GASB 87

The Complete Guide to GASB Lease Accounting

VISUAL LEASE

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This guide provides an overview of GASB 87, so you can be better informed and prepared to meet the effective date. You will learn:

- What qualifies (and does not qualify) as a lease under GASB 87
- Lease terms you need to capture for reports
- How technology can help automate GASB 87 reports and calculations

VISUAL LEASE

A quick look at GASB 87

What is GASB 87?

GASB Statement No. 87, Leases, or GASB 87, is a statement that outlines new requirements for lease accounting for governmental entities with significant impacts on financial statements.

Under the current GASB guidance, including GASB 13 and GASB 62, organizations do not report operating lease agreements in their financial statements.

GASB 87 replaces the current operating and capital lease categories with a single model for lease accounting based on a new definition of leases as contracts that convey control of the right to use a non-financial asset. The new rules require lessees to recognize a lease liability and an intangible asset while lessors are required to recognize lease receivables and a deferred inflow of resources on their financial statements.

Who is subject to GASB 87?

In general, GASB 87 applies to:

- State, local and municipal governments
- Public benefit corporations and authorities
- Public employee retirement systems
- Public utilities, hospitals and other healthcare providers
- Public colleges and universities

Further, GASB 87 affects lease accounting and reporting for both lessees and lessors:

- **Lessees** must recognize lease liabilities and intangible right of use (ROU) lease assets on their statements.
- **Lessors** must recognize lease receivables and deferred inflows of resources on their financial statements.

When does GASB 87 go into effect?

In response to the impact of the COVID-19 pandemic, the GASB issued Statement No.95, Postponement of the Effective Dates of Certain Authoritative Guidance, which delayed the GASB 87 effective date by 18 months.

Organizations subject to GASB 87 must adopt the new standard for **fiscal periods beginning after June 15, 2021**. However, GASB encourages organizations to apply the standard as soon as possible.

Further, the GASB requirement to apply the standard retroactively by restating financial statements "if practicable" for all prior periods presented remains. Due to this requirement, organizations subject to GASB 87 should be prepared to facilitate compliance for the fiscal period prior to adoption.

Establishing a complete lease population under GASB 87

Adopting the new standards is a massive administrative lift. It requires you to take on new internal procedures, cross-functional collaboration, education and comprehensive controls.

The most time-consuming part of the process is often gathering all leases and surfacing critical data. Leases are complex, constantly evolving legal agreements often scattered across an organization. From sourcing, to signature, to sunsetting, there are many stakeholders involved in lease management – both internal and external – often using different systems, formats and procedures.

This makes tracking down leases a time-consuming and challenging process for many organizations. It requires careful planning, communication and collaboration across the organization.

After all leases are identified, you must determine which are required under GASB 87 to appear in your financial statements.

What qualifies as a lease under GASB 87?

GASB 87 defines a lease as a contract that conveys the right to use another entity's nonfinancial asset for a period of time, including both:

- The ability to obtain the present use of the asset as specified in the contract
- The right to control how the underlying asset is used

The new rules require all agreements that meet that definition be classified as a finance lease and recognized in the financial statements.

Examples of lease asset types

Typically, leased assets recorded under GASB 87 may include:

Equipment for day-to-day operations

- Office equipment
- Medical equipment
- Telecommunications equipment
- IT equipment
- Energy infrastructure equipment

Vehicles

- Automobiles
- Vans
- Trucks
- Specialized vehicles needed by the organization

Real estate

- Property
- Buildings
- Offices
- Warehouses
- Flex spaces
- Land leases

What kinds of leases are exempt under GASB 87?

There's a long list of exemptions, including:

- Leases of certain types of **intangible assets**, such as patents and software licenses, and the rights to explore for or exploit natural resources such as oil, gas, minerals and similar nonrenewable resources
- Leases of **biological assets**, including timber, living plants and living animals
- Leases of **inventory**
- **Service concession** agreements
- **Supply contracts**, as long as they do not convey the right to use the underlying asset
- Leases in which the **ownership of the asset is transferred**

In addition, some leases have exceptions within GASB 87, meaning there is a separate guidance to follow under the standard. These include:

Short-term leases

Short-team leases require specific treatment under GASB 87. **A short-term lease** is defined as a contract that, at the commencement of the lease, has a maximum possible term of 12 months or less, including any options to extend, regardless of their probability of being exercised.

- Under GASB 87, **lessees** recognize short-term lease payments as **outflows of resources** (for example, expenses) based on the payment provisions of the lease.
- Lessors recognize short-term lease payments as **inflows of resources** (for example, revenues) based on the payment provisions of the lease.

Regulated leases

Regulated leases require special treatment under GASB 87. **A regulated lease** occurs where there are external laws, regulations or legal rulings that apply to how a contract can be structured and what fees can be changed.

Disclosure of regulated leases is required under GASB 87.

GASB 87 – Specific Exemption:

Leases in which the ownership of the asset is transferred

This means if the contract transfers ownership, it's treated as a financing transaction and not a lease at all.

This exemption is specific and unique to GASB 87. Under other lease accounting standards (ASC 842/IFRS 16), it is still considered a lease.

Identifying necessary lease information

GASB 87 requires visibility into specific information within your leases. Therefore, leases must be closely examined to pull out all the data points required for lease calculations and disclosures.

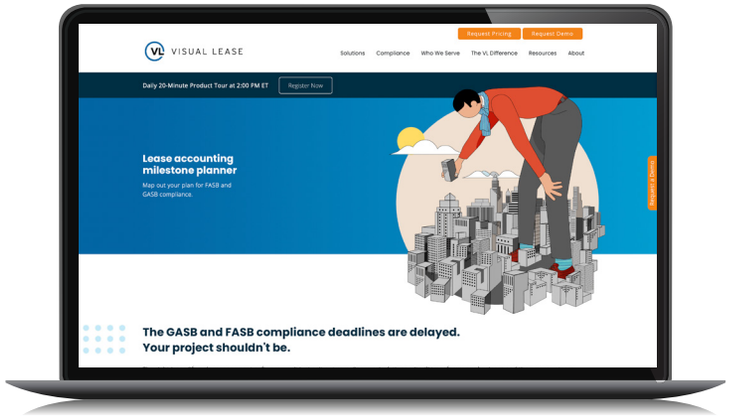
Because leases are complex and often lengthy documents, it can be difficult to properly identify all the specific information needed for GASB 87 lease accounting.

What lease data is needed for GASB 87?

At a high level, you need to collect and track the following information from all GASB 87-qualified leases to produce accurate lease accounting reports:

- Lease terms
- Discount rate
- Rent payment amounts and dates
- Lease option terms, including renewal, purchase or cancelation options
- Variable or percentage rent terms
- Residual value guarantee terms

Depending on your accounting methods and decisions, you may need to break up lease payments into components — separating out the amounts for rent from other costs such as common area maintenance (CAM) charges, taxes and insurance.



Further, it's important to remember that leases are dynamic, and the options, terms, and clauses within change. Under the new standards, any modification due to the reassessment of lease terms must be reflected in the financial statements.

Need help planning for GASB 87?

The Lease Accounting Milestone Planner™ is a custom planning tool that maps out your plan for GASB 87 compliance.

Other lease costs to track:

Initial direct costs — any structuring fees, third-party legal fees or administrative costs must be accounted for in the initial measurement of lease assets

End of lease obligations — the estimated, discounted value of the obligation to be paid in the event of early termination or the cost to purchase or restore the asset

Variable components — the variable expenses that must be tracked and disclosed separately from the lease asset or liability

These lease data points make it possible to:

- Calculate the lease liability and lease asset (as the lessee)
- Calculate the receivable/deferred inflow (as the lessor)
- Generate necessary disclosure reporting

Calculations, remeasurements and disclosures

Lease accounting calculations

Lease accounting for lessees

Under GASB 87, lessees must recognize a lease liability and a right to use asset for all qualified leases.

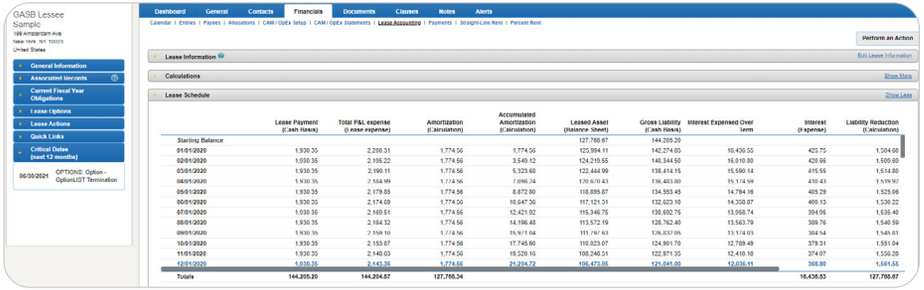
- The **lease liability** is generally calculated as the present value of payments the lessee expects to make during the lease term, including any contract renewal options the lessee is reasonably certain to exercise.
- The **lease asset** is calculated as the lease liability plus any prepayments or initial direct costs, minus any lease incentives at or before commencement of the lease.

As payments are made on the lease, the liability amount is reduced and interest expenses are recognized. The asset is amortized over the length of the lease term or over the life of the asset (whichever is shorter).

Lease accounting for lessors

Under GASB 87, lessors must recognize a lease receivable and a deferred inflow of resources on the financial statements. Just as with lessee schedules, the calculations can be complex.

- At the start of the contract, the **lease receivable** is generally calculated as the present value of lease payments the lessor expects to receive over the term of the lease, minus any provision for estimated uncollectible amounts.



- The **deferred inflow** is calculated as the lease receivable plus any payments made at or prior to the commencement of the lease.

As the lessor receives payments, the lease receivable amount is reduced and interest revenue is recognized. The deferred inflow continues to be recognized as revenue over the life of a lease.

Remeasurements

Organizations must remeasure the value of lease assets and liabilities when there is some significant event or material change in circumstances that is within their control, including:

- **Modification** of a lease term, size or payment obligations — for example, the extension or expansion of a lease or the exercising of a lease option
- Lease contraction due to full or partial lease **termination** or **abandonment** — for example, when an abandoned space is sublet, causing the abandonment of the primary asset
- The full or partial **impairment** of a lease
- Changes in variables such as the Consumer Price Index (CPI) or borrowing rates

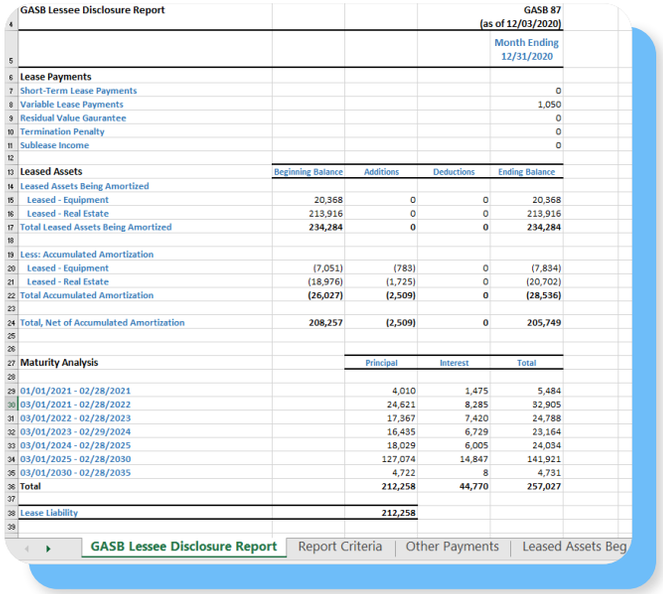
Remeasurement type	Description
Modification	Any modification of lease term (i.e., change in payment term, extension of lease term, etc.)
Full Impairment	Due to some event, the asset no longer has any value, but the organization still has obligation under the lease.
Partial Impairment	Due to some event, the asset still has a value, but the value has been reduced by some amount or percentage.
Full Termination	A lessee has ended the lease contract and no longer has the lease liability or asset on the books.
Partial Termination	A lessee reduces the use of some portion of the asset (e.g., reduces total square footage of lease by terminating some portion), which reduces the amount of liability or asset on the books.
Full Abandonment	A lessee decides to no longer use the entire asset as of some specific date; the lease contract is still in place and the asset remains as a liability on the financial statement.
Partial Abandonment	A lessee decides to no longer use a portion of the asset as of some specific date; the asset remains as a liability on the financial statement.

Disclosure Reporting

For both lessees and lessors, GASB 87 now requires disclosure reports that provide aggregated totals and detailed supporting data such as:

- Qualitative and quantitative information about leases, including variable payments not included in measurement of liability
- Significant assumptions and judgments made when measuring leases
- The amounts recognized in financial statements

These new standards require organizations to gather and manage substantial amounts of data to generate disclosure reports related to real estate, equipment, vehicles, land and any other leases an organization holds.



4	GASB Lessee Disclosure Report			GASB 87 (as of 12/03/2020)
5				Month Ending 12/31/2020
6	Lease Payments			
7	Short-Term Lease Payments			0
8	Variable Lease Payments			1,050
9	Residual Value Gaurantee			0
10	Termination Penalty			0
11	Sublease Income			0
12				
13	Leased Assets	Beginning Balance	Additions	Deductions	Ending Balance
14	Leased Assets Being Amortized				
15	Leased - Equipment	20,368	0	0	20,368
16	Leased - Real Estate	213,916	0	0	213,916
17	Total Leased Assets Being Amortized	234,284	0	0	234,284
18					
19	Less: Accumulated Amortization				
20	Leased - Equipment	(7,051)	(783)	0	(7,834)
21	Leased - Real Estate	(18,976)	(1,725)	0	(20,702)
22	Total Accumulated Amortization	(26,027)	(2,509)	0	(28,536)
23					
24	Total, Net of Accumulated Amortization	208,257	(2,509)	0	205,749
25					
26					
27	Maturity Analysis		Principal	Interest	Total
28					
29	01/01/2021 - 02/28/2021		4,010	1,475	5,484
30	03/01/2021 - 02/28/2022		24,621	8,285	32,905
31	03/01/2022 - 02/28/2023		17,367	7,420	24,788
32	03/01/2023 - 02/29/2024		16,435	6,729	23,164
33	03/01/2024 - 02/28/2025		18,029	6,005	24,034
34	03/01/2025 - 02/28/2030		127,074	14,847	141,921
35	03/01/2030 - 02/28/2035		4,722	8	4,731
36	Total		212,258	44,770	257,027
37					
38	Lease Liability		212,258		
39					

GASB Lessee Disclosure Report | Report Criteria | Other Payments | Leased Assets Beg

Lessee disclosure reports must provide:

- Fully detailed lease descriptions
- Amount of total leased assets — both gross and net figures
- Future lease payment schedules, including interest payments

Lessor disclosure reports must provide:

- General descriptions of all lease arrangements
- Inflows of resources, including lease and interest revenue recognized in the reporting period
- Revenue from variable payment components not included in the lease receivable

In addition, **regulated leases** have different disclosure requirements than other leases. For example, rather than reporting a receivable, lessors with regulated leases must disclose a schedule of expected future minimum payments.

What to look for in lease accounting software

Spreadsheets aren't designed to handle the dynamics and complexity that impact the accounting calculations -- lease transactions can result in hundreds of permutations and calculations.

Most likely your current lease process has gaps that will need to be addressed when moving to adopt GASB 87. Many of these gaps can be addressed through the use of technology.

Lease accounting software can help you meet GASB 87 requirements and maintain compliance beyond the initial reporting period.

Evaluating lease accounting technology

The right lease accounting software solution provides you with the proper tools to manage lease data and changes, perform the necessary calculations and generate reports according to GASB standards. In addition, choosing lease accounting and management software that has the capabilities described below will help to further streamline the accounting process and ensure ongoing GASB compliance.

- Lessee and lessor accounting
- Disclosure reporting capabilities
- Automated calculations
- Journal entries

- Lease amortization schedule
- Roll-forward reporting
- Handling for regulated leases
- Handling for short-term leases

- Ongoing compliance via modification, impairment, termination capabilities

Compliance starts with a lease subledger

GASB 87 introduces a much higher level of scrutiny. Now, organizations have significantly more lease information to track, update, calculate and report on. Given the cross-functional, complex and evolving nature of lease language, any lease accounting solution should start with a strong lease management software to act as a single system of record for all lease data and lease financials.

Any sustainable solution should offer:

- Configurable tools to handle any lease scenario across any asset type to maintain a reliable, up-to-date source for qualitative lease details such as terms, changes and dates
- Integration capabilities to other cross-functional systems to maintain a single source of truth
- Defined user roles for anyone that touches leases and integrated guardrails to ensure any changes are in accordance with internal accounting procedures
- A comprehensive audit trail to track and reconcile any changes

The right lease accounting and management software helps you capture all the necessary data, track changes and report lease costs in accordance with internal accounting policies and procedures as well as the GASB 87 lease accounting standard.

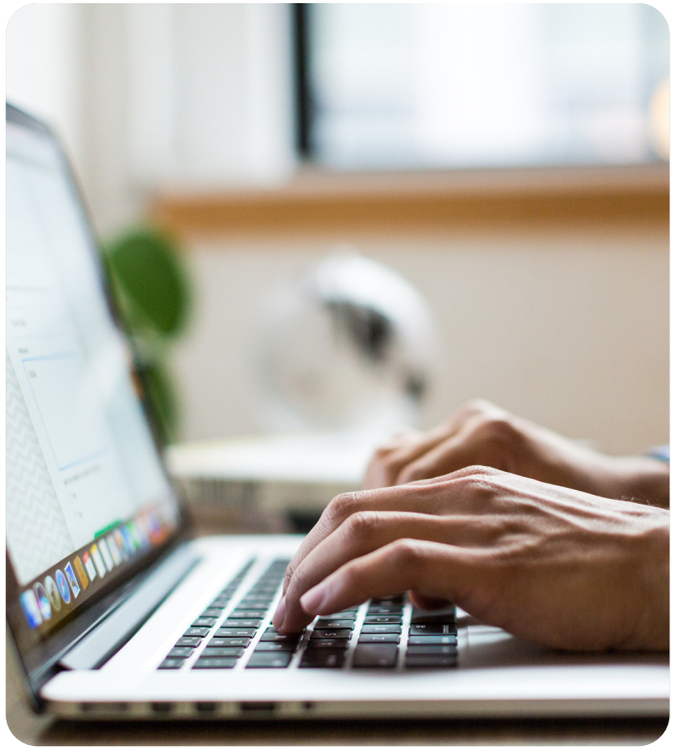
Automated calculations

Further, a lease software solution helps to streamlines this very complex process by providing automated calculations and workflows to:

- Ensure that leases and the related assets, liabilities, revenues and expenses are accounted for consistently
- Eliminate human error and reliance on formulas and cumbersome spreadsheets
- Ensure accuracy by having all data and calculations in one system
- Integrate leases and their pertinent data, such as liabilities, lease assets, interest expenses and revenue inflows, to the financial statements
- Automatically generate journal entries and lease amortization schedules using the system data

Journal Entries Summary

Period	Description	Debit	Credit
01/01/2020	Leased Asset (SB)	127,768.67	
	Lease Liability (SB)		127,768.67
	Interest Expense	425.75	
	Amortization Expense	1,774.56	
	Lease Liability	1,504.60	
	Accumulated Amort - Leased Asset		1,774.56
	AP/Cash		1,930.35
02/01/2020	Interest Expense	420.66	
	Amortization Expense	1,774.56	
	Lease Liability	1,509.69	
	Accumulated Amort - Leased Asset		1,774.56
	AP/Cash		1,930.35
03/01/2020	Interest Expense	415.55	



Lease reassessments and remeasurements

With the enhanced level of lease visibility that GASB 87 requires, an organization's lease accounting must explain all lease changes on the financial statements. This includes additions or subtractions due to new leases, modifications, impairments and terminations, as well as regular amortization.

Accounting for lease remeasurement and reassessments is a common roadblock to sustainable compliance as accounting teams must rely on cross-functional stakeholders adhering to internal procedures as they manage lease modifications.

Using lease technology to organize, update and manage lease data allows you to integrate lease renewals and other modifications into your accounting process, ensuring they are captured accurately and reported in a timely manner.

Roll-forward reports are a valuable tool for meeting this requirement, providing a detailed disclosure of lease financials including period over period changes to lease assets and liabilities.

By choosing a technology platform that automates roll-forward reporting, your organization can streamline data gathering, calculations and reporting while ensuring that the process meets compliance and disclosure requirements.

Alerts, approvals, internal controls and audit trails

Given the cross-functional nature of lease management, defined user roles and alerts and comprehensive approvals hierarchies are critical to maintaining a single source of truth.

Look for systems that can streamline cross-functional workflows both internally and externally, with project management systems that can notify appropriate stakeholders when upcoming critical dates are near.

However, auditability cannot be compromised. Approvals hierarchies are important to make sure that mistakes – or intentional malfeasance – aren't reflected on financial statements, and audit trails must be maintained to track every change.

Conclusion

Many organizations today are challenged to understanding the extent of their lease portfolio, the data they need for lease measurements, the latest accounting methodology and how to stay on top of any lease account changes.

By offering a centralized view into all of an organization's leases, lease accounting and management software can streamline the process of organizing the lease portfolio and understanding how this information needs to be reported on financial statements.

For organizations that are impacted by GASB 87 lease accounting requirements, a lease software solution such as Visual Lease provides all the capabilities necessary for achieving compliance, streamlining reporting and strategically maintaining a lease portfolio.

In addition to meeting the financial reporting and compliance requirements for GASB 87 (and other leading lease accounting standards), Visual Lease provides the tools for managing ongoing lease changes in one centralized and intuitive solution designed to meet lease accounting needs for the long term.

About The Visual Lease Data Institute

The Visual Lease Data Institute is a collection of market-leading data, trends and insights on lease accounting, management and optimization created and curated by Visual Lease, provider of the #1 lease optimization software. The Institute was founded on 35 years' experience managing lease data and financials, and was created to arm organizations with the knowledge required to achieve and maintain lease accounting compliance and leverage their leases as strategic business assets.