



A New Lease on 2021

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Session Outline

- GASB 87 overview
- Tips for implementation
- GASB 96 overview

GASB Statement 87

Leases

- Summary
 - Defines “leases” as **financings** of the **right to use** an underlying asset
 - Establishes a single model for all leases (no more operating vs. capital)
 - Record lease assets and lease liabilities
 - Now effective 06/15/2022 (delayed by GASB 95)

Leases

- Lease
 - 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

Leases

- Control of the right to use
 - The right to obtain the present service capacity from use of the underlying asset as specified in the contract; and
 - The right to determine the nature and manner of use of the underlying asset as specified in the contract

Leases

- Nonfinancial assets
 - Assets that are not “financial assets”, as defined by GASB 72, *Fair Value*
 - Examples: land, buildings, vehicles, and equipment

GASB Statement 87

Leases

- Lease
 - Includes contracts not explicitly defined as “leases” but that otherwise meet the definition
 - Excludes contracts for services (except those contracts that contain *both* a lease component and a service component)
 - Underlying assets and service component should be considered separate contracts

GASB Statement 87

Leases

- Excluded from the scope of this statement
 - Leases of intangible assets (e.g., mineral rights, movie rights, computer software licenses*)
 - Leases of biological assets (e.g., timber, animals)
 - Leases of inventory
 - Service concession arrangements
 - Conduit debt arrangements
 - Supply contracts (e.g., purchased power)

Leases

- Lease term
 - Period during which a lessee has a noncancelable right to use an underlying asset
 - Plus:
 - Periods covered by either the lessee's or lessor's option to extend (if reasonably certain to be exercised)
 - Periods covered by either the lessee's or lessor's option to terminate (if reasonably certain *not* to be exercised)

Leases

- Lease term
 - Periods for which both the lessee *and* the lessor have an option to terminate the lease (or if both parties have to agree to extend) are cancelable periods and are excluded from the lease term
 - Examples: rolling month-to-month leases
 - Fiscal funding or cancelation clauses should only affect the lease term when it is reasonably certain they will be exercised

Leases

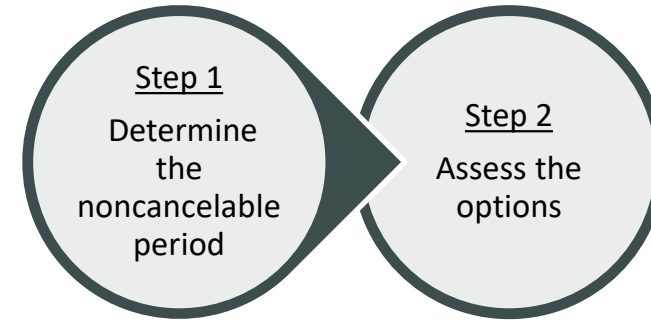
- Lease term
 - At the beginning of a lease, the lessor and the lessee should assess all factors relevant to the likelihood that the lessee or the lessor will exercise options
 - Examples: economic incentives/disincentives; lessee's history of exercising similar options; how essential the underlying asset is to the provisions of the government's services

Leases

- Lease term
 - Reassess the term only if:
 - Lessee or lessor exercises an option not expected
 - Lessee or lessor fails to exercise an option expected
 - An event specified in the contract that requires an extension or termination of the lease actually occurs

GASB Statement 87

Leases



- Lease term example

Noncancelable period	Years 1-2
+ Period covered by option to terminate, not reasonably certain to be exercised	Year 3
+ Period covered by option to extend, reasonably certain to be exercised	Years 4-5
Total lease term	5 Years

Leases

- Short-term leases
 - If the *maximum possible* lease term is 12 months or less at inception:
 - Recognize expense (lessees) or revenue (lessors) in accordance with lease contract
 - No intangible lease asset or lease liability
 - For rolling (month-to-month/year-to-year) leases, the maximum possible lease term is the noncancelable portion (including notice period)

Leases

- Contracts that transfer ownership
 - Transfer ownership of the underlying asset to the lessee at or before the end of the contract; *and*
 - Do not contain termination options (other than fiscal funding or cancelation clauses not reasonably certain of being exercised)
 - Report as a finance purchase, rather than as a lease

GASB Statement 87

Leases

- Lease recognition and measurement (lessee)
 - Lease liability
 - Intangible right-to-use asset (“lease asset”)
- Lease recognition and measurement (lessor)
 - Lease receivable
 - Deferred inflow of resources

Leases

- Lease asset (lessee)
 - Initially measured the same as the lease liability
 - Add: lease payments made to lessor at or before the beginning of the lease term; initial direct costs necessary to place the lease asset into service
 - Deduct: lease incentives received from the lessor

Leases

- Lease asset (lessee)
 - Amortized (i.e., depreciated) in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset
 - If the lease includes a purchase option that is reasonably certain of being exercised, then amortize over the useful life of the asset (unless the underlying asset is nondepreciable, then do not amortize)

Leases

- Deferred inflow of resources (lessor)
 - Initially measured the same as the lease receivable
 - Add: lease payments received at or before the beginning of the lease term that relates to future periods (e.g., last month's rent)

Leases

- Deferred inflow of resources (lessor)
 - Recognized in a systematic and rational manner over the lease term
 - Generally adjusted by the same amount as the lease receivable if remeasured

Leases

- Accounting in governmental funds (lessee)
 - Inception: debit expenditure (capital outlay); credit other financing source (proceeds from long-term debt)
 - Lease payments: debit expenditure (debt service); credit cash

Leases

- Accounting in governmental funds (lessor)
 - Inception: debit lease receivable; credit deferred inflow
 - Lease payments received: debit cash; credit lease receivable
 - Systematically over lease term: debit deferred inflow; credit revenue

GASB Statement 87

Leases

- Notes to financial statements (lessee)
 - Disclose:
 - General description (basis, terms, conditions)
 - Total lease assets and accumulated depreciation (separate from other capital assets)
 - Amount of lease assets by major class of underlying assets (separate from other capital assets)
 - 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

GASB Statement 87

Leases

- Notes to financial statements (lessor)
 - Disclose:
 - General description (basis, terms, conditions)
 - Amount of inflows recognized during the year from leases
 - Lease termination provisions if the government used lease receivables as collateral

Leases

- Contracts with multiple components
 - Contracts may include:
 - Both a lease and a non-lease component
 - Multiple underlying assets
 - Treat as separate contracts (use professional judgment to estimate amounts)
 - If not practical to separate components, may treat as a single lease unit

Leases

- Intra-entity leases
 - Leases with a blended component unit
 - The provisions of this statement do not apply
 - Report assets and debt as if they belong to the primary government
 - Leases with discretely presented component units
 - Follow the provisions of this statement
 - Separately display lease receivables/payables from other amounts due to/from the primary government

Implementation

- Developing a plan for implementation
 - Identify the information gatekeepers
 - Finance
 - Legal
 - Other departments
 - Look for existing agreements not currently being recognized/disclosed as leases
 - May already be included in capital assets

Other Observations

- This standard will largely have a balance sheet impact
 - Lessees: offsetting asset and liability
 - Lessors: offsetting asset and deferred inflow
 - *Existing leases may not match exactly (PPA at implementation)*
- There will likely be no significant impact on budgetary accounting, other than budgeting for lease proceeds and capital outlay at the initiation of the lease

Other Observations

- Potential for restatement at implementation
 - Existing capital leases already on the books
 - Lease liabilities will *probably* not change
 - Lease assets will be revalued at implementation to match the lease liability (may differ)

Other Observations

- Never forget the 12 most important words of any GASB Statement:

The provisions of this Statement need not be applied to immaterial items.

- Capitalization thresholds could (should?) be set and applied to leases, similar to capital assets

Subscription-Based IT Arrangements

- GASB 87, *Leases*, initially excluded software
- Merges the guidance from
 - GASB 51, Accounting and Reporting for Intangible Assets
 - GASB 87, Leases
- Record a **subscription asset** and **subscription liability**
- Effective 06/15/2023

Subscription-Based IT Arrangements

- Stages of SBITA
 - Preliminary project stage
 - Evaluating alternatives, vendor selection
 - Initial implementation stage
 - Charges necessary to place the subscription asset into service
 - Operation and additional implementation stage
 - Subsequent activities, maintenance, ongoing operations

Subscription-Based IT Arrangements

- Expense as incurred
 - Preliminary project stage
 - Evaluating alternatives, vendor selection
 - Initial implementation stage
 - Charges necessary to place the subscription asset into service
 - Operation and additional implementation stage
 - Subsequent activities, maintenance, ongoing operations
 - Training

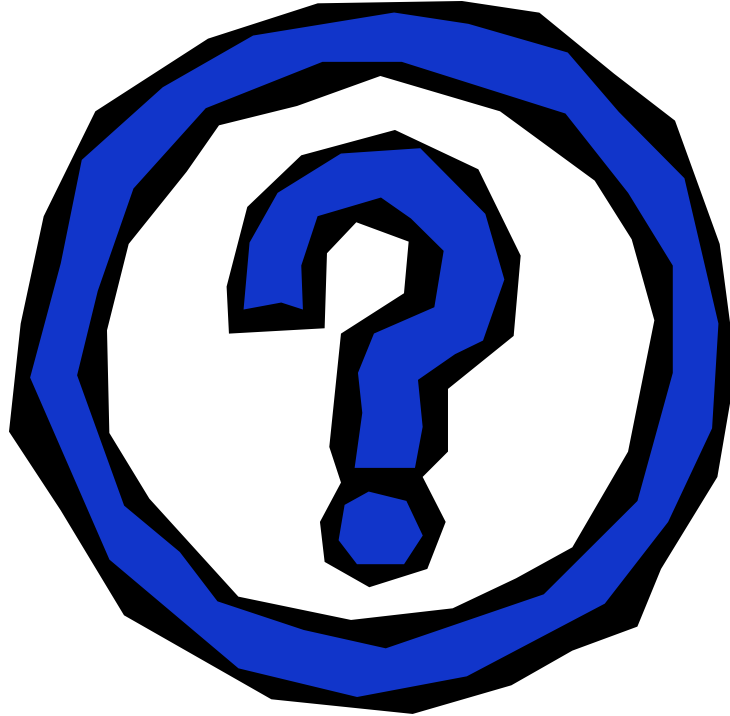
Subscription-Based IT Arrangements

- Capitalize as part of the subscription asset
 - Preliminary project stage
 - Evaluating alternatives, vendor selection
 - Initial implementation stage
 - Charges necessary to place the subscription asset into service
 - Operation and additional implementation stage
 - Subsequent activities, maintenance, ongoing operations
 - Training

Subscription-Based IT Arrangements

- Notes to financial statements
 - General description of SBITAs
 - Total amount of subscription assets / amortization
 - Principal and interest requirements to maturity
 - Subscription liabilities are not considered “debt” under GASB 88

Questions?



For more information...

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