



GASB 87 Accounting

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Learning Objectives



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

- Identify how new lease standards impact financial reporting
- Determine whether an arrangement contains a lease
- Identify effective approaches in assessing and implementing the new standard
- Identify the effective date for the new lease accounting standards
- Identify the presentation requirements
- Recognize both qualitative and quantitative disclosure requirements



Overview

Why change lease accounting?

- Identification of “Right to Use” asset and corresponding liability
- All leases constitute a financing transaction and will be classified as such
- Improve comparability of leasing commitments and practices across entities, industries, jurisdictions, and capital markets
- Improve disclosures for commitments
- Provide more useful information to users of financial statements through improved disclosures



GASB 87 Timeline

- In June 2017, The Governmental Accounting Standards Board (GASB) issued GASB Statement 87, *Leases*, effective for reporting periods beginning after December 15, 2019 (effective July 1, 2020 for the year ending June 30, 2021, assuming the organization has a 6/30 fiscal year end).
- In May 2020, as a result of the global COVID-19 pandemic, the GASB delayed implementation for 18 months to be effective for reporting periods beginning after June 15, 2021 (effective July 1, 2021 for the fiscal year ending June 30, 2022).



Scope

GASB 87, Paragraph 8: This Statement does not apply to:

- a. Leases of intangible assets, including rights to explore for or to exploit natural resources such as oil, gas, and minerals and similar nonregenerative resources; licensing contracts for items such as motion picture films, video recordings, plays, manuscripts, patents, and copyrights; and licensing contracts for computer software. In sublease transactions, however, this Statement does not apply to the intangible right-to-use assets that are created by the original leases of tangible underlying assets.
- b. Leases of biological assets, including timber, living plants, and living animals.
- c. Leases of inventory.
- d. Contracts that meet the definition of a service concession arrangement in paragraph 4 of Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements.
- e. Leases in which the underlying asset is financed with outstanding conduit debt, unless both the underlying asset and the conduit debt are reported by the lessor.
- f. Supply contracts, such as power purchase agreements.



Categories of Leases

- Introduces three categories of leases:
- Short-Term Leases
 - Lease term is 12 months or less
 - Recognize expense (lessee) and revenue (lessor) based on contract provisions, as due
- Contracts that Transfer Ownership
 - Term typically longer than 12 months
 - Recognize a sale of the underlying asset (gain or loss)
- Long-term Leases
 - Longer than 12 months



Definition of a Lease

- A contract that conveys control of the right to use another entity's nonfinancial asset (underlying asset) as specified by the contract for a period of time in an exchange or exchange-like transaction
- Control requires both of the following:
 - (1) the right to obtain the present service capacity from use of the underlying asset, and
 - (2) the right to determine the nature and manner of use of the underlying asset
- Control applied to the right-to-use lease asset (a capital asset) "specified in the contract"
 - Control criteria NOT limited to contracts that convey substantially all of the present service capacity from use of the underlying asset
 - Right-to-use lease assets include rights to use underlying assets for portions of time, such as certain days each week or certain hours each day



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.

*** Substitution with an essentially identical asset allows the lessee to maintain control of the right to use the service capacity of another entity's underlying asset and therefore does not violate the definition of a lease.*



Lease Term

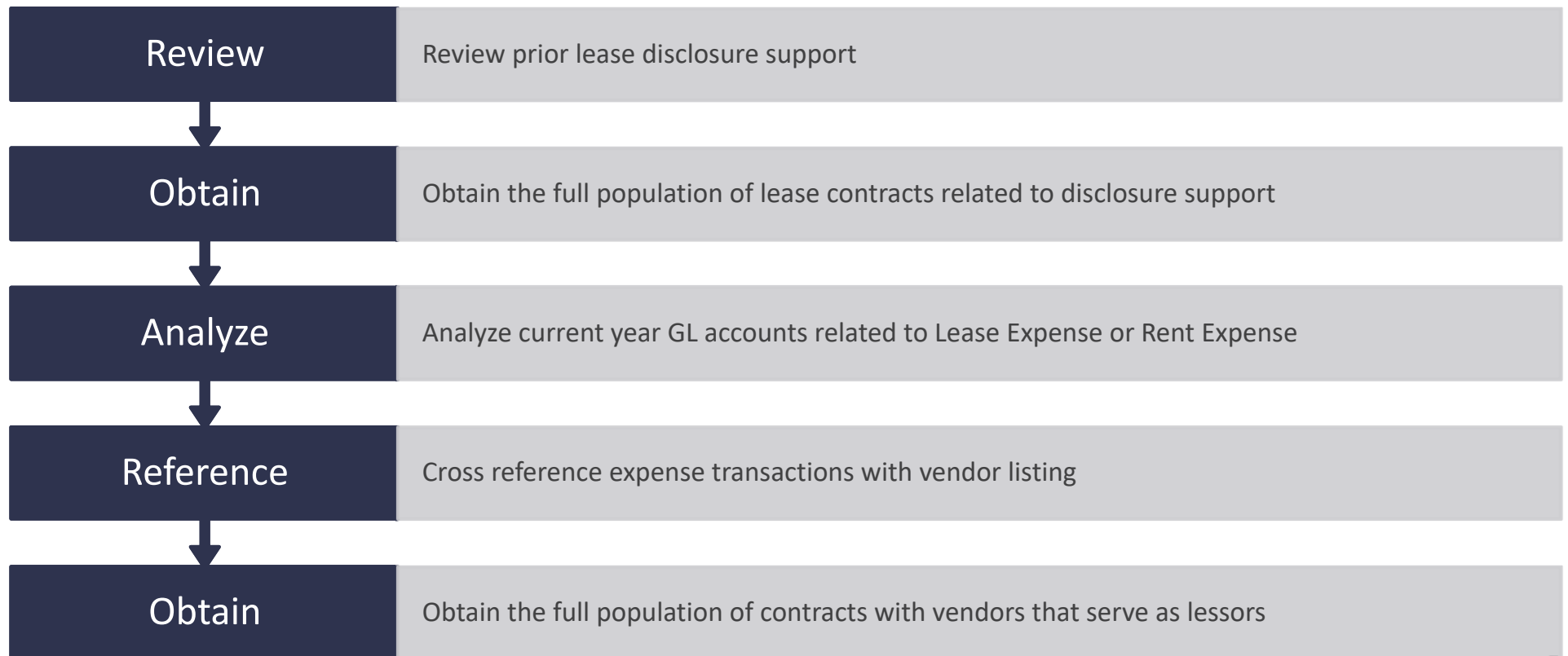
The lease term is the period during which a lessee has a noncancelable right to use an underlying asset, plus the following periods if applicable:

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



Explicit Leases – Determine Full Population



Explicit Leases – Practical Advice

Categorize the following:

- Short Term Leases (12 months or less)
- Real Estate Leases
- Non-Real Estate Leases
- Lessee/Lessor contracts

Review lease contracts to identify follow-up requirements:

- Delivery Dates
- Occupancy Dates



Lease Term...Keep in Mind

Rolling month-to-month or holdover leases are cancelable if both lessee and lessor have option to terminate at any time.

Periods where both lessee and lessor have an option to terminate without permission from the other party (or if both parties have to agree to extend) are cancelable periods and excluded from the lease term.



Lease Accounting Software/Sub Ledger



Consider the benefits of using lease accounting software (Microsoft Excel does not provide a stable platform)



Determine whether current ERP platform offers lease accounting sub ledger



Consider various cloud-based lease accounting software packages that are available



Review software demos from several vendors, assess available tools, and determine the best solution for the circumstances



Create Opportunities

Lease Accounting Software/Sub ledger



The sub ledger will need to be configured to generate journal entries at the desired level of detail within the accounting ledger structure (top-side, department/division level, etc.)



Consider as part of the configuration process the financial reporting requirements (governmental funds vs proprietary funds)



After configuration, a small test sample of records should be entered to validate the output based on the configuration and calculations (journal entries and other reports)



Perform manual calculations and compare against sub ledger output



Embedded Leases

Embedded leases may potentially exist in vendor arrangements where the supplier or service provider employs tangible property in the delivery of the supply or the provision of the service.

Assessment is required to determine whether tangible property would be considered a leased asset in compliance with the standard (an identified asset used solely for the customer's benefit and is controlled by the customer, etc.).



Embedded Leases – Assessment

Perform methodical embedded lease assessment:

- Identify long term (greater than 12 months) service and supply contract vendors that have the following characteristics:
 - Employ tangible property to satisfy contract
 - Fixed minimum spending requirement (PO contracts are automatically excluded from consideration)
- Analyze contracts to determine whether those contracts contain an embedded lease
- Document process and results



Discount Rate

Lessees:

- Interest rate charged by lessor, which may be an implicit rate (when determinable), or
- The lessee's incremental borrowing rate (IBR)

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.



Discount Rate – Other Considerations

- Organizations may consult with their Treasury Department as part of the process of developing an IBR.
- Some organizations create their own analysis to develop an IBR.
- For governmental organizations with bond issuances, the bond yield may be an appropriate starting point.
- The methodology developed to calculate the IBR should be consistent, repeatable, and well documented.





Governmental Accounting

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Governmental Accounting



- Governmental organizations are required to report their financial results at the fund level. Many governmental organizations have more than one fund or fund type.
- For the purposes of implementing GASB 87, there are two types of funds that we will need to understand:
 - Governmental Funds: Reported on a Modified Accrual Basis of Accounting
 - General Fund
 - Capital Projects Fund
 - Special Revenue Fund
 - Debt Service Fund
 - Permanent Fund
 - Proprietary Funds: Reported on an Accrual Basis of Accounting
 - Enterprise Fund
 - Internal Service Fund
- Due to the differences in reporting requirements, the sub ledger software selected by the entity will need to be configured to identify the fund to which each lease is recorded.





Lessee Accounting

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Lessee Accounting

Day 1 Journal Entry:

Accrual Accounting

Dr. Right-to-Use Asset

Cr. Short Term Lease Liability

Cr. Long Term Lease Liability

- To record a Right-to-Use Asset and Lease Liability at lease inception.

Modified Accrual Accounting

Dr. Expenditure: Lease right-to-use asset

Cr. Other financing source: Lease financing

- To record the lease agreement at the present value of the minimum lease payments



Lessee Accounting

- GASB 87, paragraph 20: At the commencement of the lease term, a lessee should recognize a lease liability and an intangible right-to-use lease asset (a capital asset hereinafter referred to as the lease asset), except as provided in paragraphs 16 – 18 (short-term leases), and paragraph 19 (contracts that transfer ownership).



Lessee Accounting

- GASB 87, paragraph 21: A lessee initially should measure the lease liability at the present value of payments expected to be made during the lease term. Measurement of the lease liability should include the following, if required by a lease:
 - a. Fixed payments
 - b. Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the lease term.
 - c. Variable payments that are fixed in substance (as discussed in paragraph 22)
 - d. Amounts that are reasonably certain of being required to be paid by the lessee under residual value guarantees
 - e. The exercise price of a purchase option if it is reasonably certain that the lessee will exercise that option
 - f. Payments for penalties for terminating the lease, if the lease term reflects the lessee exercising (1) an option to terminate the lease or (2) a fiscal funding or cancellation clause
 - g. Any lease incentives (as discussed in paragraphs 61 and 62) receivable from the lessor
 - h. Any other payments that are reasonably certain of being required based on an assessment of all relevant factors.



Lessee Accounting

- GASB 87, paragraph 22: Variable payments based on future performance of the lessee or usage of the underlying asset should not be included in the measurement of the lease liability. Rather, those variable payments should be recognized as outflows of resources (for example, expense) in the period in which the obligation for those payments is incurred. However, any component of those variable payments that is fixed in substance should be included in the measurement of the lease liability.
- GASB 87, paragraph 23: The future lease payments should be discounted using the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease. If the interest rate cannot be readily determined by the lessee, the lessee's estimated incremental borrowing rate (an estimate of the interest rate that would be charged for borrowing the lease payment amounts during the lease term) should be used. Lessees are not required to apply the guidance for imputation of interest in paragraphs 173-187 of Statement 62 but may do so as a means of determining the interest rate implicit in the lease.



Lessee Accounting

Year End Entry for Proprietary Funds:

Accrual Accounting

Dr. Short Term Lease Liability

Dr. Amortization Expense - Leases

Dr. Interest Expense - Leases

Cr. Accumulated Amortization – Right-to-Use Asset

Cr. Cash/AP

- To record monthly lease payment and related activity.

Dr. Long Term Lease Liability

Cr. Short Term Lease Liability

- To reclassify LT Lease Liability to ST so ST Lease Liability always consists of the next 12 months of principal payments.



Lessee Accounting

Year-End Entry for Governmental Funds:

Modified Accrual Accounting

Dr. Expenditure: Lease financing principal

Dr. Expenditure: Interest

Cr. Cash

- To record the first payment of interest and principal on the long-term lease.



Lessee Accounting

- GASB 87, paragraph 24: In subsequent financial reporting periods, the lessee should calculate the amortization of the discount on the lease liability and report that amount as an outflow of resources (for example, interest expense) for the period. Any payments made should be allocated first to the accrued interest liability and then to the lease liability.



Detailed Calculation

Annual Rate:	6.2%									
# of Pmts:	12									
Period Rate:	0.52%									
	Commence	1st full period	Final pmt	End date						
Year	2016	2016	2017	2017						
Month	5	5	4	4						
Day	1	1	1	30						
Days	359				PV :	\$33,249.52				
Months	12				TI:	(10,000.00)	enter negative		Total expense	24,200.00
					Prepaid:	-			Full month	2,016.67
First pmt date:	5/1/2016	1st partial month	2850.00		IDCs:	-			1st partial month	2,016.67
First full month payment:	5/1/2016	End partial month	0.00			23,249.52			End partial month	-
Days to periodic pmt:	0								Pro rated SL	2,016.67
Final pmt:	4/1/2017									
End date:	4/30/2017									



Detailed Calculation – Finance Lease

Full month pmt:		2850	34,200.00	(950.48)	33,249.52	23,249.52	(23,249.52)	-
								ROU Balance
	DATE	PERIOD	CASH DUE	INTEREST	PRINCIPAL	ROU Amort	Accum. Amort.	\$23,249.52
.	05/01/16	0	2,850.00	(157.06)	2,692.94	1,937.46	(1,937.46)	21,312.06
.	6/1/2016	1	2,850.00	(143.15)	2,706.85	1,937.46	(3,874.92)	19,374.60
.	7/1/2016	2	2,850.00	(129.17)	2,720.83	1,937.46	(5,812.38)	17,437.14
.	8/1/2016	3	2,850.00	(115.11)	2,734.89	1,937.46	(7,749.84)	15,499.68
.	9/1/2016	4	2,850.00	(100.98)	2,749.02	1,937.46	(9,687.30)	13,562.22
.	10/1/2016	5	2,850.00	(86.77)	2,763.23	1,937.46	(11,624.76)	11,624.76
.	11/1/2016	6	2,850.00	(72.50)	2,777.50	1,937.46	(13,562.22)	9,687.30
.	12/1/2016	7	2,850.00	(58.15)	2,791.85	1,937.46	(15,499.68)	7,749.84
.	1/1/2017	8	2,850.00	(43.72)	2,806.28	1,937.46	(17,437.14)	5,812.38
.	2/1/2017	9	2,850.00	(29.22)	2,820.78	1,937.46	(19,374.60)	3,874.92
.	3/1/2017	10	2,850.00	(14.65)	2,835.35	1,937.46	(21,312.06)	1,937.46
x	4/1/2017	11	2,850.00	0.00	2,850.00	1,937.46	(23,249.52)	(0.00)
			34,200.00	(950.48)	33,249.52	23,249.52		



Detailed Calculation – Finance Lease

24,200.00	\$33,249.52		(+ Interest-Cash)		
(+ Amort - Interest)	Sum of PVs	Liability Balance	Accretion of Liability	LT Liability	ST Liability
Lease Expense		(\$33,249.52)		-	(33,249.52)
2,094.52	\$2,850.00	(30,556.59)	2,692.94	-	(30,556.59)
2,080.61	\$2,835.35	(27,849.74)	2,706.85	-	(27,849.74)
2,066.63	\$2,820.78	(25,128.90)	2,720.83	-	(25,128.90)
2,052.57	\$2,806.28	(22,394.01)	2,734.89	-	(22,394.01)
2,038.44	\$2,791.85	(19,644.99)	2,749.02	-	(19,644.99)
2,024.23	\$2,777.50	(16,881.76)	2,763.23	-	(16,881.76)
2,009.96	\$2,763.23	(14,104.26)	2,777.50	-	(14,104.26)
1,995.61	\$2,749.02	(11,312.40)	2,791.85	-	(11,312.40)
1,981.18	\$2,734.89	(8,506.13)	2,806.28	-	(8,506.13)
1,966.68	\$2,720.83	(5,685.35)	2,820.78	-	(5,685.35)
1,952.11	\$2,706.85	(2,850.00)	2,835.35	-	(2,850.00)
1,937.46	\$2,692.94	0.00	2,850.00	-	-
24,200.00	33,249.52		33,249.52		



Detailed Calculation – Finance Lease

Journal Entries														
	ROU (SB)		Amortization Exp		Accum Amort		ST Lease Liability		LT Lease Liability		Interest Expense		AP/Cash	
Period	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
	23,249.52							(33,249.52)		-			10,000.00	
			1,937.46			(1,937.46)	2,692.94	-	-	-	157.06			(2,850.00)
			1,937.46			(3,874.92)	2,706.85	-	-	-	143.15			(2,850.00)
			1,937.46			(5,812.38)	2,720.83	-	-	-	129.17			(2,850.00)
			1,937.46			(7,749.84)	2,734.89	-	-	-	115.11			(2,850.00)
			1,937.46			(9,687.30)	2,749.02	-	-	-	100.98			(2,850.00)
			1,937.46			(11,624.76)	2,763.23	-	-	-	86.77			(2,850.00)
			1,937.46			(13,562.22)	2,777.50	-	-	-	72.50			(2,850.00)
			1,937.46			(15,499.68)	2,791.85	-	-	-	58.15			(2,850.00)
			1,937.46			(17,437.14)	2,806.28	-	-	-	43.72			(2,850.00)
			1,937.46			(19,374.60)	2,820.78	-	-	-	29.22			(2,850.00)
			1,937.46			(21,312.06)	2,835.35	-	-	-	14.65			(2,850.00)
			1,937.46			(23,249.52)	2,850.00	-	-	-	-			(2,850.00)





Lessor Accounting

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Lessor Accounting

Day 1 Journal Entry:

Dr. Lease Receivable

Cr. Deferred Inflow of Resources - Lease Revenue

- To record lease receivable at the present value of cash flows expected to be received at inception of lease



Lessor Accounting

- GASB 87, Paragraph 44: A lessor initially should measure the lease receivable at the present value of lease payments expected to be received during the lease term, reduced by any provision for estimated uncollectible amounts. Measurement of the lease receivable should include the following, if required by a lease:
 - Fixed Payments
 - Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the lease term
 - Variable payments that are fixed in substance (as discussed in paragraph 45)
 - Residual value guarantee payments that are fixed in substance (as discussed in paragraph 46)
 - Any lease incentives (as discussed in paragraphs 61 and 62) payable to the lessee.



Lessor Accounting

- GASB 87, paragraph 53: A lessor initially should measure the deferred inflow of resources as follows:
 - a. The amount of the initial measurement of the lease receivable (see paragraph 44).
 - b. Lease payments received from the lessee at or before the commencement of the lease term that relate to future periods (for example, the final month's rent), less any lease incentives (as discussed in paragraphs 61 and 62) paid to, or on behalf of, the lessee at or before the commencement of the lease term.



Lessor Accounting

- GASB 87, paragraph 45: Variable payments based on future performance of the lessee or usage of the underlying asset should not be included in the measurement of the lease receivable. Rather, those variable payments should be recognized as inflows of resources (for example, revenue) in the period to which those payments relate. However, any component of those variable payments that is fixed in substance should be included in the measurement of the lease receivable.
- GASB 87, paragraph 46: Amounts to be received under residual value guarantees (that are not fixed in substance) should be recognized as a receivable and an inflow of resources if (a) a guarantee payment is required (as agreed to by the lessee and lessor) and (b) the amount can be reasonably estimated. Amounts to be received for the exercise price of a purchase option or penalty for lease termination should be recognized as a receivable and an inflow of resources (for example, revenue) when those options are exercised.



Lessor Accounting

Day 2 Journal Entry:

Dr. Cash

Dr. Deferred Inflow of Resources – Lease Revenue

Cr. Lease Revenue

Cr. Lease Receivable

Cr. Interest Revenue

- To record monthly journal entry to recognize lease revenue.



Lessor Accounting

- GASB 87, paragraph 47: The future lease payments to be received should be discounted using the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease. Lessors are not required to apply the guidance for imputation of interest in paragraphs 173-187 of Statement 62 but may do so as a means of determining the interest rate implicit in the lease.
- GASB 87, paragraph 48: In subsequent financial reporting periods, the lessor should calculate the amortization of the discount on the lease receivable and report that amount as an inflow of resources (for example, interest revenue) for the period. Any payments received should be allocated first to the accrued interest receivable and then to the lease receivable.



Lessor Accounting

- GASB 87, paragraph 54: A lessor subsequently should recognize the deferred inflow of resources as inflows of resources (for example, revenue) in a systematic and rational manner over the term of the lease. The deferred inflow of resources generally should be adjusted by the same amount as any change resulting from the remeasurement of the lease receivable as discussed in paragraphs 49-52.
- GASB 87, paragraph 55: A lessor should not derecognize the asset underlying the lease. A lessor should continue to apply other applicable guidance to the underlying asset, including depreciation and impairment. However, if the lease contract requires the lessee to return the asset in its original or enhanced condition, a lessor should not depreciate the asset during the term.





Transition Guidance

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Transition Guidance

GASB 87, Paragraph 93: Changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practicable, for all prior periods presented. If restatement for prior periods is **not practicable**, the cumulative effect, if any, of applying this Statement should be reported as a **restatement of beginning net position (or fund balance or fund net position, as applicable)** for the earliest period restated. In the first period that this Statement is applied, the notes to financial statements should disclose the nature of the restatement and its effect. **Also, the reason for not restating prior periods presented should be disclosed.**



Transition Guidance

- Note: “not practicable” does not mean not convenient or not easy. GASB 87 does not provide a practical expedient or alternate method. Note from the last sentence that the reason for not restating should be disclosed. The client should restate unless there is a very good reason for not doing so.
- Most governmental entities do not report on a comparative basis. However, those entities that do report on a comparative basis may elect to report on a single year basis in the year of adoption.





Disclosures

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Disclosures - Qualitative

- 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 not included in the measurement of lease liability
- Lessor to include:
 - The basis, terms, and conditions of any variable payments not 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 (separated)
- 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 termination 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 impairment



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 the 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



Financial Statement Disclosures

Note XX Summary of Significant Accounting Policies

Adoption of New Accounting Standards:

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*. This standard requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions in the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

- Consider whether this standard footnote language should be updated for delay related to COVID-19. In May 2020, the GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. Included in the statement is the postponement of the effective date of GASB 87 as well as the Implementation Guide No. 2019-3 by 18 months.



Financial Statement Disclosures

Restatement of Beginning Net Position

Beginning net position was decreased \$xx for governmental activities and \$xx for business-type activities/NAME OF MAJOR FUND for the implementation of GASB Statement No. 87 to record the impact of recording right-to-use lease assets and related lease liabilities.

The Entity adopted the requirements of the guidance effective July 1, 2021, and has applied the provisions of this standard to the beginning of the earliest comparative period presented.



Financial Statement Disclosures - Lessee

Note XX Leases

The Entity leases equipment as well as certain operating and office facilities for various terms under long-term, non-cancelable lease agreements. The leases expire at various dates through 202X and provide for renewal options ranging from three months to six years.

OR

A summary of the Entity's lease terms and interest rates are as follows:



Financial Statement Disclosures - Lessee

Governmental Activities:

Leases with options to purchase equipment. Annual installments totaling \$xx plus interest at rates ranging from XX% to XX%, due dates ranging from ____.

Building and office spaces. Annual installments totalling \$xx plus interest at rates ranging from xx% to xx%, due dates ranging from ____.

Business-Type Activities:

Leases with options to purchase equipment. Annual installments totaling \$xx plus interest at rates ranging from XX% to XX%, due dates ranging from ____.



Financial Statement Disclosures - Lessee

INCLUDE THE FOLLOWING PARAGRAPHS, IF APPLICABLE

Certain equipment leases require the Entity to guarantee minimum residual values. Payments required by residual value guarantees are recognized in the period in which the obligation is paid. During the year ended June 30, 2022, the Entity made payments related to residual value guarantees and termination penalties totaling \$xx.

Certain facility leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases.

Some leases require variable payments based on future performance of the lessee or usage of the underlying asset and are not included in the measurement of the lease liability. Those variable payments are recognized as outflows of resources in the periods in which the obligation for those payments is incurred. During the year ended June 30, 2022, the Entity made variable payments as required by lease agreements totaling \$xx.



Total future minimum lease payments under lease agreements are as follows:

Financial Statement Disclosures - Lessee

	Governmental Activities		Business-Type Act		Total
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2023	\$ -----	\$ -----	\$ -----	\$ -----	\$ -----
2024	-----	-----	-----	-----	-----
2025	-----	-----	-----	-----	-----
2026	-----	-----	-----	-----	-----
2027	-----	-----	-----	-----	-----
2028-2032	-----	-----	-----	-----	-----
2033 and thereafter	-----	-----	-----	-----	-----
Total minimum lease payments	<u>\$ -----</u>	<u>\$ -----</u>	<u>\$ -----</u>	<u>\$ -----</u>	<u>\$ -----</u>



Right-to-use assets acquired through outstanding leases are shown below, by underlying asset class.

Financial Statement Disclosures - Lessee

	Governmental Activities	Business-Type Activities
Equipment	\$ -----	\$ -----
Buildings	-----	-----
Less: accumulated amortization	<u>-----</u>	<u>-----</u>
	<u>\$ -----</u>	<u>\$ -----</u>



Financial Statement Disclosures - Lessee

INCLUDE THE FOLLOWING PARAGRAPHS, IF APPLICABLE

The entity leases (describe property) from a related party, and a related right-to-use lease asset and liability have been recorded. The lease provides for minimum annual lease payments of \$xx,xxx through MM/DD/YY, plus contingent annual rental payments based on (describe basis).

For the year ended June 30, 2022, commitments under leases prior to the commencement of the lease term were \$xx.

For the year ended June 30, 2022, impairment related losses on lease assets were \$xx.

Total minimum lease payments have not been reduced by \$xx,xxx to be received in the future under non-cancelable subleases.

In 20xx, the Entity entered into a sale-leaseback arrangement. Under the arrangement, the Entity sold (description of property) and leased it back for a period of x years. The gain(loss) of \$xxx,xxx realized on the sale transaction has been recognized as a deferred inflow (outflow) of resources and will be subsequently recognized in the resource flows statement in a systematic and rational manner over the term of the lease.

In 20xx, the Entity entered into a lease-leaseback arrangement. Under the arrangement, the Entity leased an office building to a private party. The lease receivable and deferred inflow under the arrangement were \$xx. The Entity leased back one floor of the building to house its finance department and determined that, as the lessee, the initial lease liability and related lease asset are \$x. As a result, a net lease receivable (liability) and related deferred inflow (lease asset) of \$xx were recorded in the Statement of Net Position.



Financial Statement Disclosures - Lessor

Note XX Leases (SEPARATE REGULATED LEASES FROM OTHER LEASES)

The Entity, acting as lessor, leases (describe lease property) under long-term, non-cancelable lease payments. The leases expire at various dates through 202X and provide for renewal options ranging from three months to six years. During the year ended June 30, 2022, the Entity recognized \$xx and \$xx in lease revenue and interest revenue, respectively, pursuant to these contracts.

OR

A summary of the Entity's lease terms and interest rates is as follows:



Create Opportunities

Financial Statement Disclosures - Lessor

Governmental Activities:

Leases with options to purchase equipment. Annual installments totaling \$xx plus interest at rates ranging from XX% to XX%, due dates ranging from ____.

Building and office space leases. Annual installments totaling \$xx plus interest at rates ranging from XX% to XX%, due dates ranging from ____.

Business-Type Activities:

Leases with options to purchase equipment. Annual installments totaling \$xx plus interest at rates ranging from XX% to XX%, due dates ranging from ____.



Financial Statement Disclosures - Lessor

INCLUDE THE FOLLOWING PARAGRAPHS, IF APPLICABLE

Certain leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price index, subject to certain minimum increases.

Certain equipment leases require the lessee to guarantee minimum residual values. Payments required by residual value guarantees are recognized in the period in which the payment is received. During the year ended June 30, 2022, the Entity received payments related to residual value guarantees and termination penalties totaling \$xx.

(SEPARATE REGULATED LEASES FROM OTHER LEASES)

Some leases require variable payments based on future performance of the lessee or usage of the underlying asset and are not included in the measurement of the lease receivable. Those variable payments are recognized as inflows of resources in the periods in which the payments are received. During the year ended June 30, 2020, the Entity received variable payments as required by lease agreements totaling \$xx.

(SEPARATE REGULATED LEASES FROM OTHER LEASES)



Financial Statement Disclosures - Lessor

Total future minimum lease payments to be received under lease agreements are as follows: *(separate regulated leases from other leases)*

	Governmental Activities		Business-Type Activities		Total
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2023	\$ -----	\$ -----	\$ -----	\$ -----	\$ -----
2024	-----	-----	-----	-----	-----
2025	-----	-----	-----	-----	-----
2026	-----	-----	-----	-----	-----
2027	-----	-----	-----	-----	-----
2028-2032	-----	-----	-----	-----	-----
2033 and thereafter	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
Total minimum lease payments	<u>\$ -----</u>	<u>\$ -----</u>	<u>\$ -----</u>	<u>\$ -----</u>	<u>\$ -----</u>



Financial Statement Disclosures - Lessor

INCLUDE THE FOLLOWING PARAGRAPHS, IF APPLICABLE

Certain leases contain provisions whereby lessees may terminate or abate lease payments *(describe provisions)*. *Include only if lessor has issued debt for which debt service payments are secured by the lease payments. This disclosure is also required for any leases meeting the requirements in GASB 72 to be reported as an investment measured at fair value. Regulated leases should be disclosed separately from other leases.*

The entity leases *(describe property)* to a related party, and a related lease receivable and deferred inflow have been recorded. The lease provides for minimum annual lease payments of \$xx,xxx through MM/DD/YY, plus contingent annual rental payments based on (describe basis).

INCLUDE THE FOLLOWING REGULATED LEASES ONLY

Lease receivables of *(describe leased property)* totaling \$xx are subject to preferential use by counterparties *(should be disclosed by counterparty if more than one)* under regulated lease arrangements.

As of June 30, 2022, the Entity has entered into additional lease agreements that have not yet commenced of \$XXX. The leases will commence in fiscal year 20xx and have lease terms of x years to xx years.





Summary

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

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



Areas of Impact



Current business activities



Current financial and accounting policies (e.g., capital expenses – approval process and signature authority, accrued liabilities)



Contract negotiations



Budgeting and governmental fund accounting



Financial/IT systems – future software/application needs and processes



Internal Controls



Key Metrics





Thank You!

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WEALTH ADVISORY | OUTSOURCING
AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen
Wealth Advisors, LLC, an SEC-registered investment advisor