Leases with a blended component unit
 - The provisions of this statement do not apply
 - Report assets and debt as if they belong to the primary government
 - Leases with discretely presented component units
 - Follow the provisions of this statement
 - Separately display lease receivables/payables from other amounts due to/from the primary government

CPE Prompt (6 of 6)

- How ready is your government for GASB 87?
 - A. We haven't even begun yet
 - B. We've started, but still have a ways to go
 - C. Almost there... just a few final details to iron out
 - D. Fully ready

GASB 87

Developing a Plan for Implementation

- Determine an implementation timeline
 - Effective date is FYE 12/15/2020
 - Earlier implementation is encouraged
 - Base calculations on remaining payments (prospective application)

GASB 87

Developing a Plan for Implementation

- Identify the information gatekeepers
 - Finance
 - Legal
 - Other departments
- Look for existing agreements not currently being recognized/disclosed as leases
 - May already be included in capital assets

GASB 87

Other Observations

- Never forget the 12 most important words of any GASB Statement:

The provisions of this Statement need not be applied to immaterial items.

- Capitalization thresholds could (should?) be set and applied to leases, as well

GASB 87

Other Observations

- Negotiating lease terms
 - Consider making the terms more obvious/explicit in the lease contract
 - Length of agreement
 - Interest rate applied

GASB 87

Other Observations

- Leases are multi-year contracts with implications on future budget periods
 - The information that will have to be gathered in order to implement this standard is probably worth knowing, even for managerial purposes

GASB 87

Practical Steps to Implementation

- Assess all leases > 12 months
- Contact legal/contract department
 - Explain new terms for accounting purposes
 - Operating – same
 - Month-to-month
 - Less than 12 month term
- Review capitalization threshold

Questions?



For more information...



CPAs & Consultants • Wealth Advisors • Corporate Investigator



Stephen W. Blann, CPA, CGFM, CGMA
Director of Governmental Audit Quality
Rehmann

stephen.blann@rehmann.com

www.rehmann.com/government