


LSL 

THE FUTURE OF FINANCE

GASB UPDATE
2021

GASB 87 – Lease Reporting
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THE FUTURE OF FINANCE

GASB UPDATE
2021

FISCAL YEAR ENDED
JUNE 30, 2022

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Foundation

- Lease Transaction (~~Operating/Capital~~)
- Lessee
 - Receives the legal right to use an underlying asset
 - Promises to make payments over time for the right to use that underlying asset
 - Therefore, the Lessee has financed the acquisition of that legal right
- Lessor
 - Receives payments over time transferring the right to use that underlying asset

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Objective

- Establish a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.
- Lessee is required to recognize the lease liability and the right to use lease asset.
- Lessor is required to recognize the lease receivable and a deferred inflow of resources.

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Defined

- A contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time.
- Nonfinancial asset examples = buildings, land, vehicles, and equipment.

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Exclusions

- Non-exchange transaction:
 - Lease for \$1/year (GASB 33)
 - Lease for free (future GASB project – revenue/exp recognition)
- Licensing Contracts (ie. Computer software)* GASB 96.
- Service Concession Arrangements (GASB 60)* GASB 94.
- Intangible Assets, except for “right-to-use” as in Subleasing for an underlying asset.
- Conduit Debt (Interpretation 2) *GASB 91.
- Supply Contracts and Leases of Inventory.

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Lease Term

- The period during which a lessee has a noncancelable right to use an underlying asset, *plus* the following periods, if applicable:
 - Option to extend the lease if reasonably certain to exercise
 - Option to terminate if reasonably certain not to exercise
- Short-term Lease = maximum term of 12 months (or less) including options to extend regardless of probability.

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Financial Reporting – Recognition (start date)

- Recognize a liability and a lease asset:
 - Lessee takes possession of the asset or gains access to use
 - This creates the obligation

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Lessee

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Financial Reporting – Lessee Measurement

- Liability = Present Value of payments expected to be made during the lease term (less any lease incentives).
- Present Value:
 - Interest rate the lessor charges the lessee (implicit interest rate)
 - Alternative – Estimated incremental borrowing rate is acceptable

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Financial Reporting – Lessee Measurement

- Variable Payments:
 - Dependent on index/rate – Use baseline and the current index/rate to measure the future payments
 - Dependent on future performance – Don't estimate performance
 - Use minimum guarantee amounts
 - Variable payments that are fixed in substance and reliably measured
 - Purchase Options/Residual Guarantees – include if reasonably certain those options will occur and are required

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Financial Reporting – Lessee Measurement

Asset

- Amount of initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.
- Include cost to place asset into service.
- Include initial direct costs associated with lease.
 - Structuring fees (legal and administrative costs)

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Lessee Reporting Example – Facts & Assumptions

- Lease contract for equipment beginning July 1, 20X1 for 60 months.
- Option to extend for 24 months; County unsure on exercising option.
- Lease may continue month-to-month at end of term.
- Base payment \$1,000/month, includes 200 machine hours; \$5 per excess hour.
- Additional \$80/month for repairs and maintenance.
- Lease contract states 4% interest rate.
- Separate \$1,500 contract for delivery and installation.

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Lessee Reporting Example – Lease Term

- Noncancellable period of lease is 60 months.
- County is not reasonably certain to exercise option to extend 24 months.
 - Should NOT be included in lease term
- Potential month-to-month extensions.
 - NOT included in lease term as not enforceable; either County or Lessor can cancel
- **Lease term = 60 months**

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Lessee Reporting Example – Initial Measurement of Asset and Liability

- Base Payment = \$54,480
 - \$1,000/month, 60 months, Discounted at 4%
- Excess Use Charge = \$0
 - Variable based on future usage/performance EXCLUDED
- Repair & Maintenance = \$0
 - EXCLUDED unless not practical
- Delivery and Installation = \$1,500
 - Initial direct costs included in asset
- **Initial Value of Leased Asset = \$55,980**

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Lessee Reporting Example – Journal Entries

- Recording Initial Asset & Liability

Dr. Leased Asset	\$55,980	
Cr. Cash		\$1,500
Cr. Lease Liability		\$54,480

- Recording First Lease Payment (7/1/20X1)

Dr. Lease Liability	\$1,000	
Cr. Cash		\$1,000

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Lessee Reporting Example – Journal Entries

- Recording Second Lease Payment (8/1/20X1)

Dr. Lease Liability	\$822	
Dr. Interest Expense	\$178	
Cr. Cash		\$1,000

- Recording Amortization of Leased Asset (Straight Line $\$55,980/60$ Months = $\$933/\text{month}$)

Dr. Amortization Expense	\$933	
Cr. Accumulated Amortization		\$933

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Lessor

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Financial Reporting – Lessor Measurement

- Lease Receivable.
 - Present Value of future lease payment
(fixed payments, variable payments that depend on index/rate,
variable payments that are fixed in substance)
 - Symmetrical with lease liability

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Financial Reporting – Lessor Measurement

- Deferred Inflow of Resources.
 - Corresponds to lease receivable
- Underlying Asset:
 - Lessor should **NOT** derecognize the asset underlying the lease
 - Normally account for depreciation and impairments
 - ***NOTE:** if the lease contract requires the lessee to return the asset in its original or enhanced condition, no depreciation should take place during the lease term

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Financial Reporting – Lessor Measurement

Regulated Leases

- U.S. Department of Transportation and Federal Aviation Administration.
- Regulate aviation leases between airports and air carriers.
- Lessors should not apply the provisions noted for lease receivables in this statement.

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Financial Reporting – Lessor Measurement

Regulated Leases

- Must meet these requirements:
 - Lease rates cannot exceed a reasonable amount
 - (reasonable is determined by an external regulator)
 - Lease rates should be similar for lessees that are similarly situated
 - Lessor cannot deny potential lessees the right to enter into leases if facilities are available
 - (provided that the lessee's use of facility complies with restrictions)

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Financial Reporting – Lessor Measurement

- Recognize the revenues based on the payment provisions of the lease contract.

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Lessor Reporting Example – Facts & Assumptions

- Lease contract for equipment beginning July 1, 20X1 for 60 months.
- Option to extend for 24 months; Lessee unsure on exercising option.
- Lease may continued month-to-month at end of term.
- Base payment \$1,000/month, includes 200 machine hours; \$5 per excess hour.
- Additional \$80/month for repairs and maintenance.
- Lease contract states 4% interest rate.
- Separate \$1,500 contract for delivery and installation.

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Lessor Reporting Example – Lease Term

- Noncancellable period of lease is 60 months.
- Lessee is not reasonably certain to exercise option to extend 24 months.
 - Should NOT be included in lease term
- Potential month-to-month extensions.
 - NOT included in lease term as not enforceable; either Lessee or County can cancel
- **Lease term = 60 months**

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Lessor Reporting Example – Measurement of Lease Receivable

- Base Payment = \$54,480
 - \$1,000/month X 60 months X Discounted at 4%
- Excess Use Charge = \$0
 - Variable based on future usage/performance EXCLUDED
- Repair & Maintenance = \$0
 - EXCLUDED unless not practical
- **Initial Value of Lease Receivable = \$54,480**

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Lessor Reporting Example – Journal Entries

- Recording Initial Receivable & Deferred Inflow

Dr. Lease Receivable	\$54,480	
Dr. Cash	\$1,500	
		Cr. Deferred Inflow
		\$54,480
		Cr. Lease Revenue
		\$1,500

- Recording First Lease Payment (7/1/20X1)

Dr. Cash	\$1,000	
		Cr. Lease Receivable
		\$1,000

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Lessor Reporting Example – Journal Entries

- Recording Second Lease Payment (8/1/20X1)

Dr. Cash	\$1,000	
		Cr. Lease Receivable
		\$822
		Cr. Interest Revenue
		\$178

- Recording Amortization of Deferred Inflow (Straight Line \$54,480/60 Months = \$908/month)

Dr. Deferred Inflows	\$908	
		Cr. Lease Amortization Revenue
		\$908

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Expense Recognition

- Interest expense related to discount on the lease liability.
- Amortization expense related to the lease asset.
 - Decrease in right to use the asset over the lease term

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Notes to Financial Statements - LESSEES

- General Description of Lease Arrangement.
 - Variable payments
 - Residual Value guarantees, not included in liability
- Total amount of Lease Asset.
 - Related accumulated amortization
- Disclose Lease Asset by Major Classes.
 - Separate from other Capital Assets
- Expenses recognized in the reporting period not previously included in liability.

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Notes to Financial Statements - LESSEES

- Debt Service Schedule.
- Commitments under leases before end of lease term.
- Components of any loss associated with an impairment.
- Sublease transactions, if any.
- Sale-leaseback transaction, if any.
- Lease-leaseback transaction if any.

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Lessee Note Disclosure Example

“In July 20X1, the County entered into a lease agreement to obtain equipment at an interest rate of 4%, which includes delivery and installation costs of \$1,500 due July 1, 20X1. The lease term is five years with base monthly payments of \$1,000 per month beginning on July 1, 20X1, plus \$5 per every machine hour in excess of 200 per month. In addition, the lease requires an \$80 per month payment for repairs and maintenance. As of June 30, 20X2, the lease liability outstanding is \$44,289, while the net leased asset value is \$44,784, which includes accumulated amortization of \$11,196. Expenses related to the excess usage charge and repairs and maintenance fee recognized during the year ended June 30, 20X2 amounted to \$XXX. The remaining debt service schedule on the lease is as follows:

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Lessee Note Disclosure Example

Year Ending June 30,	Principal	Interest	Total
20X3	\$ 10,418	\$ 1,582	\$ 12,000
20X4	10,843	1,157	12,000
20X5	11,284	716	12,000
20X6	11,744	256	12,000
Total	\$ 44,289	\$ 3,711	\$ 48,000

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Notes to Financial Statements - LESSOR

- General Description of Lease Arrangement.
 - Variable payments
 - Residual Value guarantees, not included in liability
- Total amount of Revenues (Lease, Interest, Other).
- Revenues recognized in the reporting period not previously included in receivable.
- Existence, terms, conditions of options by the lessee to terminate the lease.
- Or existence of debt issued secured by lease payments.

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Notes to Financial Statements - LESSOR

- Leases of assets that are investments, if any.
- Certain regulated leases, if any.
- Sublease transactions, if any.
- Sale-leaseback transaction, if any.
- Lease-leaseback transaction if any.
- Lease schedule of future payments (principal and interest):
 - Five subsequent fiscal years
 - Five-year increments thereafter

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Tools

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Data gathering

Lessee Reporting Example – Facts & Assumptions

- Lease contract for equipment beginning July 1, 20X1 for 60 months
- Option to extend for 24 months; Government unsure on exercising option
- Lease may continue month-to-month at end of term
- Base payment \$1,000/month, includes 200 machine hours; \$5 per excess hour
- Additional \$80/month for repairs and maintenance
- Lease contract states 4% interest rate
- Separate \$1,500 contract for delivery and installation

Department:

Public Works

- Lease contract states 4% interest
- Separate \$1,500 contract for delivery

Lessee (Items your agency is leasing from another company/entity):

Main contract

Item	Lease Description	Company/Entity Name	Date of lease agreement	Initial costs paid upfront, if any (\$)	Date of 1st payment	Payment Amount (\$)	Term (5 yrs, 10 yrs, etc.)	Payment Period (monthly(M) / bi-monthly(B) / Annually(A) / quarterly(Q))	Number of payments	Annual Interest Rate	Future Value (\$)
0	example truck lease (OLD)	Enterprise Corp	8/1/2017	2,500.00	9/1/2017	1,000.00	5	M	60	3.00%	2,000.00
0	example truck lease (NEW)	Enterprise Corp	8/1/2019	2,500.00	9/1/2019	1,000.00	5	M	60	3.00%	2,000.00
1	Portable Sawmill - Serial #123	John Deer Montana	7/1/2021	1,500.00	7/1/2021	1,000.00	5	M	60	4.00%	-
2									0		
3									0		
4									0		
5									0		
6									0		

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Data gathering

- Noncancellable period of lease is 60 months.
- Lessee is not reasonably certain to exercise option to extend 24 months.
 - Should NOT be included in lease term
- Potential month-to-month extensions.
 - NOT included in lease term as not enforceable; either Lessee or County can cancel
- Lease term = 60 months

		Options				Support
Item	Lease Description	Option to extend how many periods	Likely to take extension options (Y/N)?	Purchase Option (\$)	Likely to take purchase option (Y/N)	Agreement attached? Or provide link
0	example truck lease (OLD)	0	N	2,000.00	Y	R:publicworks/lease agreements
0	example truck lease (NEW)	-	N	2,000.00	Y	R:publicworks/lease agreements/2
1	Portable Sawmill - Serial #123	24.00	N	-	N	

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Data gathering

Need to decide if initial costs are included

Lessee Reporting Example – Initial Measurement of Asset and Liability

- Base Payment = \$54,480
 - \$1,000/month X 60 months X Discounted at 4%
- Excess Use Charge = \$0
 - Variable based on future usage/performance EXCLUDED
- Repair & Maintenance = \$0
 - EXCLUDED unless not practical
- Delivery and Installation = \$1,500
 - Initial direct costs included in asset
- **Initial Value of Leased Asset = \$55,980**

Main Agreement PV							
Item #	Lease Description	Rate	Nper	Pmt	FV	Type	PV
0	example truck lease (OLD)	0.0025	60	1,000.00	2,000.00	1	(\$57,513.23)
0	example truck lease (NEW)	0.0025	60	1,000.00	2,000.00	2	\$ (57,513.23)
1	Portable Sawmill - Serial #123)	0.00333	60	1,000.00	-	1	\$ (54,480.07)

Initial costs include transportation costs and add-ons needed to get it ready for use.

Initial costs include transportation costs and add-ons needed to get it ready for use.

Initial costs include transportation costs and add-ons needed to get it ready for use.

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Lessee Reporting Example – Governmental Funds

FOR NEW LESSEE ENTRIES

Item #	1	Lease Term	60	Fund #
Lease Description	Portable Sawmill - Serial #123)			

Lease Intangible Asset: (Right to Use)		(Lease Liability):	
PV of Liability:	\$ 54,480.07	PV of Liability:	\$ (54,480.07)
Initial costs incurred:	1,500.00		
Total asset at inception:	\$ 55,980.07		

Governmental Fund Entries

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Lessee Reporting Example – ASSET ENTRIES

Lease Intangible Asset: (Right to Use)		(Lease Liability):	
PV of Liability:	\$ 54,480.07	PV of Liability:	\$ (54,480.07)
Initial costs incurred:	1,500.00		
Total asset at inception:	\$ 55,980.07		

Governmental Fund Entries

IN THE FUND

New lease - intangible asset entry		Debits	Credits
Capital Outlay	\$ 55,980.07		
Cash			\$ 1,500.00 (Intangible asset)
Lease Proceeds			\$ 54,480.07 (Initial cost for use)
	\$ 55,980.07		\$ 55,980.07 (Vehicle lease liability)

To remove prior year capital assets

GOVERNMENT-WIDE

New lease - intangible asset entry		Debits	Credits
Intangible Asset	\$ 55,980.07		
Capital Outlay			\$ 55,980.07 (Right to Use)
	\$ 55,980.07		\$ 55,980.07 (capital outlay)

To record Intangible Asset right to use new Present Value for prior year asset agreement.

GOVERNMENT-WIDE

Amortization - CY		Debits	Credits
<i>Amortization by function:</i>			
General Government			
Public Safety			
Public Works	\$ 11,196.01		
Parks and Recreation			
Intangible Asset			\$ 11,196.01
	\$ 11,196.01		\$ 11,196.01

To record current year amortization of Intangible Asset - Vehicle Lease

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Straight line amortization table

Amortization Table - Asset			
Period	Month	Amortization	Balance
Lease Initial Value			\$ 55,980.07
1	7/1/2021	\$ 933.00	\$ 55,047.06
2	8/1/2021	\$ 933.00	\$ 54,114.06
3	9/1/2021	\$ 933.00	\$ 53,181.06
4	10/1/2021	\$ 933.00	\$ 52,248.06
5	11/1/2021	\$ 933.00	\$ 51,315.06
6	12/1/2021	\$ 933.00	\$ 50,382.06
7	1/1/2022	\$ 933.00	\$ 49,449.06
8	2/1/2022	\$ 933.00	\$ 48,516.06
9	3/1/2022	\$ 933.00	\$ 47,583.06
10	4/1/2022	\$ 933.00	\$ 46,650.05
11	5/1/2022	\$ 933.00	\$ 45,717.05
12	6/1/2022	\$ 933.00	\$ 44,784.05
13	7/1/2022	\$ 933.00	\$ 43,851.05
14	8/1/2022	\$ 933.00	\$ 42,918.05
15	9/1/2022	\$ 933.00	\$ 41,985.05
16	10/1/2022	\$ 933.00	\$ 41,052.05
17	11/1/2022	\$ 933.00	\$ 40,119.05
18	12/1/2022	\$ 933.00	\$ 39,186.05
19	1/1/2023	\$ 933.00	\$ 38,253.04
20	2/1/2023	\$ 933.00	\$ 37,320.04
21	3/1/2023	\$ 933.00	\$ 36,387.04
22	4/1/2023	\$ 933.00	\$ 35,454.04
23	5/1/2023	\$ 933.00	\$ 34,521.04
24	6/1/2023	\$ 933.00	\$ 33,588.04
25	7/1/2023	\$ 933.00	\$ 32,655.04
26	8/1/2023	\$ 933.00	\$ 31,722.04
27	9/1/2023	\$ 933.00	\$ 30,789.04
28	10/1/2023	\$ 933.00	\$ 29,856.04
29	11/1/2023	\$ 933.00	\$ 28,923.03

\$11,196.01 FY 21/22

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Lessee Reporting Example – LIABILITY ENTRIES

Governmental Fund Entries			
GOVERNMENTAL FUND			
Debt Service Payments	Debits		Credits
Lease Payment expense	\$ 12,000.00		{Principal Pymt}
Cash		\$ 12,000.00	{Lease Pymt}
	\$ 12,000.00	\$ 12,000.00	
To record Lease Payment on Lease Payable - Vehicles			
GOVERNMENT-WIDE			
New lease - lease payable entry	Debits		Credits
Lease Proceeds	\$ 54,480.07		{Capital Lease}
Lease Payable		\$ 54,480.07	{Capital Lease}
	\$ 54,480.07	\$ 54,480.07	
To record new capital lease payable at PV - Vehicle Lease			
GOVERNMENT-WIDE			
Debt Service Payments	Debits		Credits
Lease Payable	\$ 10,191.23		{Principal Pymt}
Interest expense	\$ 1,808.77		{Interest Pymt}
Lease Payment expense		\$ 12,000.00	{Lease Pymt}
	\$ 12,000.00	\$ 12,000.00	
To record Lease payment on Lease Payable - Vehicles			

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Debt Service Schedule

Debt Service Payments - Lease Payable					
Period	Month	Payment	Interest	Principal	Balance
Lease Initial Value				\$ -	\$ 54,480.07
1	7/1/2021	\$ 1,000.00	\$ -	\$ 1,000.00	\$ 53,480.07
2	8/1/2021	\$ 1,000.00	\$ 178.27	\$ 821.73	\$ 52,658.33
3	9/1/2021	\$ 1,000.00	\$ 175.53	\$ 824.47	\$ 51,833.86
4	10/1/2021	\$ 1,000.00	\$ 172.78	\$ 827.22	\$ 51,006.64
5	11/1/2021	\$ 1,000.00	\$ 170.02	\$ 829.98	\$ 50,176.66
6	12/1/2021	\$ 1,000.00	\$ 167.26	\$ 832.74	\$ 49,343.92
7	1/1/2022	\$ 1,000.00	\$ 164.48	\$ 835.52	\$ 48,508.40
8	2/1/2022	\$ 1,000.00	\$ 161.69	\$ 838.31	\$ 47,670.09
9	3/1/2022	\$ 1,000.00	\$ 158.90	\$ 841.10	\$ 46,828.99
10	4/1/2022	\$ 1,000.00	\$ 156.10	\$ 843.90	\$ 45,985.09
11	5/1/2022	\$ 1,000.00	\$ 153.28	\$ 846.72	\$ 45,138.37
12	6/1/2022	\$ 1,000.00	\$ 150.46	\$ 849.54	\$ 44,288.83
13	7/1/2022	\$ 1,000.00	\$ 147.63	\$ 852.37	\$ 43,436.46
14	8/1/2022	\$ 1,000.00	\$ 144.79	\$ 855.21	\$ 42,581.25
15	9/1/2022	\$ 1,000.00	\$ 141.94	\$ 858.06	\$ 41,723.19
16	10/1/2022	\$ 1,000.00	\$ 139.08	\$ 860.92	\$ 40,862.27
17	11/1/2022	\$ 1,000.00	\$ 136.21	\$ 863.79	\$ 39,998.47
18	12/1/2022	\$ 1,000.00	\$ 133.33	\$ 866.67	\$ 39,131.80
19	1/1/2023	\$ 1,000.00	\$ 130.44	\$ 869.56	\$ 38,262.24
20	2/1/2023	\$ 1,000.00	\$ 127.54	\$ 872.46	\$ 37,389.78
21	3/1/2023	\$ 1,000.00	\$ 124.63	\$ 875.37	\$ 36,514.41
22	4/1/2023	\$ 1,000.00	\$ 121.71	\$ 878.29	\$ 35,636.13
23	5/1/2023	\$ 1,000.00	\$ 118.79	\$ 881.21	\$ 34,754.92
24	6/1/2023	\$ 1,000.00	\$ 115.85	\$ 884.15	\$ 33,870.77
FY 21/22		\$ 12,000.00	\$ 1,808.77	\$ 10,191.23	
Totals:		Payments	Interest	Principal	

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Remeasurement

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Remeasurement - Liability

- Certain circumstances require a relook.
- Changes in the lease contract.
- Estimates incorporated into the liability measurement changed (probability to exercise option).
 - Change in index/rate **alone** does NOT require remeasurement
- Contingent rentals becoming noncontingent.
 - Lessor requires a nominal payment the first year and fixed payments in subsequent years are based on a percentage of first-year sales

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Remeasurement - Asset

- If liability is remeasured, then adjust the same dollar for lease asset
- UNLESS.....
 - Adjustment Causes a negative
 - An Impairment

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Other transaction considerations

- Sublease
- Sale-Leaseback
- Lease-Leaseback
- Regulated Leases

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