Grants Management: Lessons Learned from the CARES Act, Planning for the American Rescue Plan Act (ARPA), and Beyond

2021 Denver Government and Nonprofit Training Academy – June 15, 2021

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Learning Objectives

- Identify lessons learned and success stories from other COVID-19 programs that can be applied to future programs
- Discuss the latest guidance for the American Rescue Plan Act of 2021

Lessons Learned for COVID-19 Relief Funds

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Grant Management Lifecycle – Award

Awarding Agency Awards Grant

- Awarding Agency Prepares Award Package
- Awarding Agency Obligates Funds
- Awarding Agency Sets Performance Expectations
- Awarding Agency Sets Terms and Conditions
- Awarding Agency Establishes Payment Method
- Awarding Agency Notifies Recipient of Award

Recipient Receives Grant

- Recipient Receives Notice of Award
- Recipient Reviews Terms and Conditions
- Recipient Verifies Internal Controls
- Recipient Completes Risk Assessments of Subrecipients
- Recipient Notifies Subrecipients of Subaward
- Recipient and Subrecipients Accept Grant
- Recipient and Subrecipients Draw Down Funds

NGMA's GMBoK Guide, page 107

Grant Management Lifecycle – Post Award

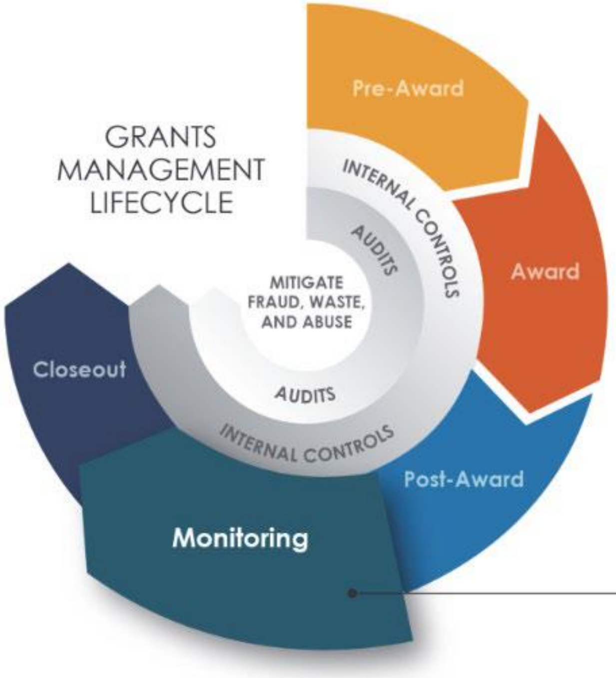
Recipients and Subrecipients Execute Award
- Recipients and Subrecipients Implement Program
- Recipients and Subrecipients Manage Finances
- Recipients and Subrecipients Implement Programmatic Reporting
- Recipients and Subrecipients Implement Financial Reporting
- Recipients and Subrecipients Manage Records
- Recipients and Subrecipients Prepare for Audit

Pass-through Entity Monitors and Assists Subrecipients
- Pass-through Entity Monitors Subrecipients
- Pass-through Entity Provides Technical Assistance

Awarding Agency Provides Oversight
- Awarding Agency Monitors Recipients
- Awarding Agency Provides Technical Assistance
- Awarding Agency Initiates Audits

NGMA's GMBok Guide, page 135

Grant Management Lifecycle – Monitoring



Awarding Agency and Pass-through Entity Perform Routine Monitoring Activities

- Awarding Agency and Pass-through Entity Plan Appropriate Oversight
- Awarding Agency and Pass-through Entity Review Audit and Action Plans
- Awarding Agency and Pass-through Entity Perform Programmatic Monitoring
- Awarding Agency and Pass-through Entity Perform Financial Monitoring

Awarding Agency and Pass-through Entity Perform Formal Monitoring Activities

- Awarding Agency and Pass-through Entity Perform Desk Reviews
- Awarding Agency and Pass-through Entity Perform Site Visits
- Awarding Agency and Pass-through Entity Provide Technical Assistance

NGMA's GMBok Guide, page 181

Use This Checklist as a Guide for Planning Your COVID-19 Relief Programs

Time is your friend! Take advantage of lengthy spending deadlines to develop a comprehensive plan

Apply lessons learned from the CARES Act funding

Learn from fellow governments and nonprofit organizations, share stories, brainstorm together!

1. Engage internal stakeholders in COVID-19 Relief Programs

- Accounting and finance
- Governance
- Committees
- Department heads
- Information technology
- Internal audit (if applicable)
- Legal
- Public information and marketing

Questions you will need to answer…just a starting point

- What sources of revenue are available and how will they be requested, allocated, and disbursed?
- Does your organization have the capacity to process the additional disbursements, and staff dedicated to meeting federal, state, and local reporting requirements?
- Have you reviewed considerations for subrecipient relationships and contracts?
- Do existing policies meet grant, federal, and state compliance and guidance?
- Has guidance from regulators (Department of the Treasury, state agencies, etc.) led to new restrictions?
- What is the timeline for eligible cost use and what are the reporting requirements?
- What documentation must be reviewed and what changes are needed in testing this documentation?
- What timing needs to be adjusted to allow for responses to findings or recommendations on meeting federal requirements?
- What additional programs or services can the department provide that align with the federal guidance?
- How much funding can the department expect, and how will it affect the budget?
- What does the department need to do to request funds and report on their use?

2. Engage external stakeholders in COVID-19 Relief Programs

- Banking/financing
- Community groups/partners/nonprofits
- External consultants
- State or federal governance (drawdowns, reporting)

3. Other Checklist Items to Consider

- What is your grant management plan – spending funds effectively and following applicable federal regulations should be paramount
- Internal Controls!
- Subgrant agreements
- Accounting for the funding
- Memorialize decision points

Plan of Attack!

Grant management plan — Create a plan for grant management to help you spend funds effectively and follow applicable federal regulations. Remember that grant management does not stop once the funding is in hand; it is a continual process from the receipt of the funds to the final closeout.

Internal controls — Once you have your grant administration plan, review your internal control structure to verify that controls are in place and operating effectively. A strong internal control environment clearly conveys who is responsible, authorized, and qualified to make determinations, and includes procedures to properly maintain documentation required by auditors.

Subgrant agreements — Many state, local, and tribal governments used subrecipients to efficiently assist their communities during the pandemic. Government entities that hadn't used subrecipients before may find it challenging to understand and comply with the Uniform Guidance stipulations. Pass-through agencies may be required to document risk assessments, verify that grant agreements contain the required components, and properly plan monitoring procedures.

Accounting for the funding — Before you start spending, consider how you will account for and record transactions in your accounting system. Comingling costs could result in problems when reporting on or compiling data for your year-end audit. Creating separate funds, object codes, business units, or a similar tool to disaggregate the data in your financial systems is highly recommended.

The American Rescue Plan Act (ARPA)

Latest Guidance from the Treasury, with a focus on the Coronavirus State and Local Fiscal Recovery Funds (CSFRF/CLFRF, or Fiscal Recovery Funds)

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Overview of the American Rescue Plan Act

- Signed into law March 11, 2021
- $1.9 trillion total package, of which $350 billion in aid for state and local governments, and another ~$300+ billion in additional funding for education, rental and housing assistance and transit areas
- Time period for funds available for most programs under ARPA is longer than the CARES Act, example: Coronavirus State and Local Fiscal Recovery Funds through 12/31/2024

Funding Objectives

Support urgent COVID-19 response efforts to continue to decrease spread of the virus and bring the pandemic under control

Replace lost revenue for eligible state, local, territorial, and Tribal governments to strengthen support for vital public services and help retain jobs

Support immediate economic stabilization for households and businesses

Address systemic public health and economic challenges that have contributed to the inequal impact of the pandemic

The Coronavirus State and Local Fiscal Recovery Funds provide substantial flexibility for each government to meet local needs—including support for households, small businesses, impacted industries, essential workers, and the communities hardest hit by the crisis. These funds can also be used to make necessary investments in water, sewer, and broadband infrastructure.

ARPA Related Government Funding Highlights

Coronavirus State and Local Fiscal Recovery Funds ($362 billion total): Subtitle M, Sec. 9901 Coronavirus State and Local Fiscal Recovery Funds

Sec. 602 Coronavirus State Fiscal Recovery Fund ($219.8B)

- $195.3 billion for the 50 States and Washington DC
- $20 billion for Tribal governments

Sec. 603 Coronavirus Local Fiscal Recovery Fund

- $130.2 billion for local govts. (metropolitan cities: $45.57B, nonentitlement units of local government: $19.53B, and counties: $65.1B)

Sec. 604 Coronavirus Capital Projects Fund

- $10B to States, territories and Tribal governments

Sec. 605 Local Assistance and Tribal Consistency Fund ($2B)

Housing Provisions ($41.55 billion): Subtitle B

Sec. 3201 Emergency Rental Assistance ($21.55B)

- $18.6B allocated to States, territories, counties and cities for emergency rental and utility assistance

Sec. 3202 Emergency Housing Vouchers ($5B)

- **Sec. 3205 Homelessness Assistance and Supportive Services Program ($5B)**

Sec. 3206 Homeowner Assistance Fund ($10B)

- For States, territories and Tribes for ongoing needs of homeowners

Ratepayer Protection ($5 billion): Subtitle K

Sec. 2911 Funding for LIHEAP ($4.5B)

Sec. 2912 Funding for Water Assistance Program ($500 m)

ARPA Related Government Funding Highlights (cont’d)

Education ($165 billion): Subtitle A

Sec. 2001 Elementary and Secondary School Emergency Relief Fund (ESSER) ($122.7B)

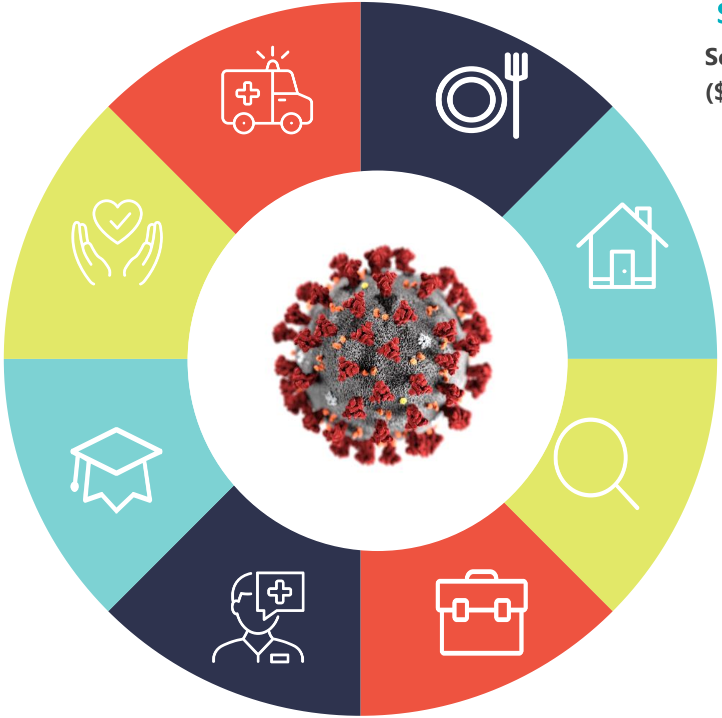
- Grants to State educational agencies.
- States are required to subgrant at least 90% of ESSER funds to school districts to support the implementation of public health protocols to safely reopen schools for in-person learning, address students’ learning loss, and meet students’ long-term academic, social and emotional needs.

Sec. 2003 Higher Education Emergency Relief Fund ($39.6 billion)

- To colleges and university and their students

Broadband for Remote Learning ($7.17 billion): Subtitle D

Sec. 7402 Funding for E-Rate Support for Emergency Educational Connections and Devices



Public Transportation ($30 billion): Subtitle D

Sec. 3401 Federal Transit Administration Grants ($30B)

Homeland Security and Govt. Affairs ($50 billion): Title IV

Sec. 4005 Federal Emergency Management Agency (FEMA) ($50B)

Environment and Public Works ($11 billion): Title VI

Sec. 6001 Economic Adjustment Assistance ($3B)

Sec. 7102 Relief for Airports ($8B)

Comparison of CARES Act (CRF) vs. ARPA (State and Local Fiscal Recovery Funds piece)

- U.S. Treasury is the federal agency over both CRF and ARPA
- Time period for funds available for most programs under ARPA is longer than the CARES Act, example: Coronavirus State and Local Fiscal Recovery Funds covered period through 12/31/2024
- CARES Act: $150 billion CRF; ARPA: $350 billion State and Local Fiscal Recovery Funds:
  - Methodology (two tranches for ARPA) and population requirements for local governments much lower under ARPA vs. CRF (50k population, and <50k population = ARPA vs. 500k population = CRF)

Use of Funds and Reporting Requirements for the Fiscal Recovery Funds

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Use of Funds Allowed

- Support public health expenditures, by, for example, funding COVID-19 mitigation efforts, medical expenses, behavioral healthcare, and certain public health and safety staff
- Address negative economic impacts caused by the public health emergency, including economic harms to workers, households, small businesses, impacted industries, and the public sector
- Replace lost public sector revenue, using this funding to provide government services to the extent of the reduction in revenue experienced due to the pandemic
- Provide premium pay for essential workers, offering additional support to those who have and will bear the greatest health risks because of their service in critical infrastructure sectors
- Invest in water, sewer, and broadband infrastructure, making necessary investments to improve access to clean drinking water, support vital wastewater and stormwater infrastructure, and to expand access to broadband internet

Investments in Water and Sewer Infrastructure

- The types of projects eligible for CWSRF assistance include projects to construct, improve, and repair wastewater treatment plants, control non-point sources of pollution, improve resilience of infrastructure to severe weather events, create green infrastructure, and protect waterbodies from pollution.
- Wide latitude to identify investments in water and sewer infrastructure that are of the highest priority for their own communities, which may include projects on privately-owned infrastructure.
- The interim final rule does this by aligning eligible uses of the Fiscal Recovery Funds with the wide range of types or categories of projects that would be eligible to receive financial assistance through the Environmental Protection Agency's (EPA) Clean Water State Revolving Fund (CWSRF) or Drinking Water State Revolving Fund (DWSRF).

Premium Pay – Interim Rule

- The ARPA recognizes this by defining premium pay to mean an amount up to $13 per hour in addition to wages or remuneration the worker otherwise receives and in an aggregate amount not to exceed $25,000 per eligible worker.
- The interim final rule provides that any premium pay or grants provided using the Fiscal Recovery Funds should prioritize compensation of those lower income eligible workers that perform essential work.
  - Staff at nursing homes, hospitals, and home care settings;
  - Workers at farms, food production facilities, grocery stores, and restaurants;
  - Janitors and sanitation workers;
  - Truck drivers, transit staff, and warehouse workers;
  - Public health and safety staff;
  - Childcare workers, educators, and other school staff; and
  - Social service and human services staff.

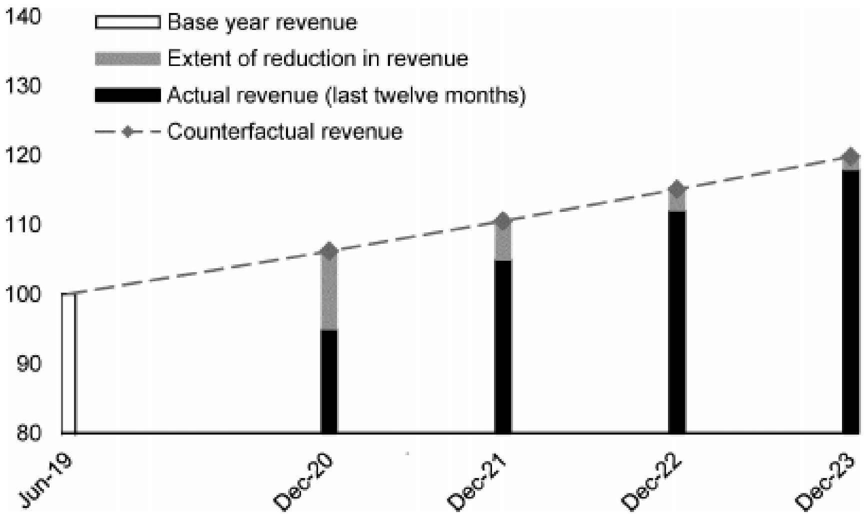
Determination of General Revenue

- Recipients may use payments from the Fiscal Recovery Funds for the provision of government services to the extent of the reduction in revenue experienced due to the COVID-19 public health emergency. Pursuant to sections 602(c)(1)(C) and 603(c)(1)(C) of the Act, a recipient's reduction in revenue is measured relative to the revenue collected in the most recent full fiscal year prior to the emergency.
- Sections 602(c)(1)(C) and 603(c)(1)(C) of the Act allow recipients facing budget shortfalls to use payments from the Fiscal Recovery Funds to avoid cuts to government services and, thus, enable State, local, and Tribal governments to continue to provide valuable services and ensure that fiscal austerity measures do not hamper the broader economic recovery. The interim final rule implements these provisions by establishing a definition of "general revenue" for purposes of calculating a loss in revenue and by providing a methodology for calculating revenue lost due to the COVID-19 public health emergency.

Calculation of Lost Revenue

- Helpful resource: GFOA has released an "ARPA Revenue Replacement Calculator" worksheet, available to GFOA members: [ARPA Revenue Replacement Calculator (gfoa.org)]
- Below is an excerpt from the Interim Final Rule pg. 53

The overall methodology for calculating the reduction in revenue is illustrated in the figure below:



DO NOT USE FUNDS FOR:

- Congress clarified two types of uses which do not fall within these four categories. Sections 602(c)(2)(B) and 603(c)(2) provide that these eligible uses do not include, and thus funds may not be used for, depositing funds into any pension fund. Section 602(c)(2)(A) also provides, for States and territories, that the eligible uses do not include “directly or indirectly offsetting a reduction in the net tax revenue of the State or territory resulting from a change in law, regulation, or administrative interpretation.”

FAQs as of 6/10/21: Fiscal Recovery Funds

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What type of reporting to the US Treasury will be required?

- Recipients of Fiscal Recovery Funds will be required to submit one interim report and thereafter quarterly Project and Expenditure reports until the end of the award period. Recipients must submit interim reports to Treasury by August 31, 2021. The quarterly Project and Expenditure reports will include financial data, information on contracts and subawards over $50,000, types of projects funded, and other information regarding a recipient's utilization of the award funds.
- Non-entitlement unit recipients will be required to submit annual Project and Expenditure reports until the end of the award period. The initial annual Project and Expenditure report for Non-entitlement unit recipients must be submitted to Treasury by October 31, 2021. The subsequent annual reports must be submitted to Treasury by October 31 each year.
- States, territories, metropolitan cities, and counties with a population that exceeds 250,000 residents will also be required to submit an annual Recovery Plan Performance report to Treasury. The Recovery Plan Performance report will include descriptions of the projects funded and information on the performance indicators and objectives of the award. Treasury will provide additional guidance and instructions on the all the reporting requirements outlined above for the Fiscal Recovery Funds program at a later date.

What is the covered period for all provisions?

- The Interim Final Rule permits funds to be used to cover costs incurred beginning on March 3, 2021.
- However, with respect to premium pay the definition clarifies that premium pay may be provided retrospectively for work performed at any time since the start of the COVID-19 public health emergency, where those workers have yet to be compensated adequately for work previously performed. Treasury encourages recipients to prioritize providing retrospective premium pay where possible, recognizing that many essential workers have not yet received additional compensation for work conducted over the course of many months.

Do funds have to be expended by December 31, 2024, or obligated by December 31, 2024?

- Treasury is interpreting the requirement that costs be incurred by December 31, 2024 to only require that recipients have obligated the funds by such date. The period of performance will run until December 31, 2026, which will provide recipients a reasonable amount of time to complete projects funded with Fiscal Recovery Funds.

Can we use the funds towards administrative costs?

- FAQ 10.2 states, “Recipients may use funds to cover the portion of payroll and benefits of employees corresponding to time spent on administrative work necessary due to the COVID–19 public health emergency and its negative economic impacts. This includes, but is not limited to, costs related to disbursing payments of Fiscal Recovery Funds and managing new grant programs established using Fiscal Recovery Funds”.
- 10.5: Recipients may use funds for administering the CSFRF/CLFRF program, including costs of consultants to support effective management and oversight, including consultation for ensuring compliance with legal, regulatory, and other requirements

Does the Single Audit Act apply to CSLFRF?

- Yes, most of the provisions of the Uniform Guidance (2 CFR Part 200) apply to this program, including the Cost Principles and Single Audit Act requirements. Recipients should refer to the Assistance Listing for detail on the specific provisions of the Uniform Guidance that do not apply to this program.
- New assistance listing released for the Fiscal Recovery Funds Program: 21.027

How is a subrecipient defined?

- State, local, territorial, and Tribal governments that receive a Federal award directly from a Federal awarding agency, such as Treasury, are “recipients.” A transferee receiving a transfer from a recipient under sections 602(c)(3) and 603(c)(3) will be a subrecipient. Subrecipients are entities that receive a subaward from a recipient to carry out a program or project on behalf of the recipient with the recipient’s Federal award funding. The recipient remains responsible for monitoring and overseeing the subrecipient’s use of Fiscal Recovery Funds and other activities related to the award to ensure that the subrecipient complies with the statutory and regulatory requirements and the terms and conditions of the award. Recipients also remain responsible for reporting to Treasury on their subrecipients’ use of payments from the Fiscal Recovery Funds for the duration of the award.

Audit Compliance Recommendations

- Account coding structures
- Meetings with department heads to determine the control over disbursement of allowable expenditures and maintaining proper evidence of the approval.
- Evidence of internal control documentation surrounding all compliance requirements outlined in the compliance supplement (once released)
- Matching requirements and how those are tracked
- Subrecipient funding
- Time and effort documentation

Ways CLA Can Help!

- Work with your organization to develop effective strategies for implementing grant management policies and procedures
- Assist with resources to ease the burden of grant compliance
- Help your organization with subrecipient risk assessment and monitoring
- Assist in the setup and processing of applications for grant programs or rental assistance initiatives
- Articles, future events, and other resources at CLAconnect.com:
  - Governments: Review This Checklist Before Spending COVID-19 Relief Funds : 2021 : Articles : Resources : CLA (CliftonLarsonAllen) (claconnect.com)
  - How to Monitor Subrecipients of COVID-19 Relief Funds: https://www.claconnect.com/resources/articles/2021/how-to-monitor-subrecipients-of-covid19-relief-funds
  - Government : Industries : CLA (CliftonLarsonAllen) (claconnect.com)
  - Grant Compliance Services : Outsourcing : Services : CLA (CliftonLarsonAllen) (claconnect.com)

Thank you!

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10 Minute Break

GASB Update

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Learning Objectives

At the end of this session, you will be able to:

- Identify how to develop broad recognition of upcoming GASB pronouncements and of the GASB 87 lease standard
- Describe provisions of recent GASBs and the implementation impact on financing reporting and disclosures
- Identify lessons learned from implementation of GASB 84 and GASB 97
- Identify the disclosure requirements for the new lease standard
- Determine whether an arrangement contains a lease
- Determine some effective approaches in assessing and implementing the lease standard
- Recognize both qualitative and quantitative disclosure requirements for leases
- Describe the steps for calculating amounts and example journal entries for implementation of the lease standard

GASB Pronouncements Implemented in 2020

- **GASB Statement No. 83, *Certain Asset Retirement Obligations***
- **GASB Statement No. 84, *Fiduciary Activities***
- **GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements***
- **GASB Statement No. 90, *Majority Equity Interests*—an amendment of GASB Statements No. 14 and No. 61**
- **GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance***

Upcoming GASB Statements

- **GASB Statement No. 87, *Leases***
- **GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period***
- **GASB Statement No. 91, *Conduit Debt Obligations***
- **GASB Statement No. 93, *Replacement of Interbank Offered Rates***
- **GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements***
- **GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32**

GASB 88 – Direct Borrowing Disclosures

- A government should disclose in notes to financial statements summarized information about the following items:

  a. Amount of unused lines of credit

  b. Assets pledged as collateral for debt

  c. Terms specified in debt agreements related to significant events of default with finance-related consequences, termination events with finance related consequences, and subjective acceleration clauses.

- In notes to financial statements, a government should separate information in debt disclosures regarding (a) direct borrowings and direct placements of debt from (b) other debt.

GASB 83 – Asset Retirement Obligations

- A government should recognize an ARO when the liability is incurred and reasonably estimable. Incurrence of a liability is manifested by the occurrence of both an external obligating event and an internal obligating event resulting from normal operations. An obligating event refers to an event whose occurrence determines the timing for recognition of an ARO.
- An external obligating event is one of the following:

  a. Approval of federal, state, or local laws or regulations

  b. Creation of a legally binding contract c. Issuance of a court judgment.

Internal Obligating Events

- An internal obligating event is one of the following:
  - For contamination-related AROs, the event is the occurrence of contamination. For purposes of this Statement, contamination refers only to contamination that (1) is a result of the normal operation of a tangible capital asset (such as nuclear contamination of a nuclear reactor vessel as a result of the normal operation of a nuclear power plant) and (2) is not in the scope of Statement 49, as amended.
  - For non-contamination-related AROs: (1) If the pattern of incurrence of the liability is based on the use of the tangible capital asset, the event is placing that capital asset into operation and consuming a portion of the usable capacity by the normal operations of that capital asset.

GASB 91 – Conduit Debt

- A conduit debt obligation is defined as a debt instrument having all of the following characteristics:
  - There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.
  - The issuer and the third-party obligor are not within the same financial reporting entity.
  - The debt obligation is not a parity bond of the issuer, nor is it cross collateralized with other debt of the issuer.
  - The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
  - The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments)

GASB 91 – Conduit Debt – Financial Reporting

- All conduit debt obligations involve the issuer making a limited commitment. An issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. Evaluate annually as circumstances may change
- Capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities.
- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset. If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.
- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources.

GASB 84 – Fiduciary Activities

- Fiduciary Net Position vs Liability
  - Liabilities should be recognized when an event has occurred that compels the government to disburse fiduciary resources or when no further action, approval, or condition or required to be taken to release the assets
    - Example: County recognizes a liability for taxes collected for others

GASB 84 – Fiduciary Activities

- Escrow Accounts
  - Different than being held in a trust account
  - Amounts held in escrow accounts are not automatically considered fiduciary.
  - Need to consider whether the resources could be considered "own-source" (can benefit the government)

GASB 84 – Fiduciary Activities

- Receivables in a Fiduciary Fund
  - Can meet the definition of "control"
  - Example: Property tax receivable for taxes levied in December to be collected in the subsequent year.

GASB 84 – Fiduciary Activities

- Potential Impact to Budgetary Comparison Schedules
  - Activities included in governmental activities that were previously fiduciary activities can impact the budgetary comparison schedules
  - Can consider showing a reconciliation between the budgetary comparison schedule and the statement of revenues, expenditures, and changes in fund balance

GASB 97 – Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 and Deferred Compensation plans

- Revises the guidance added in the Implementation Guide for GASB 84
- In many instances - removes requirement to include 457, Deferred Compensation, and Defined Contribution Plans as Fiduciary Activities

GASB 97 – Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 and Deferred Compensation plans

- *Key Considerations:*
  - Does the plan have a governing board?
  - Are there multiple investment options provided by the plan?
    - Selection of a "menu" of available investment options does not count as "control" of investments

GASB 87 – Understanding the New Lease Standard

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Learning Objectives

- Develop a broad recognition of the new GASB standard
- Identify the disclosure requirements for the new lease standard
- Determine whether an arrangement contains a lease
- Determine some effective approaches in assessing and implementing the new standard
- Recognize both qualitative and quantitative disclosure requirements
- Describe the steps for calculating amounts and example journal entries for implementation

Effective Date

Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance

Statement No. 87, Leases by 18 months from original release

Previously

FYE December 31, 2020

Now

FYE June 30, 2022

Earlier application encouraged

Definition of a 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
- Examples of nonfinancial assets
  - Buildings
  - Land
  - Vehicles
  - Equipment

Definition of a Lease (Continued)

An identified nonfinancial asset

Is explicitly or implicitly specified

+

Convey control of <u>the right to use</u> asset during the term

Right to obtain the present service capacity from use of the underlying asset

Right to determine the nature and manner of use of the underlying asset

Categories of Leases

Short-Term Leases	Contracts that Transfer Ownership	All Other Leases
• Lease term is 12 months or less • Recognize expense (lessee) and revenue (lessor) based on contract provisions, as due	• Term typically longer than 12 months • Recognize a sale of the underlying asset (gain or loss)	• Doesn't qualify as a short-term lease or ownership transfer contract • Recognize an intangible right to use lease asset (lessee) and depreciate and account for the lease asset (lessor)

All Other Leases

For lessees

- Lease liability
  - Present value of payments expected to be made
  - Payments result in reduction of the lease liability and recognition of interest expense
- Lease asset
  - Sum of the initial measurement of the lease liability, initial direct costs, and lease payments made at or prior to commencement, less any lease incentives received from the lessor at or before the commencement of the lease term
  - Amortized over the shorter of the lease terms or the useful life of the underlying asset

For lessors

- Lease receivable
  - Present value of lease payments expected to be received
  - Receipts result in reduction of the lease receivable and recognition of inflows and revenues
- Deferred inflow of resources
  - Sum of the initial measurement of the lease liability and lease payments received at or prior to commencement, less any lease incentives received from the lessor at or before the commencement of the lease term
  - Not derecognize the asset underlying the lease and continue to record depreciation, as applicable.

Implementation Considerations

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Example: Definition of Lease

Does a contract which allows the lessor to replace the underlying asset with an identical asset (substantive substitution right) affect the application of GASB 87?

Answer: Definition of Lease

No!

A lease conveys control of the *right to use* another entity's asset. That right is distinct from the underlying asset.

The right-to-use asset relates to the *service capacity* associated with an underlying asset, rather than the underlying asset itself.

Supply Contract vs. Lease

Lease?

Supply Contract?

Supply Contracts	Contracts that are intended to result in the purchase or sale of a *commodity* used in the normal course of operations.
	Normally do not convey the right to use the underlying asset.

But wait….it depends…it could be a lease

Example: Supply Contract

To obtain access to additional power during the warmest months of the year, Entity A enters into a contract with a Company B for electricity from March through October for three years.

Entity A makes fixed payments to obtain exclusive rights to the present service capacity and to determine the nature and manner of use of the turbine used to generate the electricity.

In addition, the government makes variable payments that are based on actual usage and output.

Does this contract include a lease?

Answer: Supply Contract

Yes!

While the Board stated that GASB 87 does not apply to supply contracts, this contract conveys control of the right to use the underlying asset (implicit asset = turbine) as specified in the contract for a period of time in addition to the right to the output generated by the underlying asset.

The portion of the contract that requires fixed payments pertains to the full control of the asset (assumed to be a turbine) and meets the definition of a lease.

Other Examples of Embedded Leases in Service Contracts

- Cafeteria?
- Soda fountains?
- Water coolers?
- Coffee machines?




Lease Term

The lease term is the period during which a lessee has a **noncancelable right** to use an underlying asset, plus the following periods, if applicable:

Keep in mind, these have to be reasonably certain (of being/not being) exercised, based on all relevant factors…

Periods covered by a lessee's option to extend the lease

Periods covered by a lessee's option to terminate the lease

Periods covered by a lessor's option to extend the lease

Periods covered by a lessor's option to terminate the lease

Regulated Leases: Example

An airport has a lease contract with an airline. The contract includes space for aeronautical use as well as nonaeronautical use, as defined by the Federal Aviation Administration.

How should you account for this scenario?

Regulated Leases: Example

A single contract may contain more than one lease.

While the lease of airport aeronautical space is expected to meet the criteria for treatment as a regulated lease, a lease of airport space for nonaeronautical use is not expected to meet the criteria…therefore the components should be separated in accordance with the multiple component guidance.

Service Concession Arrangements

Service Concession Arrangement (SCA) is a lease-like arrangement, GASB maintains that the lease-like portion of those transactions must be addressed within consideration of the entirety of an SCA, which is specifically scoped out of Statement 87.

Instead, the accounting treatment for SCAs is specifically addressed in GASB Statement No. 60 ***Accounting and Financial Reporting for Service Concession Arrangements***

Other Contract Considerations

- Leases in which the underlying asset is financed with conduit debt (issued to finance capital assets for another entity) are excluded from this statement (unless both the underlying asset and conduit debt are reported by the lessor), due to accounting complexities as noted in GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations*.

- In a continuation of guidance in *Implementation Guide No. 2015-1*, GASB 96 explicitly excludes computer software licensing agreements from consideration in GASB 87 due to unique features and complexities of those transactions.
    - These contracts are expected to be covered in future guidance addressing information technology arrangements

Initial Direct Costs

Costs to originate a lease incurred in transactions with independent third parties that:

(a) result directly from and are essential to acquiring that lease and

(b) would not have been incurred had that leasing transaction not occurred

Certain costs directly related to specified activities performed by the lessor for that lease.

Examples:

- Evaluating the prospective lessee's financial condition
- Evaluating and recording guarantees, collateral, and other security arrangements
- Preparing & processing lease documents
- Negotiating lease terms
- Closing the transaction

Other Considerations

Discount rate

- Lessees
  - Interest rate charged by lessor, which may be an implicit rate (when determinable)
  - The lessee's incremental borrowing rate
- Lessors – rate it charges the lessee
- Discount rates should only be reassessed in the following instances:
  - Lessee - Upon a change in the lease term or a change in determination as to whether the lessee is reasonably certain to exercise a purchase option.
  - Lessor - Upon a change in lease term or a change in interest rate charged to the lessee.

Separating Lease and Non-lease Components

1. Separate lease components from non-lease components (e.g., copy machine plus toner cartridges)
2. Services are non-lease components (e.g., maintenance, CAM, utilities)
3. Allocate the contract price based on 'reasonable' individual component prices
4. Maximize the use of observable information in estimates, if individual prices are not available or unreasonable
5. **Only** if estimating individual prices is **not practical**, may multiple component contracts be accounted for as a single lease unit

GASB: 'inconvenient' does not fall under 'not practical'!

Process Changes

The new processes have to be documented

- Because of the absence of a uniform way of processing leases, most governments haven't followed consistent processes for requisitioning or monitoring leased property or equipment

Strong internal controls have to be in place

- All leases will become part of financial statements, which will require a different level of scrutiny
  - Scrutiny of the tracking of accounting treatment
  - Scrutiny of the processes surrounding lease management and lease lifecycles

- Need to rethink the way the governmental entity handles lease terminations, lease bookings, and lease negotiations

Process change will likely create opportunities for cost savings

Disclosures-Qualitative

New disclosure requirements in **bold**

- General description of the nature of leasing arrangements
- **Lessee to include:**
  - **The basis, terms, and conditions on which variable payments are determined, or the existence, terms and conditions of residual value guarantees provided by lessee, either of which are <u>not</u> included in the measurement of lease liability**
- **Lessor to include:**
  - **The basis, terms, and conditions of any variable payments <u>not</u> included in measurement of the lease receivable are determined**
  - **The existence, terms, and conditions of options by the lessee to terminate the lease, or to abate payments if the lessor government has issued debt for which the principal and interest payments are secured by the lease payments**
- Terms and conditions of sublease transactions (separate from lease)
- Terms and conditions of sale-leaseback transactions (separated)
- Terms and conditions of lease-leaseback transactions (netted)
- Nature and extent of leasing transactions with related parties

Disclosures-Quantitative - Lessee

- Total amount of lease assets and related accumulated amortization, disclosed separately from other capital assets, and segregated by major classes of underlying assets
- The amount of outflows of resources [expenses] recognized in the reporting period for 1) variable payments and 2) other payments such as residual value guarantees or terminations 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
- Components of any loss associated with an impairment

Many of these disclosures were included under GASB 62, but only for capital leases, not including operating leases

Disclosures-Quantitative - Lessor

- 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

Disclosures - Certain Regulated Leases

- A general description of its agreements [subject to external laws, regulations, or legal rulings, such as regulated aviation leases]
- The extent to which capital assets are subject to preferential or exclusive use by counterparties under agreements, by class of asset and counterparty
- Total amount of lease-related inflows of resources recognized in the reporting period from these agreements, if that amount cannot be determined based on the amounts displayed on the face of the financial statements
- A schedule of expected future minimum payments under these agreements for each of the subsequent five years and in five-year increments thereafter
- The amount of inflows of resources recognized in the reporting period for variable payments not included in expected future minimum payments
- The existence, terms, and conditions of options by the lessee to terminate the lease or abate lease payments if the lessor government has issued debt for which the principal and interest payments are secured by the lease payments

Areas of Impact

- Current business activities
- Current financial and accounting policies (e.g., capex –approval process & signature authority, accrued liabilities)
- Contract negotiations
- Budgeting and governmental fund accounting
- Financial/IT systems –future software/ application needs & processes
- Internal controls
- Key metrics

5 Biggest Changes

- Operating leases are removed from lease classification; all leases are financings of the right-to-use an underlying asset
- Lease payments are capital financing outflows (instead of operating outflows), and lease expense will be interest on the liability and right-to-use asset amortization (instead of operating rent expense)
- Lessors will mirror lessees and recognize a lease receivable and corresponding deferred inflow of resources, while continuing to report the asset underlying the lease (distinctions of Sales-type, Direct-financing and Operating leases are removed)
- Lessor lease revenue recognized from amortizing the deferred inflow of resources
- Increased financial statement disclosures

Question and Answer (Q&A)

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Q&A #1 – GASB 87 Leases

- Question: A government leases land, which has a market rent of $100,000 per year, for $1 per year. Should the government apply the guidance in Statement 87 to that transaction?

- Answer: No – must be exchange or exchange-like transaction

Q&A #2 – GASB 87 Leases

- Question: Are cell phone towers or antenna placement agreements considered leases?

- Answer: Yes, if the agreement conveys control of the right to use the land on which the tower is placed or the connection point to which the antenna is affixed.

Q&A #3 and #4 – GASB 87 Leases

- Question 3: Pee-Wee Football of America League (Pee-Wee) has an agreement with a city to exclusively use the city's football fields at its recreational facility during football season. No other parties are allowed to use the fields at any time during football season. Does this agreement represent a lease?
- Question 4: Would this answer change if Pee-Wee had top priority of the football fields but had to allow access to others wanting to use the fields for compatible activities when not used by Pee-Wee?

- Answer: If the lessee is the only party allowed to access and use the land, then the contract conveys control of the right to use the underlying asset (the football fields).

Q&A #5 – GASB 87 Leases

- Question: Paragraph 8f of Statement 87 states that supply contracts do not apply. What is an example of a supply contract?
- Answer:
  - In a supply contract, such as a power purchase agreement, government has a right to some or all of the output generated by the underlying asset, but it does not have the ability to control the use of the underlying asset.
  - A government enters into a contract with a private party wherein the private party will design and build a solar farm based on the government's specifications. The solar farm will be located on the government's property, but title to the solar equipment will be retained by the private party. The contract requires the government to purchase all of the power generated from the solar farm and make payments based solely on the amount of power generated. The contract also requires the private party to dismantle and remove the solar farm at the end of the contract.
  - No lease of solar equipment because it is a supply contract; possible lease of land

Q&A #6 – GASB 87 Leases

- Question: A developer builds and leases a building to a government. The government is required to make payments during the three-year construction period. The government does not have access to the building until a certificate of occupancy is issued at the end of the construction period. When does the lease term begin?

- Answer: The right to use the underlying asset is the right to obtain the present service capacity from its use and the right to determine the nature and manner of its use. Thus, the lease term commences when the lessee gains physical possession of the asset or attains access to use the underlying asset.

Q&A #7 – GASB 87 Leases

- Question: 5 year non-cancelable lease and after 5 years, lease is month-to-month

- Answer: Holdover period is cancellable by either party and, therefore, is excluded from the lease term, as defined in paragraph 12 of Statement 87

Q&A #8 – GASB 87 Leases

- Question: 20 year lease with option to renew the lease for an additional 5 year period

- Answer:
    - Paragraph 14 of Statement 87 requires that, at the commencement of the lease term, the lessee and the lessor assess all factors relevant to the likelihood that the lessee or lessor will exercise lease extension or termination options
    - If the governmental lessee or lessor determines that it is reasonably certain that the option will be exercised, the lease term for the lessee or lessor would be 25 years

Q&A #9 – GASB 87 Leases

- Question: A lease contract allows either party to cancel the lease at any time but also provides for cancellation penalties. Are the cancellable periods excluded from the lease term?

- Answer: Paragraph 12 of Statement 87 requires that periods for which both the lessee and the lessor have an option to terminate the lease without permission from the other party be excluded from the lease term as cancellable periods. The presence of cancellation penalties does not affect this conclusion.

Q&A #10 – GASB 87 Leases

- Question: A lease contract allows only the lessee to cancel the lease at any time but also provides for cancellation penalties. Are the cancellable periods excluded from the lease term?

- Answer: Paragraph 12 of Statement 87 requires that periods covered by either a lessee or a lessor option to terminate the lease be included in the lease term if it is reasonably certain, based on all relevant factors, that the lessee or lessor will not exercise the option.

Q&A #11 – GASB 87 Leases

- Question: A government enters into a lease that includes an optional extension period of three years, exercisable only by the lessee. The payment schedule for the optional period will be negotiated at the time the option is exercised. The lessee has an ongoing relationship with the lessor and is reasonably certain that it will exercise its option to extend. How should the lessee measure the lease liability if the payment amount for the optional period is not specified in the contract?

- Answer: Payments may be estimated based on the lessee and lessor's ongoing relationship and professional judgment, maximizing the use of observable information.

Q&A #12 – GASB 87 Leases

- Question: Lease includes 3 year option period exercisable only by the lessee. Schedule for the optional period will be negotiated at the time the option is exercised. Seems relatively certain that lessee will extend. How will the lease liability be measured?

- Answer: Include the option period in the lease liability calculation. Estimate payments based on lessee/lessor ongoing relationship and other observable information.

Q&A #13 – GASB 87 Leases

- Question: 5 year lease; lease payments for first year are $5,000 per month. In subsequent years, lease payments will fluctuate based on CPI. How will the lease liability be calculated?

- Answer:
  - If lease payments are indexed to CPI, payments to be included in initial measurement of lease liability should be based on CPI in effect when lease commences (thus no change in annual payments).
  - Lease liability = PV of $5k per month over 60 months

Q&A #14 – GASB 87 Leases

- Question: A school district leases buses, and lease payments include a fixed portion plus a variable portion based on number of miles driven. Include variable portion in lease liability if school district is reasonably certain of the minimum number of miles that will be driven based on established routes?

- Answer: NO!! Paragraph 22 – any variable payments based on future performance of lessee or usage of underlying asset should not be included in measurement of lease liability (expense as obligation is incurred).

Q&A #15 – GASB 87 Leases

- Question: Can a government apply a capitalization threshold for recording leased liabilities, similar to recording capital assets, including leased assets?

- Answer: When applying a capitalization threshold to leases, lessees should consider the significance of the lease liability in addition to the significance of the leased asset. Significant lease liabilities, either individually or in the aggregate, should be recognized.

GASB 87 – Implementing the New Lease Standard

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GASB 87 – Steps for calculating leases - LESSEE

1. **Compile a list of all leases currently in place**

- Keep a folder with all of the lease agreements that they currently have in-place

- Be informed of any new leases entered into during the year

GASB 87 – Steps for calculating leases - LESSEE

2. Document key information from the lease

- Lease commencement date (date of ownership of leased asset)
- Understanding of underlying asset (type, estimated useful life, etc)
- General description of lease (for footnote disclosure)
- Lease term
- Payment information – frequency/timing of payments, variable payments
- Interest rate (either included in lease or entity's estimated borrowing rate)

GASB 87 – Steps for calculating leases - LESSEE

3. Calculate the Present Value of Lease Payments

	A	B	C	D
1			Discount Rate	3.50%
2				
3	Payment Date	Lease Payment #	Lease Payment	Present Value
4	3/10/2022	1	(10,000.00)	10,000.00
5	4/10/2022	2	(10,000.00)	9,970.92
6	5/10/2022	3	(10,000.00)	9,941.92
7	6/10/2022	4	(11,000.00)	10,904.31
8	7/10/2022	5	(11,000.00)	10,872.60
9	8/10/2022	6	(11,000.00)	10,840.98
10	9/10/2022	7	(12,000.00)	11,792.13
11	10/10/2022	8	(12,000.00)	11,757.83
12	11/10/2022	9	(12,000.00)	11,723.64
13	12/10/2022	10	(13,000.00)	12,663.67
14	1/10/2023	11	(13,000.00)	12,626.85
15	2/10/2023	12	(13,000.00)	12,590.12
16	3/10/2023	13	(14,000.00)	13,519.16
17	4/10/2023	14	(14,000.00)	13,479.85
18	5/10/2023	15	(14,000.00)	13,440.65
19		Total	(180,000.00)	$ 176,124.63

GASB 87 – Steps for calculating leases - LESSEE

Key Considerations:

- The present value of lease payments is recorded as the lease liability
- Can use =PV() formula in Excel to calculate the present value
  - Remember to enter the interest rate in the formula based on the number of periods
    - Example: 5% annual interest rate for monthly payments is entered as 0.4167% (5% / 12)
- Exclude down payments, prepayments or other payments prior to lease commencement date
- Net lease incentives (“rent holidays” or rebates) with payments

GASB 87 – Steps for calculating leases - LESSEE

Included in calculation of present value for lease asset and lease liability:

- Variable Payment that is “fixed in substance”
  - Example: Copier lease with a minimum of 1,000 pages at $0.05 per copy are included in the payment each month would be included as "fixed in substance" payment of $50 each month.
- Variable Payment based on an index or rate (like CPI)
  - Future lease payments are assumed to increase as if the index rate remains the same as the current rate through the entire lease term

Excluded in calculation of present value for lease asset and lease liability:

- Variable Payment based on performance
  - Required to disclose the terms of the variable payment in the footnotes
    - Example: Copier lease with an additional payment per copy used

GASB 87 – Steps for calculating leases - LESSEE

4. Create lease payment schedule with principal and interest

	A	B	C	D	E
1		Discount Rate	3.50%		
2					
3	Date	Balance	Interest	Principal	Total Payment
4	3/10/2022	176,124.63	-	10,000.00	10,000.00
5	4/10/2022	=B4-D4	=B5*C1/12	=E5-C5	10,000.00
6	5/10/2022	156,609.16	456.78	9,543.22	10,000.00
7	6/10/2022	147,065.94	428.94	10,571.06	11,000.00
8	7/10/2022	136,494.88	398.11	10,601.89	11,000.00
9	8/10/2022	125,892.99	367.19	10,632.81	11,000.00
10	9/10/2022	115,260.18	336.18	11,663.82	12,000.00
11	10/10/2022	103,596.36	302.16	11,697.84	12,000.00
12	11/10/2022	91,898.52	268.04	11,731.96	12,000.00
13	12/10/2022	80,166.56	233.82	12,766.18	13,000.00
14	1/10/2023	67,400.38	196.58	12,803.42	13,000.00
15	2/10/2023	54,596.96	159.24	12,840.76	13,000.00
16	3/10/2023	41,756.20	121.79	13,878.21	14,000.00
17	4/10/2023	27,877.99	81.31	13,918.69	14,000.00
18	5/10/2023	13,959.30	40.70	13,959.30	14,000.00
19	Total	$ -	$ 3,875.37	$ 176,124.63	$ 180,000.00

**If not already determined in lease agreement*

GASB 87 – Steps for calculating leases - LESSEE

How To:

- The payment schedule is created by multiplying the remaining principal (lease liability) by the interest rate (divided by number of annual payments) to determine the amount of interest expense per payment.
  - Repeat calculation for each payment
  - Lease liability should be zero when calculating the last lease payment
  - Same concept as a loan amortization schedule

GASB 87 – Steps for calculating leases - LESSEE

IMPORTANT – OPERATING LEASES:

- The lease payment schedule for operating leases for this calculation should begin as of the earliest period presented under GASB 87.
  - Payments prior to the earliest period presented would remain as expenses in previous years.

- This avoids the potential for significant restatements for operating leases in single year financial statements presentations. Restatement would still be necessary for comparative financial statements.
  - *Implementation Guide 2019-3 Q&A 4.76*

GASB 87 – Steps for calculating leases - LESSEE

5. Create amortization schedule for lease asset

Lease Asset Depreciation	
Lease Asset Value	$ 500,000.00
Is Asset Nondepreciable?	No - Depreciable
Depreciable Life	5 years
Lease Commencement Date	1/1/2022
Annual Depreciation Amount	$ 100,000.00

Year #	FY Ending:	Depreciation Amount
1	12/31/2022	$ 100,000.00
2	12/31/2023	100,000.00
3	12/31/2024	100,000.00
4	12/31/2025	100,000.00
5	12/31/2026	100,000.00

GASB 87 – Steps for calculating leases - LESSEE

Key Considerations

- *Lease asset = lease liability + payments prior to lease commencement*
  - Includes down payments and prepayments
- Asset is amortized over the lesser of the estimated useful life or the lease term
- Straight line amortization is acceptable
- If lease agreement contains a purchase option that is reasonably assumed to be exercised, asset is amortized over the estimated useful life of the asset
  - If the leased asset to be purchased is land, the land is considered nondepreciable
- Amortization can be grouped with depreciation expense for financial reporting

GASB 87 – Steps for calculating leases - LESSEE

6. Full accrual entries *(government-wide and business-type funds)*

Initial Recording:

- Debit to "Lease Asset" for present value of lease + payments prior to lease commencement
- Credit to "Lease Liability" for present value of lease
- Credit to "Cash" for any difference relating to payments prior to lease commencement

Recording Lease Payments:

- Debit to "Lease Liability" based on lease payment schedule from Step 4.
- Debit to "Interest Expense" based on lease payment schedule from Step 4.
- Credit to "Cash"

GASB 87 – Steps for calculating leases - LESSEE

6. Full accrual entries *(government-wide and business-type funds)*

Recording Amortization/Depreciation:

- Debit to “Depreciation Expense” based on amortization schedule
- Credit to “Accumulated Depreciation” for present value of lease

Recording Accrued Interest Payable:

- Debit to “Interest Expense”
- Credit to “Accrued Interest Payable”
  - Calculated identical to accrued interest for bonds and other long-term liabilities

GASB 87 – Steps for calculating leases - LESSEE

7. Modified accrual entries *(governmental funds)*

Initial Recording:

- Debit to “Lease Expenditure” for present value of lease payments
- Credit to “Other Financing Source – Lease” for present value of lease payments

Recording Lease Payments:

- Debit to “Principal – Lease” based on lease payment schedule from Step 4.
- Debit to “Interest Expense” based on lease payment schedule from Step 4.
- Credit to “Cash”

IMPORTANT: All leases will have a budgetary impact when the lease commences

GASB 87 – Steps for calculating leases - LESSEE

8. Consider Potential for Restatement – Capital Leases ONLY

Capital Leases that commenced prior to beginning of GASB 87 implementation year will need to be evaluated for potential restatement.

Need for a Restatement can come from two sources within the calculation:

1. Difference between lease liability and lease asset
   - Due to payments made prior to lease commencement date (i.e., significant down payment)

2. Total difference from previous years between principal payments (reduction in lease liability) and lease asset amortization

GASB 87 – Steps for calculating leases - LESSEE

8. Consider Potential for Restatement

May not need a restatement based on:

- Operating Leases (excluded under Implementation Guide 2019 Q4.76)
- Timing of the lease commencement date
- No Payments prior to lease commencement. Lease Asset equals Lease Liability at implementation
- Difference between reduction in principal and reduction in amortization expense is <u>not material</u>

GASB 87 - Required Disclosures - Lessee

Required Disclosures:

- General description of the lease
- Total amount of lease assets (by major class) and related accumulated amortization
    - Included in capital asset footnote table but shown separate from other capital assets (Q&A 4.41)
    - Capital Assets relating to capital leases will <u>need to be reclassified</u> into the lease section
- Amount of current year outflows related to variable payments
- Principal and interest requirements to maturity
    - First five years, and in five year increments after. Same presentation as debt schedules
- Commitments under leases before commencement of the lease term
- Components of any loss associated with an impairment

GASB 87 – Example Capital Asset Footnote

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	$ 1,000,000	$ -	$ -	$ 1,000,000
Total Capital Assets Not Being Depreciated	1,000,000	-	-	1,000,000
Capital Assets Being Depreciated:				
Furniture and Equipment	3,000,000	1,000,000	-	4,000,000
Total Capital Assets Being Depreciated	3,000,000	1,000,000	-	4,000,000
Lease Assets Being Amortized				
Buildings	5,000,000	-	-	5,000,000
Total Lease Assets Being Amortized	5,000,000	-	-	5,000,000
Less Capital Asset Accumulated Depreciation:				
Furniture and Equipment	(1,000,000)	(300,000)	-	(1,300,000)
Total Capital Asset Accumulated Depreciation	(1,000,000)	(300,000)	-	(1,300,000)
Less Lease Asset Accumulated Amortization				
Buildings	(2,000,000)	(500,000)	-	(2,500,000)
Total Lease Asset Accumulated Amortization	(2,000,000)	(500,000)	-	(2,500,000)

Lessor - GASB 87 Implementation Process

Follow similar steps as the lessee calculation:

1. Compile list of all leases where the entity is the lessor
2. Document key information from the leases
3. Calculate present value of future lease receipts
4. Create lease receipt schedule with principal and interest
   - Same process as for lessees. Required to use Interest Method (no straight-line)
5. Create Deferred Inflow of Resources amortization schedule
   - Match lease receipt schedule or straight-line
6. Determine full accrual entries, government-wide/business-type entries
7. Determine modified accrual entries
   - If lease is recorded in a governmental fund
8. Evaluate for potential restatement

GASB 87 – Steps for calculating leases - LESSOR

3. Calculate the Present Value of lease receipts

	A	B	C	D
1			Discount Rate	3.50%
2				
3	Payment Date	Lease Payment #	Lease Payment	Present Value
4	3/10/2022	1	(100,000.00)	100,000.00
5	3/10/2023	2	(100,000.00)	=PV(D1,B5-1,0,C5,1)
6	3/10/2024	3	(100,000.00)	$93,351.07
7	3/10/2025	4	(100,000.00)	$90,194.27
8	3/10/2026	5	(100,000.00)	$87,144.22
9	3/10/2027	6	(100,000.00)	$84,197.32
10	3/10/2028	7	(100,000.00)	$81,350.06
11	3/10/2029	8	(100,000.00)	$78,599.10
12	3/10/2030	9	(100,000.00)	$75,941.16
13	3/10/2031	10	(100,000.00)	$73,373.10
14		Total	(1,000,000.00)	860,768.65

Lessor - Initial Recognition

KEY CONSIDERATIONS

- Calculated as the present value of lease payments
  - Determine implicit rate, if not specifically stated in lease agreement
  - Reduced by any amounts determined to be uncollectible
  - Include variable payments fixed in substance
  - Include variable payments based on an index or rate
  - Exclude variable payments based on performance
  - Reduce payments by any incentives

GASB 87 – Steps for calculating leases - LESSOR

4. Create lease receipt schedule with principal and interest

	A	B	C	D	E	F
1		**Discount Rate**	3.50%			
2						
3	**Date**	**Balance**	**Interest**	**Principal**	**Total Receipts**	**FYE Interest Receivable**
4	3/10/2022	**860,768.65**	-	100,000.00	100,000.00	5,033.58
5	3/10/2023	**=B4-D4**	**=B5*C1**	**=E5-C5**	100,000.00	4,548.11
6	3/10/2024	687,395.55	24,058.84	75,941.16	100,000.00	4,045.65
7	3/10/2025	611,454.40	21,400.90	78,599.10	100,000.00	3,525.60
8	3/10/2026	532,855.30	18,649.94	81,350.06	100,000.00	2,987.36
9	3/10/2027	451,505.24	15,802.68	84,197.32	100,000.00	2,430.27
10	3/10/2028	367,307.92	12,855.78	87,144.22	100,000.00	1,853.69
11	3/10/2029	280,163.70	9,805.73	90,194.27	100,000.00	1,256.92
12	3/10/2030	189,969.43	6,648.93	93,351.07	100,000.00	639.27
13	3/10/2031	96,618.36	3,381.64	96,618.36	100,000.00	-
14		**Total**	**$ 139,231.35**	**$ 860,768.65**	**$ 1,000,000.00**	

GASB 87 – Steps for calculating leases - LESSOR

5. Create Deferred Inflow of Resources amortization schedule

	Lease Receivable
+	Receipts Prior to Lease Commencement
	Deferred Inflow of Resources - Lease

Amortization – Rational and systematic method

1. Interest Method
    - *Recommended if no receipts prior to commencement*
2. Straight-Line
3. Other rational and systematic method

GASB 87 – Steps for calculating leases - LESSOR

5. Create Deferred Inflow of Resources amortization schedule

Interest Method

Lease Receivable					Deferred Inflow - Lease		
Date	Balance	Interest	Principal	Total Receipts	Date	Balance	Lease Revenue
3/10/2022	860,768.65	-	100,000.00	100,000.00	3/10/2022	860,768.65	100,000.00
3/10/2023	760,768.65	26,626.90	73,373.10	100,000.00	3/10/2023	760,768.65	73,373.10
3/10/2024	687,395.55	24,058.84	75,941.16	100,000.00	3/10/2024	687,395.55	75,941.16
3/10/2025	611,454.40	21,400.90	78,599.10	100,000.00	3/10/2025	611,454.39	78,599.10
3/10/2026	532,855.30	18,649.94	81,350.06	100,000.00	3/10/2026	532,855.29	81,350.06
3/10/2027	451,505.24	15,802.68	84,197.31	100,000.00	3/10/2027	451,505.23	84,197.31
3/10/2028	367,307.92	12,855.78	87,144.22	100,000.00	3/10/2028	367,307.92	87,144.22
3/10/2029	280,163.70	9,805.73	90,194.27	100,000.00	3/10/2029	280,163.70	90,194.27
3/10/2030	189,969.43	6,648.93	93,351.07	100,000.00	3/10/2030	189,969.43	93,351.07
3/10/2031	96,618.36	3,381.64	96,618.36	100,000.00	3/10/2031	96,618.36	96,618.36
	Total	$ 139,231.35	$ 860,768.65	$ 1,000,000.00			860,768.65

GASB 87 – Steps for calculating leases - LESSOR

5. Create Deferred Inflow of Resources amortization schedule

Straight-Line

Lease Receivable						Deferred Inflow - Lease		
Date	Balance	Interest	Principal	Total Receipts		Date	Balance	Lease Revenue
3/10/2022	860,768.65	-	100,000.00	100,000.00		3/10/2022	960,768.65	96,076.87
3/10/2023	760,768.65	26,626.90	73,373.10	100,000.00		3/10/2023	864,691.78	96,076.87
3/10/2024	687,395.55	24,058.84	75,941.16	100,000.00		3/10/2024	768,614.91	96,076.87
3/10/2025	611,454.40	21,400.90	78,599.10	100,000.00		3/10/2025	672,538.04	96,076.87
3/10/2026	532,855.30	18,649.94	81,350.06	100,000.00		3/10/2026	576,461.17	96,076.87
3/10/2027	451,505.24	15,802.68	84,197.31	100,000.00		3/10/2027	480,384.30	96,076.87
3/10/2028	367,307.92	12,855.78	87,144.22	100,000.00		3/10/2028	384,307.43	96,076.87
3/10/2029	280,163.70	9,805.73	90,194.27	100,000.00		3/10/2029	288,230.56	96,076.87
3/10/2030	189,969.43	6,648.93	93,351.07	100,000.00		3/10/2030	192,153.69	96,076.87
3/10/2031	96,618.36	3,381.64	96,618.36	100,000.00		3/10/2031	96,076.82	96,076.82
	Total	**$ 139,231.35**	**$ 860,768.65**	**$ 1,000,000.00**				**960,768.65**

Lessor - Recording Subsequent Receipts

Recording Lease Receipts

- Debit Deferred Inflow of Resources – Lease based on the amortization schedule created in *Step 5*
- Credit Lease Revenue based on the amortization schedule created in *Step 5*

- Debit Cash for the total amount of the lease receipts
- Credit Lease Receivable based on the *Principal* amount in the payment schedule created in *Step 4*
- Credit Interest Income based on the *Interest* amount in the payment schedule created in *Step 4*

Lessor - Initial Recognition

- Potential Restatement:

  Restatement to re-recognize underlying asset if previously removed under pre-GASB 87 recording as a capital lease

Lessor - Financial Reporting

- *Governmental funds*
    - Recognize lease receivable and deferred inflow of resources.

- Government-wide and Business-type Funds
    - Recognize lease receivable and deferred inflow of resources.
    - *Should <u>NOT</u> derecognize or remove underlying asset, but continue to depreciate and evaluate for impairment*

Lessor - Disclosures

- *Disclosures:*
  - General description of the lease arrangement
  - Total amount of revenues
    - (if not directly presented on face of statements)
  - Total amount of revenues from variable payments
  - Existence, terms and conditions of options by lessee to terminate the lease or abate payments, when the lessor has issued debt secured by lease payments

Remeasurement

- As the “lease term” defined in GASB 87 includes periods that may be subject to re-negotiations in the future, circumstances of the lease agreement may significantly change from the initial recording.

- The lease liability/receivable should be remeasured if there is a change in the circumstances of the lease, such as:
  - Change in lease term (includes lease extensions)
  - Additional amounts are expected to be paid/received based on changes in circumstances outlined in the agreement
  - Change in interest rate the lessor charges the lessee, if used as the discount rate

Re-measurement *(continued)*

- When lease liabilities are remeasured, lease assets should be adjusted by the same amount.

- When lease receivables are re-measured, deferred inflows of resources relating to leases should be adjusted by the same amount.

IMPORTANT: *Need to consider whether changes to the lease should be considered a lease modification and re-measured OR a new lease agreement with termination of the previous lease*

Thank You!

Final Notes:

- Last session is Tuesday, June 22
- Materials will be available along with the recording of this session on claconnect.com within the next two days
- CPE Certificates will be distributed via email over the next few weeks

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