

GASB 87: FIRST STEPS TO IMPLEMENTATION

WASHINGTON PUBLIC PORTS ASSOCIATION
FINANCE AND ADMINISTRATION SEMINAR
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Governmental Accounting Standards Series

Statement No. 87 of the
Governmental Accounting
Standards Board

Leases



GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

GASB Exposure Draft

February 19, 2019

Comments Due: April 30, 2019

Proposed Implementation Guide
of the Governmental Accounting Standards Board

Leases

This Exposure Draft of a proposed implementation Guide is cleared by
the Board for public comment.
Written comments should be addressed to:

Director of Research and Technical Activities
Project No. 9-24

Governmental Accounting Standards Board

RATIONALE

GASB 87 is based on the principle that leases are financings of the right to use an underlying asset.





WHEN IT APPLIES

Effective for years ending
December 31, 2020, and after.

Applied retroactively.





LEASE DEFINITION (PARAGRAPH 4)

A contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.



CONTROL OF THE RIGHT TO USE (PARAGRAPH 5)

The right to obtain the present service capacity from use of the underlying asset and the right to determine the nature and manner of its use.





LEASE TERM (PARAGRAPH 12)

The period during which a lessee has a non-cancelable right to use an underlying asset,

Plus periods covered by a lessee's **or** lessor's option to extend the lease

(if reasonably certain the option will be exercised),

And periods covered by the lessee's **or** lessor's option to terminate the lease

(if reasonably certain the option will not be exercised).

Lease term **excludes** periods for which both the lessee **and** lessor each have the option to terminate or both parties must agree to extend.



EXCLUSIONS (PARAGRAPH 8)

Short-term lease – One that, at the beginning of the lease, has a maximum possible term of 12 months or less, including any options to extend, such as rolling month-to-month leases.

Contract that transfers ownership – Report as a financed purchase by the lessee or a sale by the lessor.

Lease of intangible assets – This includes mineral rights, patents, software, copyrights, except for the sublease of an intangible right-to-use asset created by the original lease of a tangible underlying asset.



EXCLUSIONS, CONTINUED

Leases of biological assets, such as timber, living plants, and living animals.

Leases of inventory.

Service concession arrangements – These are covered by GASB 60.

Assets financed with outstanding conduit debt – Unless both the asset and conduit debt are reported by the lessor.

Supply contracts, Such as power purchase agreements which do not convey control of the right to use the underlying power generating facility.

Certain regulated leases, such as aviation leases between airports and air carriers.



	Assets	Liabilities	Deferred Inflows
LESSEE	<ul style="list-style-type: none">• Intangible Asset	<ul style="list-style-type: none">• Lease Liability	
LESSOR	<ul style="list-style-type: none">• Lease Receivable		<ul style="list-style-type: none">• Deferred Inflow

Lessor continues to report the leased capital asset.



	Assets	Liabilities	Deferred Inflows
LESSEE	<ul style="list-style-type: none">• Amortize intangible asset over shorter of useful life or lease term.	<ul style="list-style-type: none">• Reduce lease liability by lease payments.	
LESSOR	<ul style="list-style-type: none">• Reduce lease receivable by lease payments.		<ul style="list-style-type: none">• Recognize revenue over the lease term in a systematic and rational manner.

Lessor continues to depreciate the leased asset (unless it has an indefinite life or is required to be returned in its original or enhanced condition).



LESSEE

Lease Liability – Measured at the present value of future lease payments – including fixed payments, variable payments based on an index, reasonably certain residual guarantees, etc.

Lease Asset – Measured at the value of the lease liability plus any prepayments plus any initial direct costs necessary to place the asset in use.





LESSOR

Lease Receivable – Measured at the present value of future lease payments – including fixed payments, variable payments based on an index, reasonably certain residual guarantees, etc.

Deferred Inflow – Measurement equal to the lease receivable plus any up front payments that relate to a future period.





Function Arguments

PV

Rate	<input type="text"/>		= number
Nper	<input type="text"/>		= number
Pmt	<input type="text"/>		= number
Fv	<input type="text"/>		= number
Type	<input type="text"/>		= number

=

Returns the present value of an investment: the total amount that a series of future payments is worth now.

Rate is the interest rate per period. For example, use 6%/4 for quarterly payments at 6% APR.

Formula result =

[Help on this function](#)

OK

Cancel



	A	B	C	D	E
1	Example - 60 month lease, \$1,000 per mo., 3%				
2		60 months			
3		\$1,000	per mo. (payment at beginning of month)		
4		3%	discount rate		
5					Present Value
6					\$55,791.49
7					

E6

fx

`=-PV(B4/12,B2,B3,0,1)`



				Present Value
				\$55,791.49
Period	Cash	Principle	Interest	Balance
1	\$1,000.00	\$1,000.00	\$0.00	\$54,791.49
2	\$1,000.00	\$863.02	\$136.98	\$53,928.47
3	\$1,000.00	\$865.18	\$134.82	\$53,063.29
4	\$1,000.00	\$867.34	\$132.66	\$52,195.95
5	\$1,000.00	\$869.51	\$130.49	\$51,326.44
6	\$1,000.00	\$871.68	\$128.32	\$50,454.75
7	\$1,000.00	\$873.86	\$126.14	\$49,580.89
8	\$1,000.00	\$876.05	\$123.95	\$48,704.84
9	\$1,000.00	\$878.24	\$121.76	\$47,826.60
10	\$1,000.00	\$880.43	\$119.57	\$46,946.17
11	\$1,000.00	\$882.63	\$117.37	\$46,063.54
12	\$1,000.00	\$884.84	\$115.16	\$45,178.69



Lessor:			Lessee:		
DR - Lease Rec.	\$55,791.49		DR - Lease Asset	\$55,791.49	
CR - Deferred Inflow	(\$55,791.49)		CR - Lease Liability	(\$55,791.49)	
<i>Intial recording of the lease</i>			<i>Intial recording of the lease</i>		
DR - Cash	\$12,000.00		DR - Lease Liability	\$10,612.79	
CR - Lease Rec.	(\$10,612.79)		DR - Interest Exp.	\$1,387.21	
CR - Interest Rev.	(\$1,387.21)		CR - Cash	(\$12,000.00)	
<i>First year of lease payments</i>			<i>First year of lease payments</i>		
DR - Deferred Inflow	\$11,158.30		DR - Amort Exp.	\$11,158.30	
CR - Lease Revenue	(\$11,158.30)		CR - Lease Asset	(\$11,158.30)	
<i>First year of amortizing DI</i>			<i>First year of amortizing lease asset</i>		



PRESENT VALUE

(PARAGRAPHS 23, 47, B40, B41, B69)

Lease receivable/liability payments should be discounted using the rate the lessor charges the lessee (may be implicit) or, if the rate cannot be readily determined, the lessee's incremental borrowing rate.



GET STARTED

- ✓ **Read** GASB 87 and implementation guide
- ✓ **Think** – system and controls
- ✓ **Inventory** existing agreements – communicate with departments
- ✓ **Document** which agreements meet the lease definition and which can be excluded
- ✓ **Document** key provisions of each lease agreement – term, extensions, termination provisions, payment provisions, interest rate, etc.



RESOURCES

GASB Statement No. 87, Leases

GASB Implementation Guide, Leases

GASB Leases project webpage

GFOA Best Practices/Advisory –
Accounting for Leases

BARS Manual – Leases webpage