



# Implementing GASB 87

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Phoenix AGA

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## GASB 87 – Overview and Key Definitions



# Overview of New Leasing Standard

- GASB issued statement 87 – Leases in June 2017
- Based on the foundational principle that leases are financings of the right to use another entity's underlying nonfinancial asset for a period of time
- Effective for periods beginning after June 15, 2021
- Lessee is required to recognize a lease liability and right-to-use asset
- Lessor is required to recognize a lease receivable and deferred inflow of resources

## Out-of-Scope:

- Leases for inventory, natural resources, biological assets and services concessions
- Intangible assets
- Investment assets carried at fair value
- Supply contracts, such as power purchase agreements
- Leases that transfer ownership at end of term (and do not have a termination clause)
- Short-term leases (less than 12 months, including options to extend)

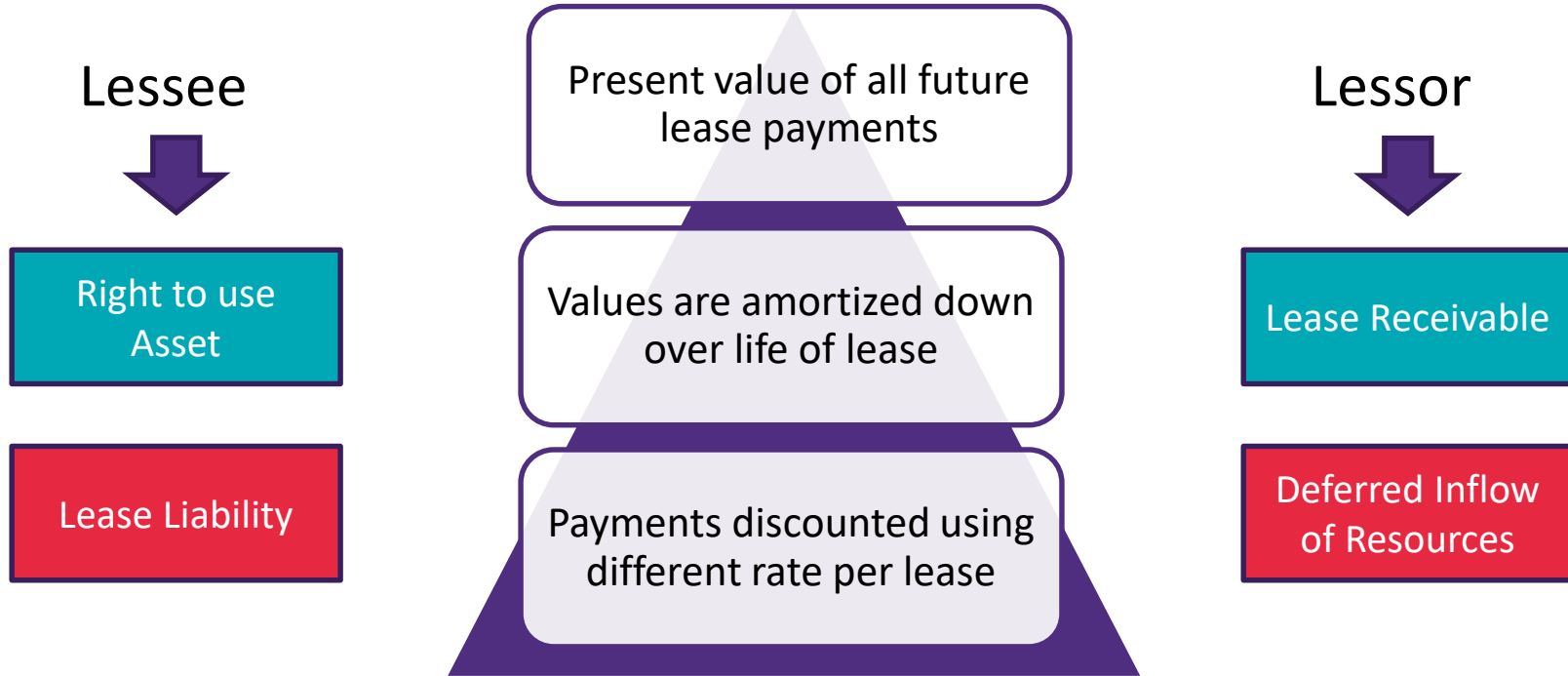
# Impacts of GASB 87

- Due to increased reporting and controls requirements, emphasis on fixed asset tracking and data management, and changes in IT functionality and integrations, GASB 87 drives entity-wide change.
- Some areas impacted may include:
  - Accounting
  - Treasury
  - Legal
  - Procurement
  - Supply Chain
  - Real Estate
  - Materials Management
  - Accounts Payable
  - Information Technology
  - Departments/operations with leasing authority
  - Internal Audit
- As a result, entities should consider possible change management needs.



# Terminology

What is going on the Statement of Net Position?



# Terminology

Who is affected?

## Lessee

- The party that is leasing from the owner
- Must represent all leases on the Statement of Net Position

## Sub-lessor

- The original lessee of the asset who then leases it out
- Specific accounting treatment under the standard

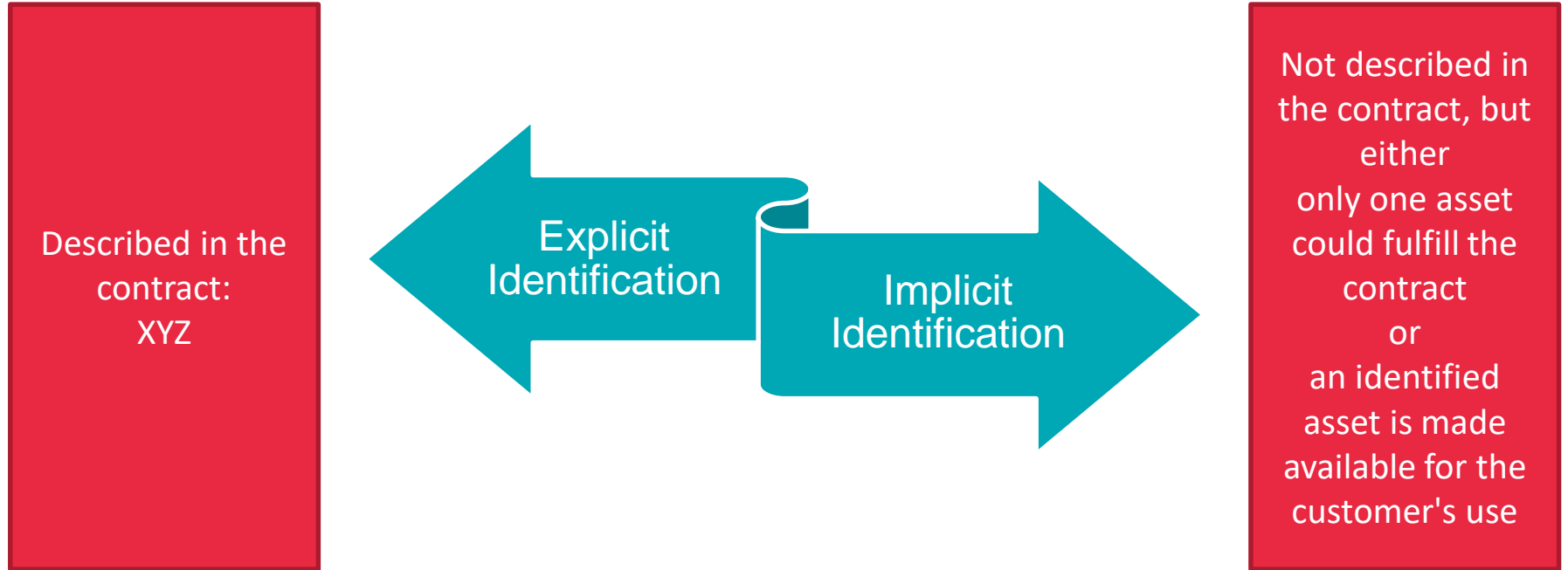
## Lessor

- The owner of the asset
- Records a receivable and deferred inflow of resources
- Asset stays on the books (depreciation continues)

# GASB Definitions

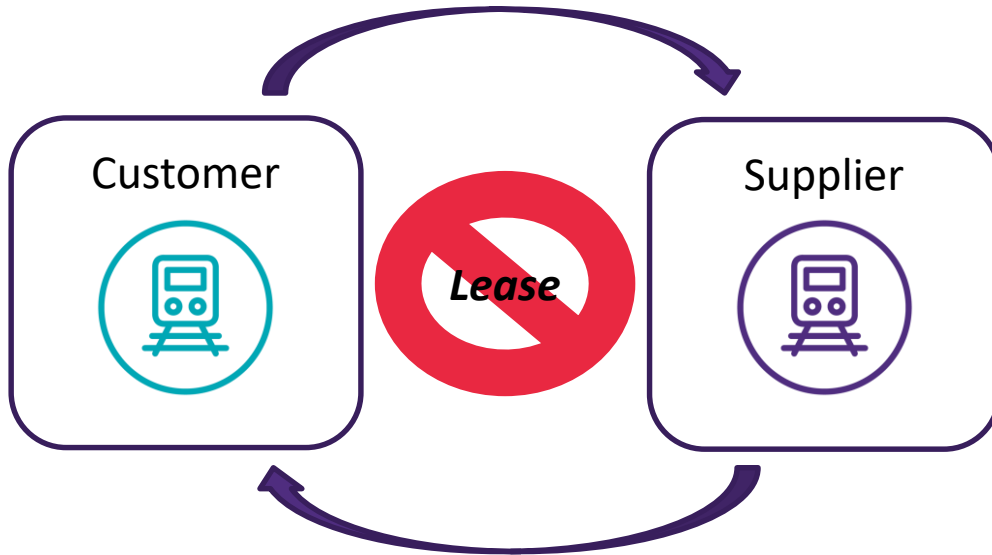
- **LEASE** – a contract that conveys control of the right to use another entity's underlying asset as specified in the contract for a period of time in an exchange or exchange-like transaction.
- **SHORT-TERM LEASE** (excluded from standard) – a lease that has a maximum possible term of 12 months or less under the contract, including any options to extend **regardless of their probability to be exercised**.

# Explicit vs. Implicit Identification





# Substitution Rights



Substantive substitution right:

1. Has the practical ability to substitute alternative assets throughout the period of use
2. Would benefit economically from exercising this right

Cannot be based solely on the operability of the underlying asset

# Example 1: Substitution Rights

## Fact pattern

- Contract to use a copy machine for 3 years allows the supplier to replace the machine under certain circumstances, such as when the machine is inoperable
- Copy machine is located on the customer's premises
  - Customer permission required to access the machine



## Does the contract include a substantive substitution right?

- No, customer cannot readily determine whether the supplier might benefit from exercising its substitution right and therefore this may be a lease

# Right to Control the Use

## Right to receive economic benefits

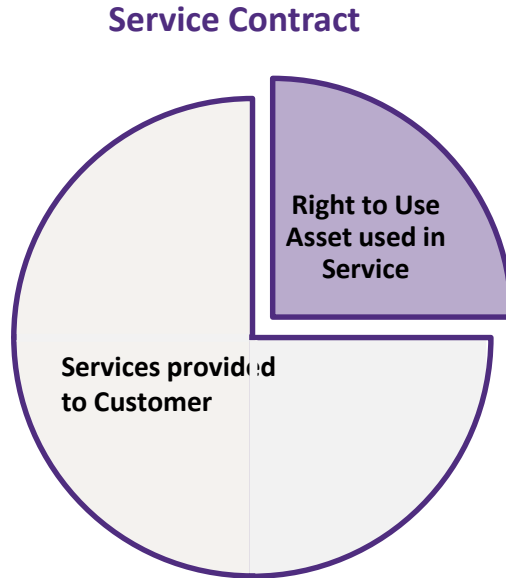
- Substantially all
- Throughout period of use

## Right to direct the use

- How and for what purpose
- Decisions predetermined

# Lease Considerations

## Components of a Service Contract



## Considerations:

- Generally, embedded leases exist when there is an explicit or implicit asset in a contract and the entity **controls** use of the asset
- Entity can direct the use and derives all benefits from the asset
  - "what, when, how and where"
- Substitution Rights –
  - Supplier does not have the practical ability to substitute an alternative asset throughout period of use
- If identified the contract should be separated into its service and lease/asset components
- Recognize only the amounts that relate to the lease on the Statement of Net Position

# Embedded Lease Examples

- Examples of contracts where embedded leases could exist:
  - Cafeteria services
  - Services that include vehicle usage
  - Janitorial services
  - Service contracts where people use assets while conducting the service
  - Telecommunication contracts
  - Information technology contracts

# Lease Population Completeness And Accuracy

- Demonstrating confidence that you have identified all leases to include on the Statement of Net Position
  - Inquiry / surveys with operating and administrative departments to identify leases and service provider relationships where a lease may be included
  - Evaluation of current processes and controls associated lease initiation, negotiation, and management
  - Analysis of revenue and expense data, A/P and A/R sub-ledger data to identify payments that may be related to a lease not previously identified
- Confirming the data used to calculate your asset and liability is accurate
  - Addressing discrepancies between data in spreadsheets / accounting systems and contract documents
  - Reviewing extracted lease data to confirm accuracy

## Measurement and Disclosure



# What is the Lease Term?

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Non-cancellable period for which lessee has the right to use underlying asset, plus...

1. Periods covered by renewal option if lessee reasonably certain to exercise

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2. Periods covered by option to terminate if lessee reasonably certain **not** to exercise

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3. Periods covered by renewal or termination options controlled by the lessor

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# Determining Lease Payments - Lessee

## Include in Lease Payments

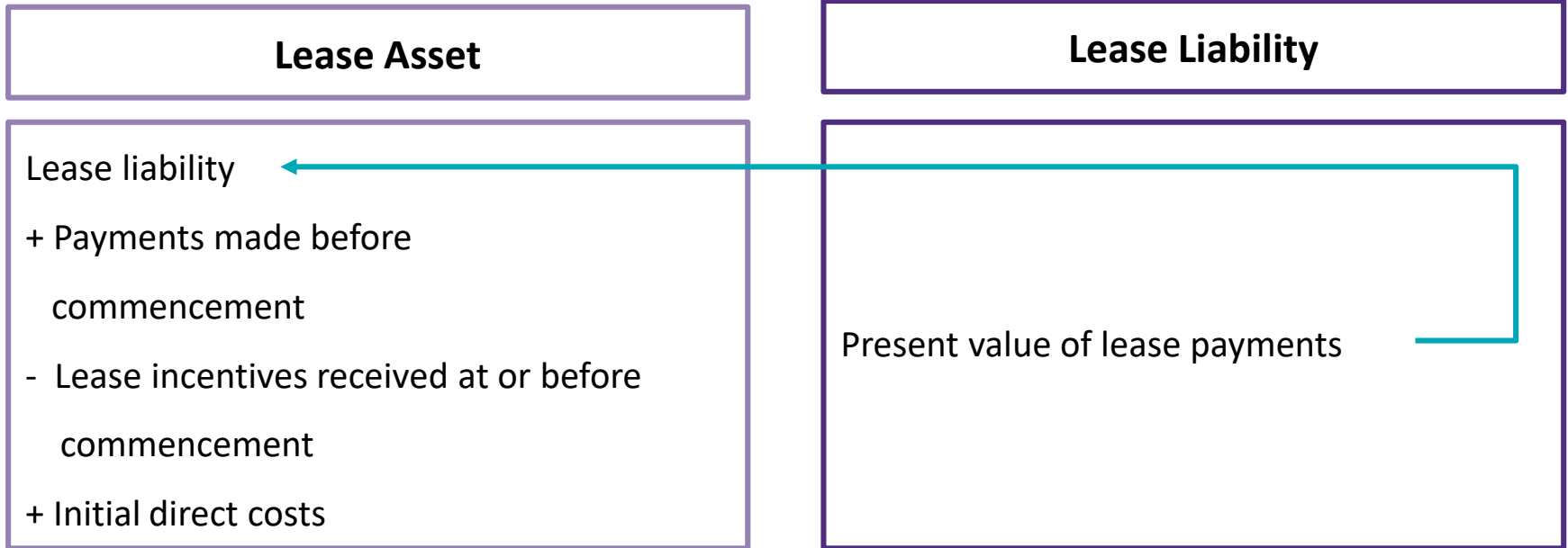
- Fixed payments
- Variable lease payments dependent on a rate or index or are fixed in substance
- Amounts that are reasonably certain of being required to be paid under a residual value guarantee
- Purchase options price for which exercise is reasonably certain
- Termination penalties if termination is reasonably certain
- Lease incentives receivable from the lessor

## Exclude from Lease Payments

- Variable lease payments not dependent on an index or a rate
- Guarantee of the lessor's debt
- Amounts allocated to non-lease components

# Lessee Accounting

Measuring ROU assets and lease liabilities



# Determining Lease Payments - Lessor

## Include in Lease Payments

- Fixed payments
- Variable lease payments dependent on a rate or index or are fixed in substance
- Residual value guarantee payments that *are fixed* in substance
- *Any* lease incentives payable to the lessee

*Slight differences as compared to lessee*

# Lessor Accounting

## Lease Receivable

Present value of lease payments  
- Provision for estimated  
uncollectible amounts

## Deferred Inflow of Resources

Lease Receivable  
+ Payments received at or  
before the commencement of the  
lease term that relate to future  
periods

# Regulated Leases

**Scope** – Applies to leases for which **external laws, regulations, or legal rulings** establish all of the following requirements:

1. Lease rates cannot exceed a reasonable amount, with reasonableness being subject to documentation by an external regulator.
2. Lease rates should be similar for lessees that are similarly situated.
3. The lessor cannot deny potential lessees the right to enter into leases if facilities are available, provided that the lessee's use of the facilities complies with generally applicable use restrictions.

**Measurement** – Lessors recognize inflows of resources (for example, revenue) based on the **payment provisions of the lease** contract and provide disclosures for these leases

# Additional questions



Christian Fuellgraf  
Managing Director  
State and Local Advisory Services  
+1 614 446 5438  
Christian.Fuellgraf@us.gt.com



Andrew Taylor  
Director  
Accounting Advisory Services  
Leasing Center of Excellence  
Leader  
+1 215 558 6540  
Andrew.Taylor@us.gt.com



Lynda Brooks, CPA  
Manager  
Public Sector Advisory Services  
Public Sector Leasing Lead  
+1 571 232 0750  
Lynda.Brooks@us.gt.com

**GASB87@us.gt.com**



Questions?



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