GASB 87 – Leases
What you need to know

PRESENTED BY
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OVERVIEW:

• Supersedes GASB’s 13 and 62 (paragraphs 211-271).

• Will require significant changes from its current practice, particularly in the accounting for operating leases.

• Effective for reporting periods beginning after December 15, 2019 (fiscal year June 30, 2021).

• Based on the principle that all leases are essentially financings of the right to use an underlying asset.
OVERVIEW:

• Introduces three categories of leases (previously two):
  • Short-Term Leases
    • Lease term is 12 months or less
    • Recognize expense (lessee) and revenue (lessor) based on contract provisions, as due.
  • Contracts that transfer ownership
    • Term typically longer than 12 months
    • Recognize a sale of the underlying asset (gain or loss)
  • Long-term Leases
    • Longer than 12 months
OVERVIEW:

• GASB defines a lease as “a contract that conveys control of the right to use another entity’s nonfinancial assets for a period of time in an exchange or exchange like transaction”
  • Excludes intangible assets such as patents and software licenses
  • Exclude sale-leaseback transactions for nominal amounts such as $1
  • Other exclusions:
    • Mining rights and Biological Assets
    • Arrangements with Blended Component Units.
    • Leases of inventory
    • Conduit financed assets (unless both the asset and the conduit debt are reported by the lessor)
    • Supply contracts such as power purchase agreements
    • Concession Service Arrangements and Other Regulated “Cost Recovery” Arrangements
DEFINITIONS:

• Lease Term:
  • defined as the period in which a lessee has a non-cancelable right to use the underlying asset;
  • Plus any additional period of time in which the lessee or lessor has the option to extend or terminate the lease term.

• Present Value:
  • Estimated uncollectible (Residual Value)
  • Implicit or Explicit Rate

• Intra-Entity
  • Blended Component Unit – GASB 87 does not apply
  • Eliminate intra-entity activity, residual difference is recorded as revenue/expense

• Variable Payments
  • Separate fixed amount from variable portion
  • Variable portion recognized as current period revenue as earned
LEASE MODIFICATIONS:

- Contract Amendments
  - Changes in Contract Price, length of agreement, underlying asset

- Separate Contract if both of the following conditions are met:
  1) The lease modification gives the lessee an additional lease asset by adding one or more underlying assets that were not included in the original lease contract.
  2) The increase in lease payments for the additional lease asset does not appear to be unreasonable based on (a) the terms of the amended lease contract and (b) professional judgment, maximizing the use of observable information (for example, using readily available observable stand-alone prices).
LESSEE ACCOUNTING (Long Term Lease):

- Inception of Lease Agreement:
  - Dr. Lease Asset (PV of payments plus any additional payments)
    - Cr. Lease Liability (PV of payments minus any incentives)

- Lease Payments
  - Dr. Lease Liability (PV)
  - Dr. Interest Expense (difference monthly amount vs PV)
    - Cr. Cash (monthly amount)

- Depreciation on Leased Asset
  - Straight-line over the **shorter of** lease term or useful life of asset
LESSOR ACCOUNTING (Long Term Lease):

- Inception of Lease Agreement:
  - Dr. Lease Receivable (PV of payments)
  - Cr. Deferred Inflow of Resources (PV of payments plus any additional payments)
- Lease Payments
  - Dr. Cash (monthly amount)
  - Dr. Interest Revenue (difference monthly amount vs PV)
  - Cr. Lease Receivable
  - Dr. Deferred Inflow of Resources (amortization)
    - Lease Revenue
- Depreciation on Leased Asset
  - Underlying Asset remains on the SNP and depreciated
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ADDITIONAL ACCOUNTING:

- Contracts with Multiple Components and Combinations
  - Each asset accounted for separately as leases (allocation of contract price)

- Subleases
  - Treated as separate transaction from original lease.

- Leaseback Transactions
  - Sale-leaseback; sale and lease are treated as separate transactions. Difference between the sale consideration and carrying value of asset is deferred (inflow/outflow) over the term of lease versus gain or loss.
  - Lease-leaseback; accounted for as a net transaction.
DISCLOSURE REQUIREMENTS (LESSEE):

- General Description of lease arrangement
- The total amount of lease assets, and the related accumulated amortization, disclosed separately from other capital assets
- The amount of lease assets by major classes of underlying assets, disclosed separately from other capital assets
- The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the lease liability
- The amount of outflows of resources recognized in the reporting period for other payments, such as residual value guarantees or termination penalties, not previously included in the measurement of the lease liability
- Principal and interest requirements to maturity, presented separately, for the lease liability for each of the five subsequent fiscal years and in five-year increments thereafter
- Commitments under leases before the commencement of the lease term
- The components of any loss associated with an impairment (the impairment loss and any related change in the lease liability)
DISCLOSURE REQUIREMENTS (LESSOR):

• General Description of lease arrangement

• The total amount of inflows of resources (for example, lease revenue, interest revenue, and any other lease-related inflows) recognized in the reporting period from leases, if that amount cannot be determined based on the amounts displayed on the face of the financial statements

• The amount of inflows of resources recognized in the reporting period for variable and other payments not previously included in the measurement of the lease receivable, including inflows of resources related to residual value guarantees and termination penalties

• The existence, terms, and conditions of 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
EFFECTS:

- Significant time and effort needed to create a “lease universe” identifying and properly accounting for all leases in accordance with GASB 87

- Changes in internal controls to ensure proper capture/tracking

- Implications on Debt Covenants/Limits

- Relationship between FASB ASC 842
Questions?
Let’s Talk.