

# GASB Statement No. 87 *Leases*

Issued June 2017

Effective Date: Periods

beginning after December 15,  
2019 (FY22)

# Effective Date

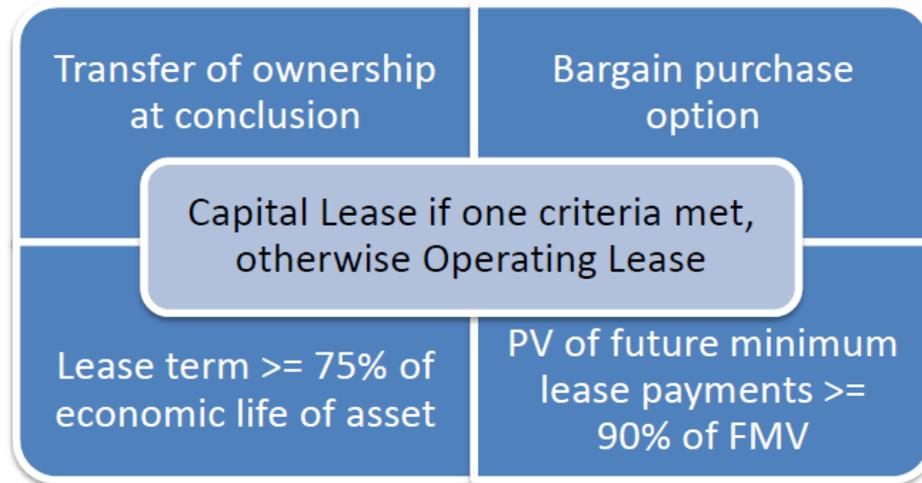
- Periods beginning after December 15, 2019  
*GASB 85 postponed 18 months (FY22)*
- Apply retroactively
  - Facts and circumstances of the lease in period of implementation GASB 87 (not inception of lease)
    - Use remaining lease payments at beginning of period
  - Restate beginning net position in period of implementation

# Leases

- **What:** In June 2017, the GASB issued Statement 87, which establishes revised standards on lease accounting and financial reporting.
- **Why:** The previous standards had been in effect for decades without review; FASB/IASB joint project updated their lease standards; opportunity to increase comparability, usefulness of information, and reduce complexity
- **When:** New standards are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

# Previous Lease Accounting

- Lessee - determines type of lease – Capital or Operating



Lease Type	Accounting – accrual basis	Disclosure
Capital	Debit: capital assets Credit: long-term debt for PV of future minimum payments	Disclose future minimum payments
Operating	Expense payments as made	Disclose future minimum payments (if noncancelable)

# Scope

- Definition of a “lease”
  - *A contract that conveys 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*
- Contract –legally enforceable (written or verbal)
- Right to use underlying asset
  - Obtain present service capacity
  - Determine nature and manner of use
- Nonfinancial asset –(i.e. Land, buildings, vehicles)
  - **Not** securities lending (financial asset)

# Scope

- No more capital or operating leases
- Excluded from scope of GASB 87
  - Leases for intangibles (*including computer software*)
    - Exception -Sublease of intangible right-to-use leased tangible asset
  - Leases for biological assets
  - Leases for inventory

# Scope

- Leases where underlying asset financed with conduit debt
  - Exception -underlying asset and conduit debt reported by lessor
- Service concession agreements
- Supply contracts –power purchase agreements
- Other exclusions
  - Short-term leases (*slides 8-9*)
  - Contracts that ultimately transfer ownership of the underlying asset to the lessee (*slide 10*)

# Short-Term Leases

- At beginning of lease, maximum possible term under the contract is 12 months or less, including any options to extend, regardless of their probability of being exercised.
- Lease that is cancelable by either the lessee or the lessor, such as a rolling month-to-month lease or a year-to-year lease, the maximum possible term is the noncancelable period, including any notice periods.

# Short-Term Leases

- Lessees recognize expense/expenditures based on the terms of the contract
  - Do not recognize assets or liabilities associated with the right to use the underlying asset for short term leases.
- Lessors recognize lease payments as revenue based on the payment provisions of the contact
  - Do not recognize receivables or deferred inflows associated with lease.

# Contracts that Transfer Ownership

- A contract with the following characteristics should be reported as a ***financed purchase*** of the underlying asset by the lessee or ***sale*** of the asset by the lessor
  - a) Transfers ownership of the underlying asset to the lessee by the end of the contract, and
  - b) No termination options.
    - May contain fiscal funding or cancellation clause not reasonably certain of being exercised.

# Key Issues

- Have we inventoried ALL contracts whether in-scope or out of scope at least at implementation?
  - Do we have a policy/ procedure to recognize when a contract should be analyzed?
  - Is this contract in-scope for GASB 87 Leases OR will it be in-scope for GASB 96 Subscription-Based Information Technology Arrangements (SBITAs)?
  - Have we done a search (& continue to search) for contracts that have embedded leases?

# Key Issues

- Contracts may not have the words “rent” or “lease” but still fits the framework or scope – Could include:
  - Technology where payments are made by P-Card (PCs, copiers, multifunction printers)
  - As a service contract
  - Advertising contracts—stadium signage, could include naming rights (lessor)
  - Supply contracts where equipment is necessary for supplies- examples: bottled water, lab test equipment.
- Have you reviewed expenditures for reoccurring expenditures to same vendor(s)?

# Key Issues

- Clarify policy on who decides
  - Authority to sign lease documents
  - Extensions
  - Modifications
  - Terminations
- Calculate the lease term for in-scope contracts

# Lease Term

- Period during which lessee has
  - Noncancelable right to use underlying asset
  - Plus periods where
    - Lessee or Lessor option to extend (if exercise is reasonably certain (aka more than probable))
    - Lessee or Lessor option to terminate (if not exercising is reasonably certain)
    - Fiscal funding or cancellation clause should affect the lease term only if is reasonably certain that the clause will be exercised.

# Lease Term

- Periods for which 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 Accounting

- Lessee Accounting vs. Lessor Accounting
- Economic Resource Measurement (Government-Wide Statements and Proprietary Fund Types) vs. Current Financial Resources Measurement (Governmental Funds)

# Lessee Accounting—economic resource measurement

- Initial recognition
  - Lease Asset—Intangible right-to-use capital asset
  - Lease Liability
- Subsequent accounting
  - Amortization of lease asset
    - Shorter of lease term or useful life of underlying asset.
    - Amortization Expense—may be combined with depreciation expense related to other capital assets for financial reporting purpose.

# Measurement—Lessee

- Lease liability:
  - Present value (PV) of payments over lease term
    - Interest rate charged by lessor, or
    - Lessee's borrowing rate

# Measurement—Lessee

- Lease Asset:
  - PV of payments over lease term (lease liability)
  - Add: Payments made at or before the beginning of the term to lessor
  - Less: Lease incentives received from lessor beginning of the term
  - Add: Certain direct costs to put asset into service.

# Lessee Accounting—current financial resources measurement

- Initial recognition (same as current guidance)
  - Expenditure –capital outlay
  - Other financing source
- Subsequent accounting (same as current guidance)
  - Lease payments –debt service expenditures

# Note Disclosure—Lessee

- Description of leasing arrangements
- Amount of lease assets
- Schedule of future lease payments
  - Principal and interest listed separately

# LESSEE – bus Lease Example

## **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 every 1st of the month. Lessor provided the borrowing rate of 6%.
- After three years, the government may cancel the contract.
- After the fifth year, the purchase price for each bus is \$12,000.
- 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. 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.

**✓ Does this meet the definition of a lease?**

## LESSEE – bus lease example (cont.)

### Identifying the Lease Term

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

## LESSEE – bus lease example (cont.)

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

Year 1	Amortization	20,690
Year 2	Amortization	20,690
Year 3	Amortization	20,690
Year 4	Amortization	20,690
Year 5	Amortization	<u>20,691</u>
		<b>103,451</b>

## LESSEE – bus lease example (cont.)

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

<b>Entity-wide - Initial Journal Entry</b>	<b>Debit</b>	<b>Credit</b>
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>		

## LESSEE – bus lease example (cont.)

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

## LESSEE – bus lease example (cont.)

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

<b>Entity-wide - Year 1 Journal Entries</b>	<b>Debit</b>	<b>Credit</b>
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>		

## LESSEE – bus lease example (cont.)

<b>Enterprise funds - Year 1 Journal Entry</b>	<b>Debit</b>	<b>Credit</b>
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>		

## LESSEE – bus lease example (cont.)

### **Enterprise funds and Entity-wide Year 1 Journal Entry**

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	<b>Debit</b>	<b>Credit</b>
Lease liability – due beyond one year	19,419	
Lease liability – due within one year		19,419

*To adjust due within one year liability*

## LESSEE – bus lease example (cont.)

<b>Governmental Fund - Year 2 Journal Entry</b>	<b>Debit</b>	<b>Credit</b>
Interest expense	4,581	
Lease principal payment expenditure	19,419	
Cash		24,000
<i>To record 12 monthly lease payments for second year</i>		

<b>Entity-wide - Year 2 Journal Entries</b>	<b>Debit</b>	<b>Credit</b>
Lease liability – due within one year	19,419	
Lease principal payment expenditure		19,419
Amortization expense	20,690	
Accumulated amortization		20,690
<i>To eliminate fund level activity for second year</i>		

## LESSEE – bus lease example (cont.)

<b>Enterprise funds - Year 2 Journal Entry</b>	<b>Debit</b>	<b>Credit</b>
Interest expense	4,581	
Lease liability – due within one year	19,419	
Cash		24,000
<i>To record 12 monthly lease payments for second year</i>		
Amortization expense	20,690	
Accumulated amortization		20,690
<i>To record annual amortization expense</i>		

## LESSEE – bus lease example (cont.)

### **Enterprise funds and Entity-wide Year 2 Journal Entry**

	<b>Debit</b>	<b>Credit</b>
Lease liability – due beyond one year	20,616	
Lease liability – due within one year		20,616

*To adjust due within one year liability*

## LESSEE – bus lease example (cont.)

### Three years remaining on bus lease

#### End of year 2 balances

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

## LESSEE – bus lease disclosure example - “general description disclosure”

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

## LESSEE – bus lease disclosure example (cont.)

<b>Capital Assets – Year 2</b>	<b><u>Beginning Balance</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>Ending Balance</u></b>
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
<b>Leased Vehicles (Intangible asset)</b>	<b><u>103,451</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>103,451</u></b>
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
<b>Leased vehicles</b>	<b><u>20,690</u></b>	<b><u>20,690</u></b>	<b><u>-</u></b>	<b><u>41,380</u></b>
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	<b><u>\$ 3,321,961</u></b>	<b><u>\$ 456,910</u></b>	<b><u>\$ -</u></b>	<b><u>\$3,778,871</u></b>

## LESSEE – bus lease disclosure example (cont.)

A maturity analysis of all future lease payments

Payments for each of the first five years

- Payments in five-year increments thereafter
- Show principal and interest separately

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

## LESSEE – bus lease example, expanded

### **Multiple contract 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?
- Does \$500 per quarter for five buses seem reasonable?
- Is it identifiable in the contract?

## LESSEE – bus lease example, expanded (cont.)

### Multiple contract 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**
- Does \$500 per quarter for five buses seem reasonable? **YES**
- Is it identifiable in the contract? **YES**

## LESSEE – activity bus example, expanded (cont.)

### Multiple contract components

<b>Governmental Fund - Year 1 Journal Entry</b>	<b>Debit</b>	<b>Credit</b>
Interest expense	5,710	
Lease principal payment expenditure	18,290	
Maintenance expense	2,000	
Cash		26,000
<i>To record 12 monthly lease payments for first year</i>		

<b>Entity-wide - Year 1 Journal Entries</b>	<b>Debit</b>	<b>Credit</b>
Lease liability	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>		

## LESSEE – activity bus example, expanded (cont.)

### Multiple contract components

<b>Enterprise funds - Year 1 Journal Entry</b>	<b>Debit</b>	<b>Credit</b>
Lease liability	18,290	
Interest expense	5,710	
Maintenance fees	2,000	
Cash		26,000
<i>To record 12 monthly lease payments for first year</i>		

# Lessor Accounting—economic resources measurement

- Initial recognition
  - Lease receivable
    - Continue to report underlying asset
  - Deferred inflow of resources

# Lessor Accounting—economic resources measurement

- Subsequent reporting
  - Lease payments
    - Reduction of receivable
    - Interest Revenue
  - Reduction of deferred inflow of resources—revenue
    - Over term of the lease
    - Systematic and rational manner

# Measurement—Lessor

- Lease receivable:
  - PV of lease payments over lease term
- Deferred inflow of resources
  - PV of lease payments over lease term
  - Add: Payments received at or prior to the beginning of the lease that relate to future periods.

# Lessor Accounting—current financial resources measurement

- Initial recognition
  - Lease receivable at PV of payments
  - Deferred inflow of resources
- Subsequent reporting
  - Lease payments
    - Reduction of receivable
    - Interest revenue
  - Reduction of deferred inflow of resources—revenue
    - Over term of the lease
    - Systematic and rational manner, **if available**

# Note Disclosure—Lessor

- Description of leasing arrangements
- Total amount of lease revenue for current year.

# DEBITS AND CREDITS ON ONE SHEET

	Party	Assets	Liabilities	Deferred Inflow of Resources
<b>Initial Reporting</b>	Lessee	Intangible asset (lease liability + prepayments + initial direct costs placing asset into use)	Present value of future lease payments (fixed, variable, including guarantees etc.)	None
	Lessor	Lease receivable, capital asset remains on books	Should be none	Lease receivable + cash that relates to future period (e.g. last month's rent)
<b>Subsequent Reporting</b>	Lessee	Amortize intangible over shorter of useful life or term of lease	Reduce by lease payments (effective interest)	None
	Lessor	Depreciate capital asset unless required to be returned in original or better condition Reduce receivable, taking into account interest	Should be none	Recognize revenue in effective interest method (systematic & rational)

# Other Topics Covered by Statement 87

- Contracts with multiple components
- Contract combinations
- Lease modifications & terminations
- Lease incentives
- Subleases
- Sale-leasebacks
- Lease-leasebacks

# GASB Statement No. 96

## Subscription-Based Information Technology Arrangements

Issued May 2020

Effective Date: Periods beginning  
after June 15, 2022. **(FY23)**

# Definition

- Definition of SBITA:
  - A contract that conveys control of the right to use hardware, software, or a combination of both, including IT infrastructure, as specified in the contract for a period of time in exchange or exchange-like transaction.
- Sound Familiar???

# SBITA

- All SBITA's already meet definition of lease
- If the underlying asset is:
  - Tangible capital assets alone- Follow Statement 87
  - IT software along- Follow Statement 96
  - IT software is combination with tangible capital assets:
    - Software component is insignificant compared to cost of underlying tangible capital asset – Follow 87.
    - Otherwise Use Statement 96.

# DEBITS AND CREDITS ON ONE SHEET

	Party	Assets	Liabilities	Deferred Inflow of Resources
Initial Reporting	Subscriber	Intangible subscription asset (SBITA liability + prepayments + capitalizable initial implementation costs)	Present value of future subscription payments (fixed, variable, including guarantees etc.)	None
	Vendor	Beyond the scope of GASB-96	N/A	N/A
Subsequent Reporting	Subscriber	Amortize intangible over shorter of useful life of SBITA or term	Reduce by subscription payments ONLY (effective interest)	None
	Vendor	Beyond the scope of GASB-96	N/A	N/A