



GASB 87 - Leases

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Current Standards

- **Issues under current standards**
 - No liabilities are reported for commitments to make payments
 - No assets are reported for right to receive payments
- **Current practice**
 - Determining Capital vs. Operating Lease
 - Multiple disclosures

Objective

- Establish a single model for lease accounting
- Lessee recognizes a lease liability and an intangible right-to-use lease asset
- Lessor recognizes a lease receivable and a deferred inflow of resources

Scope

- Lease definition – contract that conveys **control** of the **right to use a nonfinancial asset** for a period of time in an exchange or exchange-like transaction
 - Examples are buildings, land, vehicles, equipment
- Exclusions: rights to explore for natural resources, lease of biological assets(timber), licensing contracts, service concessions arrangements and most importantly contracts that transfer ownership

Lease Term

- The period during which a lessee has a noncancelable right to use an underlying asset
 - Periods covered by lessee/lessor's option to extend/terminate if reasonably certain that option will be exercised
 - Reassess if opposite happens to what was reasonably certain
 - Reassess if event specified in the lease contract that requires an extension or termination takes place

Short-Term Leases

- 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
- Recognize short-term lease payments as outflows/inflows of resources

Multiple Components

- Equipment and maintenance
 - Account for lease and non-leases pieces separately
- Multiple assets with different lease terms (i.e. different classes)
 - Count as different lease components
- Allocating amount to each component
 - Spelled out in contract (if reasonable)
 - Maximize observable pieces

Lessee Accounting

- Recognize a **lease liability** at beginning of lease equal to the present value of:
 - Payments over the term
 - Variable payments that depend on index
 - Amounts required to be paid by lessee under residual value guarantees
 - Exercise price or purchase option
 - Penalties for terminating lease
 - Any lease incentives receivable from lessor
 - Any other payment you may make if reasonably certain

Lessee Accounting (Cont.)

- **Discount Rate**

- Use rate charged by lessor
- Incremental borrowing rate

- **Remeasurement**

- General Rule - Do NOT remeasure
- Change in lease term
 - Exercise option weren't planning on or vice versa
- If you do remeasure than include change in discount rate at that time

Lessee Accounting (Cont.)

- Recognize an **intangible asset** for the right to use the capital asset equal to the value of liability plus payments at beginning or before lease begins
- Interest expense/expenditure
- Amortization expense for asset

Lessee Accounting (Cont.)

- **Disclose**
 - Description of leasing arrangement
 - Amount of lease assets recognized and accumulated depreciation
 - Schedule of future lease payments
- How variable payments are determined

Lessor Accounting

- **Recognize**

- Lease receivable measured at PV of:
 - Lease payments expected to be received in lease term
 - Estimated uncollectible amounts
- General rule is do not **remeasure** unless change in:
 - Lease term
 - Interest rate charged by lessor
 - Contingency and its now measurable

Lessor Accounting (Cont.)

- Continue to report capital asset
- Initial direct costs are outflow of resources
- Deferred inflow of resources measured at value of receivable plus any payments received at or before the commencement of the term that relate to future periods

Lessors Accounting (Cont.)

- **Recognize**

- Interest revenue on receivable
- Lease revenue from deferred inflow

- **Disclose**

- Description of leasing arrangements
- Total amount of inflows recognized
- Changes to measurement
- Options to terminate leases

Transition

- Effective for reporting periods beginning after December 15, 2019 (Fiscal year 2021).
 - Should be applied retroactively by restating financial statements, if practicable, for all prior periods presented.
 - If not practicable, the reason for not restating should be disclosed.

So What Do I Do Now?

- Gather lease documents
- Leases not currently being disclosed
- Review details of each lease contract
- Assess all leases greater than 12 months
- Start prepping Council/Board and legal counsel for changes
- Review debt limits and talk to bond counsel

So What Do I Do Now?

- Amend internal policies
- Renegotiate contracts
- Prep note disclosures
- Create a template to help with determination

QUESTIONS?

