

GASB 87

Leases

NOTE: GASB NO. 95 Postponement of Effective Dates of Certain Authoritative Guidance approved on May 7, 2020, delayed the implementation of GASB 87 to 2021-22 fiscal year.

Objective of GASB 87:

- Improve accounting and financial reporting for leases by governments
- Apply to new leases and applied retroactively by restating financial statements, if practical, for all prior periods presented
- Establishes a single model for lease accounting
- Enhances comparability

GASB Statement 87 & Implementation Guide:

https://www.gasb.org/jsp/GASB/Document_C/DocumentPage?cid=1176169170145&acceptedDisclaimer=true

https://www.gasb.org/jsp/GASB/Document_C/DocumentPage?cid=1176173189687&acceptedDisclaimer=true

GASB 87

- One single module for lease accounting for capital/operating leases
- **Lessee** is required to recognize a lease liability and an intangible right-to-use the asset
- **Lessor** is required to recognize a lease receivable and a deferred inflow of resources

New 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 kind transactions, with the exceptions of short-term leases.

The four key elements of a lease:

1. Control – requires both of the following:
 - The right to obtain the present service capacity from use of the underlying asset, and
 - The right to determine the nature and manner of use of the underlying asset
2. Period of time or lease term
3. Exchange or exchange-like transaction; each party is giving up or receiving something in equal value
4. Nonfinancial asset – An asset that is not a financial asset as defined in GASB 72, Fair Value Measurement and Application, such as, land, buildings, vehicles, and equipment. Broader classification than only capital assets.

Note: A government obtains the right to use the land, which has a market rent of \$100,000 per year, for \$1 per year. This is not an exchange or exchange-like transaction (Implementation Guide 2019–3, question 4.1).

Examples of “Control:”

- Field Contract – Allows a school to use a park field every Tuesday and Wednesday on a weekly basis
- Student Transportation Contract – District specifies how many buses, timing of pick-up/drop-off and total hours/miles of usage

Outside of the Scope of GASB 87

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

What is NOT a Lease

- A contract that transfers ownership of the underlying asset to the lessee by the end of the contract AND does not contain termination options (other than fiscal funding clause)
- Many LEAs have such arrangements for school buses or other vehicles and equipment
- These arrangements are not leases and should be reported as a Financed Purchase
- These arrangements effectively will be reclassified as a “Contract payable” or similar for financial reporting purposes

Financed Purchase

- Contracts that transfer ownership of the leased asset at the end of the lease term AND do not contain a termination clause
 - Reported as a financed purchase of the underlying asset by the lessee (notes payable) or sale of the asset by the lessor (notes receivable rather than a lease receivable).

Short Term Leases (excluded from GASB 87)

- Continue to report using existing SACS object codes
 - **O5600** for lease expenditures & **O8650** for lease revenues
- NO balance sheet reporting required
- Short-Term leases are defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months or less, including any options to extend, regardless of their probability of being exercised.
- ***The following are examples of leases that are NOT considered Short-Term Leases and therefore GASB 87 entries must be applied:***
 - A lease with a 6-month noncancelable period and with an option to extend for another 12 months after the noncancelable period. This is NOT a short-term period because the maximum possible term is 18 months ([Implementation Guide 2019–3, Leases](#) , question 4.18).
 - A lessee enters into a lease with a lessor for 16 months. The lessee can cancel the lease at any time after 6 months. The lessor does not have the option to cancel the lease. This is NOT a short-term term because the maximum possible term is 16 months (Implementation Guide 2019–3, question 4.19).

SACS Forum February 2020

Lessee	Lessor
Lease payments are recognized as outflows of resources (i.e., expenses/expenditures) based on the payment provisions of the lease contract. <ul style="list-style-type: none"> • For example, Object 5600, Rentals, Leases, Repairs, and Noncapitalized Improvements 	Lease payments are recognized as inflows of resources (i.e., revenue) based on the payment provisions of the lease contract. <ul style="list-style-type: none"> • For example, Object 8650, Leases and Rentals
No recognition of assets or liabilities associated with the right to use the underlying asset for short-term leases.	No recognition of receivables or deferred inflows associated with the lease.
Payments made in advance are recognized as an asset. <ul style="list-style-type: none"> • For example, Object 9330, Prepaid Expenditures 	Payments received in advance are recognized as a liability. <ul style="list-style-type: none"> • For example, Object 9650, Unearned Revenue
Payments due but not paid in the reporting period are recognized as a liability (for example, payables).	Payments due but not received in the reporting period are recognized as an asset (for example, receivables).
Not recognize an outflow of resources during any rent holiday period (for example, one or more months free).	Not recognize an inflow of resources during any rent holiday period (for example, one or more months free).
No additional disclosures are required to financial statements.	No additional disclosures are required to financial statements.

SACS Forum October 2020

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

Lessee	Lessor
Initial Recognition & Measurement	Initial Recognition & Measurement
<ul style="list-style-type: none"> Report an expenditure and other financing source in the period the lease is initially recognized. Measure the expenditure and the other financing source using the guidance for measuring the lease liability as provided in GASB 87, paragraph 21-23. <ul style="list-style-type: none"> Capital outlay expenditure objects, for example, Object 6400, Equipment; or need a new object code for lease right-of-use asset? Other financing source object, that is, Object 8972, Proceeds from Capital Leases (which will be updated by eliminating the word "Capital") 	<ul style="list-style-type: none"> Recognize a lease receivable and a deferred inflow of resources for a lease. Measure the lease receivable using the guidance as provided in GASB 87, paragraph 44. Measure the deferred inflow of resources at the initial value of the lease receivable <u>plus</u> payments received at or before the commencements that relate to future periods (for example, the final month's rent). <ul style="list-style-type: none"> Lease Receivable – need a new object code? Object 9690, Deferred Inflows of Resources

Subsequent recognition and measurement

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

SACS Forum May 2021

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

Additional Updates:

Object 8972 “Proceeds from Capital Leases” was updated to remove the word “Capital”

Object 9667 “Lease Liability” revised from “Capital Lease Payable”

Lessee Accounting – Governmental Funds

Commencement of Lease Term:

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

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

Lease liability – measured at PV of payments over term

- Form DEBT (pending SACS software update)

Lease asset – measured at amount of liability + any payments made to lessor at or before commencement and certain direct cost

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

Subsequent Recognition/Lease Payments:

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

- Note: Reduce liability on Form Debt accordingly for principal

Apply Retroactively to Leases

- Calculate the initial Lease Liability: the PV of future remaining lease payments as of the transition date.
- Leased Assets – generally measured at the amount of the liability
- Record initial JE at Transition Date (July 1, 2021):

DR. Object 6600 Leased Asset
CR. O8972 Proceeds from Leases

- Apply subsequent recognition per GASB 87

Note: Capital leases already recorded in prior years' fund statements; initial JE above NOT required. Do calculate new carrying values for leased asset/lease liability under GASB 87 using facts and circumstances that exist at the beginning of the period of implementation. The change in lease asset may not be the same as the change in lease liability. Any difference, if any, should be included as a restatement to beginning balance.

Lessee Example:

3 year lease

Monthly payments of \$10K

Discount rate of 6.5%

Amortization Schedule - Lessee							
		(1)	(2)	(3)	(4)	(5)	(6)
Year	Month	Cash	Interest Expense	Liab. Reduction	Lease Liability	Amort. Expense	Net Lease Asset Bal.
2021	July	10,000	1,741	8,259	327,680	9,332	326,607
2021	August	10,000	1,643	8,357	319,323	9,332	317,276
2021	September	10,000	1,710	8,290	311,033	9,332	307,944
2021	October	10,000	1,610	8,390	302,643	9,332	298,612
2021	November	10,000	1,618	8,382	294,261	9,332	289,281
2021	December	10,000	1,521	8,479	285,781	9,332	279,949
2022	January - June	\$	\$	\$	\$	\$	\$
			9,842	50,158		55,990	

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

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

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

Initial Recording

	DR	CR
Object 6600 Leased Asset	335,939	
Object 8972 Proceeds from Leases		335,939

July Sample Entry

	DR	CR
Object 7438 Debt Service Interest	1,741	
Object 7439 Debt Service Principal	8,259	
Object 9110 CASH		10,000

Lessor Accounting – Governmental Funds

Commencement of Lease Term:

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

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

Lease Receivable – measured at PV of payments over the term

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

Subsequent Recognition/Payments Received:

Reduce the Lease Receivable by lease payments and recognize interest

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

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

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

Apply Retroactively to Leases

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

Lessor Example:

3 year lease

Monthly payments of \$10K

Discount rate of 6.5%

Amortization Schedule - Lessor

		(1)	(2)	(3)	(4)	(5)	(6)
Year	Month	Cash	Interest Revenue	Receivable Reduction	Total Lease Receivable	Rental Income	Def. Inflow of Resource
2021	July	10,000	1,741	8,259	327,680	9,332	326,607
2021	August	10,000	1,643	8,357	319,323	9,332	317,276
2021	September	10,000	1,710	8,290	311,033	9,332	307,944
2021	October	10,000	1,610	8,390	302,643	9,332	298,612
2021	November	10,000	1,618	8,382	294,261	9,332	289,281
2021	December	10,000	1,521	8,479	285,781	9,332	279,949
2022	January - June	\$	\$	\$	\$	\$	\$
			9,842	50,158		55,990	

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

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

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

Initial Recording

	DR	CR
Object 9380 Leased Receivable	335,939	
Object 9690 Def. Inflow of Resources		335,939

Subsequent Recording

	July Sample Entry		
	DR	CR	
Object 9110 CASH	10,000		Cash Deposit
Object 8660 Interest Revenue		1,741	Cash Deposit
Object 9380 Leased Receivable		8,259	Cash Deposit
Object 9690 Def. Inflow of Resources	9,332		JE
Object 8650 Leases and Rentals		9,332	JE
	19,332	19,332	

Prepare for Implementation/Identify Leases

LEAs should consider the following:

- Apply GASB 87 to new leases going forward, but also to retroactively to existing agreements
- Avoid using terminology on a particular document to define nature of the contract, such as, lease contract, finance agreement, lease purchase, capital lease, lease contract etc. Instead evaluate components.
- Create an inventory of existing leases and other contracts and agreement for review
- Determine which leases, contracts, or agreements meet the new definition of a lease and which can be excluded
- Separate contracts into lease and non-lease components
- Review rent agreements, service contracts that include use of an asset, operating lease agreements
- Determine key elements
 - Lease term (consider renewal options and termination clauses),
 - Renewal/extensions
 - Termination provisions
 - Transfer of ownership
 - Purchase options
 - Payment provisions (i.e. fixed payments or variable payments/basis for variation)
 - Interest rate or incremental borrowing rate
 - Multiple components (i.e. service contracts with leased asset)
 - Initial direct costs and other payments
 - Asset class and useful life of asset

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

Determining Lease Term

- Starts with the noncancelable period, plus options to:
 - Extend the lease if option is reasonably certain of being exercised
 - Terminate the lease if option is reasonably certain of NOT being exercised
- Excludes “cancellable” periods
 - Periods of which either party have the option to terminate or both parties have to agree to extend
 - Rolling month-to-month leases
 - A lease that continues into holdover period until a new lease contract is signed
- Fiscal funding/cancellation clauses ignored unless reasonably certain of being exercised
- Lease term should be reassessed only if one of the following apply:
 - Either party elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option
 - Either party elects not to exercise that option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option
 - An event specified in the lease contract that requires an extension or termination of the lease takes place

Lease Incentives

Lease Incentives are:

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

Examples include:

- Rebate/discount and includes assumption of lessee's preexisting lease obligations to a 3rd party
- Other reimbursement of lessee costs
- Rent holidays
- Reductions of interest or principal charges by the lessor

Payments provided at or before inception of the lease: report as a direct reduction of a lessee's lease asset.

Payments provided after inception of the lease: report as a reduction of payments for period provided and reduce PV of lease liability (and lessor's receivable).

Contracts with Multiple Components

Evaluate contracts with multiple components:

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

If a contract contains both a lease component and a non-lease component, evaluate as separate contracts.

If a contract involves multiple underlying assets, account for each underlying asset as separate lease components (i.e. different lease terms or different major asset classes for disclosure).

Financial Statement Disclosures

- Disclosures - Lessees
 - Description of leasing arrangement
 - Total amount of lease assets (by major classes of underlying assets), and related accumulated amortization
 - Amount of outflows of resources recognized for variable payments and other payments (i.e. residual value guarantees or penalties) not previously included in the measurement of the liability
 - Principal and interest requirements to maturity for each of the next 5 fiscal years and in 5-year increments thereafter
 - Commitments under leases that have not yet began (other than ST leases)
 - Components of any impairment loss recognized on the lease asset during the period.
- Disclosures – Lessors
 - Description of leasing arrangement
 - Total amount of inflows of resources (i.e. lease revenue and interest revenue) if not otherwise displayed
 - Amount of inflows of resources recognized for the period of variable payments and other payments (i.e. residual value guarantees or penalties) not previously included in the measurement of the lease receivable
 - The existence, terms, and conditions of the options by the lessee to terminate the lease or abate payments if the lessor government has issued debt for which the principal and interest payments are secured by the lease payments

Resources

GASB Statement 87 & Implementation Guide

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CDE SACS Forum

<https://www.cde.ca.gov/fg/ac/ac/sacsforumrecap.asp>

May 11, 2021 SACS Forum Meeting Minutes

October 19, 2020 SACS Forum Meeting Minutes

February 24, 2020 SACS Forum Meeting Minutes

October 8, 2019 SACS Forum Meeting Minutes