

GASB 87 – LEASES
State of California
Statewide Implementation
and Business Solutions

I. STATEWIDE GASB 87 ACCOUNTING AND REPORTING

GASB 87 is effective for the fiscal year beginning July 1, 2021.

GASB 87 establishes a single model for lease accounting, substantially changing all prior lease accounting and financial statement footnote disclosures. Implementation of GASB 87 will require performance of the following general steps:

- 1) Measurement of the total lease liability/receivable by fund.
- 2) Determination of current fiscal year-end liabilities and receivables per existing lease contracts.
- 3) Measurement of the right-to-use leased asset and/or deferred inflows of resources.
- 4) Determination of beginning balance adjustments required.
 - GASB 87 will likely result in a beginning balance adjustment for the impact on net position to the government-wide financial statements and proprietary funds after all liabilities, receivables, assets, and deferred inflows of resources are recognized in the accounting system.
- 5) Calculation of amortization tables for each lease.
 - Each lease will require an amortization table to split the lease payments between liability/receivable reductions and interest expense/income over the life of the lease.
- 6) Calculation of necessary journal entries.
 - Journal entries will differ depending on their fund type and whether that fund requires modified accrual accounting entries.
- 7) Submission of lease schedules and GAAP adjusting journal entries by fund for all leases in effect on July 1, 2021.
- 8) Annual submission of financial reports, schedules, and GAAP adjusting journal entries to the SCO.

BUSINESS SOLUTIONS AND PROCESSES

To carry out these general steps, departments are responsible to:

- 1) Review and gain an understanding of the requirements and provisions under GASB 87.
- 2) Review and gain an understanding of the business solutions and processes discussed in the documents that were adopted by the State in implementing the requirements and provisions of GASB 87.
- 3) Recognize and measure existing leases using the **facts and circumstances that existed on July 1, 2021** (the beginning of the period of implementation) or the beginning of the lease contract if it is on or after July 1, 2021.
- 4) Exclude **leases between state agencies** when applying GASB 87 (e.g., DGS space assignments, building purchases and improvements funded by the State Public Works Board lease revenue bonds).
- 5) Use the **GASB 87 Decision Tree and Scope** documents to determine the correct treatment for a lease contract or other payment contract.

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- 6) Review each contract to determine the correct category: **short-term lease, financed purchase, or “Right-to-Use” (RTU) lease.**
- In making this determination, departments should consider July 1, 2021 as the commencement of the lease term if the actual lease started before that date. If the remaining term for a lease is 12 months or less from July 1, 2021, the lease should be reported as a short-term lease.
- 7) Review each contract to determine the **noncancelable period** of the lease term.
- Lease term starts at the date of implementation July 1, 2021 (for existing leases) or the date the department gets control of the leased asset (e.g., receipt of the equipment, certificate of occupancy).
 - If there is an option to terminate the lease sooner than the contract end date, the lease term ends when the contract becomes cancelable, if it is reasonably certain (more than probable) that it will be canceled.
 - Review the options and determine if it is reasonably certain that the lease will be renewed (or terminated) under department’s policies, procedures, and history with similar leases.
 - Finalize the noncancelable lease term as of the date of implementation.
- 8) Assess whether lease contracts meet the **lease capitalization threshold.**
- RTU lease contracts where the department is lessee:
An intangible RTU lease asset and lease liability should be calculated for contracts with \$100,000 or more in total future lease payments from July 1, 2021 (or the date the lease begins if after July 1, 2021) to the end of the lease term.
 - RTU lease contracts where the department is lessor:
A lease receivable and deferred inflow of resources should be calculated for contracts with \$100,000 or more in total future lease payments from July 1, 2021 (or the date the lease begins if after July 1, 2021) to the end of the lease term.
 - The underlying tangible capital assets for financed purchases will retain the current capitalization threshold of \$5,000 per unit.
- 9) **Consolidate leases of similar assets.**
- Leases for a number of similar assets should be consolidated into one lease, but only when they are leased at the same time with an identical vendor. *For example, a department entered into multiple three-year leases on the same date with the same vendor, which resulted in a total of three RTU lease vehicles with total lifetime payments of \$35,000 per vehicle. The department’s accounting staff should record one RTU lease asset and one lease liability for all three vehicles because together their total payments add up to \$105,000. The fact that each vehicle had total lifetime payments below \$100,000 does not disqualify the vehicles from being reported as lease assets and liabilities because in the aggregate they exceed the \$100,000 threshold.*
- 10) Determine the **fixed and fixed in-substance payment** amounts to be used in calculating the lease asset/liability for lessees and the lease receivable/deferred inflow for lessors.

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- These consist of all of the payments expected to be made during the lease term, including future increases that can be calculated and measured on July 1, 2021 (or the start of the lease term if after July 1, 2021).
 - Lessees should include future fixed and fixed in-substance payments made in the measurement of the RTU lease asset and liability, as defined in the GASB 87- Lessee Accounting Decision Tree.
 - Lessor should include future fixed and fixed in-substance payments received in the measurement of the lease receivable and deferred inflow of resources, as defined in the GASB 87- Lessor Accounting Decision Tree.
 - Fixed and fixed in-substance payments do not include variable payments based on future performance of the lessee or usage of the underlying asset. Variable payments should be expensed as incurred, and not included in the measurement of the lease liability.
- 11) Exclude payments for **non-lease components** of contracts from RTU lease asset/liability.
- Should be expensed during the period incurred and not included in the lease payments used to calculate RTU lease asset and liability.
 - Examples include but are not limited to: janitorial services, repairs and maintenance, reimbursement of lessor for pro rata share of lessor's taxes and insurance, and supplies.
- 12) Address **escalation rates and Consumer Price Index (CPI)** increases in lease contracts.
- If the lease contract requires periodic increases based on escalation rates or CPI rate, departments should apply the rate in effect on July 1, 2021 or the inception of the contract if entered into after July 1, 2021.
- 13) Determine the **incremental borrowing rate** specific to each lease contract.
- If the implicit interest rate on the lease is unknown (not provided by the lessor or not explicitly stated in the lease contract), use the "GASB 87 Incremental Borrowing Rate" for the applicable lease term published on the SCO website: https://sco.ca.gov/sard_gaap_basis_reporting.html
- 14) Determine the **cost allocation and fund determination** specific to each lease contract.
- Lessee departments should determine the fund(s) where the RTU asset and lease liability reside. Generally, the fund(s) that make the periodic lease payments record the RTU asset and lease liability.
 - If a department uses a clearing fund to initially pay for the lease payments that is then reimbursed by ultimate funds, departments should apply the same cost allocation percentages used to allocate lease payments/costs from the paying/clearing fund to the ultimate funds in allocating the lease assets and liability to the ultimate funds.
 - **Departments Using FI\$Cal**
 - i. Follow the FI\$Cal job aids for leases and financed purchases. Input the appropriate cost allocation percentage per fund in the Asset Cost Distribution page if fixed percentages are used. Otherwise, departments may use an annual average to distribute their lease costs.

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- **Departments Not Using FI\$Cal**
 - i. The journal entries generated in the Contract Output tab of the “**GASB 87 Lessee Template**” described at step 17 below are for one corresponding contract. If the lease contract is paid by multiple funds, departments will need manually allocate the journal entry amounts by fund according to each fund’s percent share of the lease payments.
- 15) **Effective date and transition** of GASB 87.
- Departments will only input information for lease payments as of July 1, 2021 and later.
 - i. For example, a department has a lease contract that began January 1, 2018. Every year the lease payments increase. While completing the lease reporting worksheet, the department must only input the lease payment schedules effective as of July 1, 2021 and later. The department does this by inputting 2021 lease payments as beginning on July 1, 2021 and ending on December 31, 2021. The department then inputs 2022 lease payments as beginning on January 1, 2022 and ending December 31, 2022. The SCO does not need the lease payment schedules for any dates before July 1, 2021. Inclusion of earlier dates will require resubmission of a corrected worksheet by the department.
- 16) For **short-term leases or RTU leases below the \$100,000 capitalization threshold**, departments will recognize expenditure/expense on lease payments made and income on lease payments received.
- 17) Accounting for leases when the department is the **LESSEE**
- A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus certain direct costs and any payments made to the lessor at or before the commencement of the lease term.
 - A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.
 - **Departments Using FI\$Cal**
 - i. Departments must utilize the Lease Administration module in FI\$Cal for all qualifying RTU leases and financed purchase contracts.
 - ii. Upon entering all required information, the module will calculate the RTU lease or financed purchase asset and related amortization/depreciation, lease liability, and discount amortization by lease, fund, and BU, and generate all required journal entries.
 - iii. Departments will generate reports and queries from FI\$Cal to submit to SCO.

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- iv. Refer to FI\$Cal job aids, instructions, and resources at <https://fiscal.ca.gov/user-support/fiscal-learning-center/> and the SCO GAAP Reporting webpage at https://sco.ca.gov/sard_gaap_basis_reporting.html.

- **Departments Not Using FI\$Cal**

- i. Departments not using FI\$Cal (deferred and exempt) that did not procure third-party software for GASB 87 accounting, **may** use the “GASB 87 Lessee Template” Excel Workbook at the SCO website https://sco.ca.gov/sard_gaap_basis_reporting.html.
- ii. Departments will complete templates for RTU lease contracts that are \$100,000 or more in total future payments and financed purchases that meet the capitalization scope of \$5,000.
- iii. See “GASB 87 Lessee Template Instructions” for instructions on how to complete the “GASB 87 Lessee Template”.

18) Accounting for leases when the department is the **LESSOR**

- A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.
- A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.
- **All Departments**
 - i. Currently, there is no GASB 87 Lessor accounting solution in FI\$Cal.
 - ii. All departments **may** use the “**GASB 87 Lessor Template**” Excel Workbook at the SCO website https://sco.ca.gov/sard_gaap_basis_reporting.html.
 - iii. Departments will complete templates for RTU contracts that are \$100,000 or more in total future payments. Financed sale contracts are not reported with GASB 87 submissions.
 - iv. See “GASB 87 Lessor Template Instructions” for instructions on how to complete the “GASB 87 Lessor Template”.

19) Assess **existing capital leases to be removed** from the statements.

- Departments must assess which existing capital leases will need to be removed from their financial reports.
- If a department determines that a previously reported capital lease is now an RTU lease under GASB 87, and if the department reported the underlying asset in its Report 18/19 in prior years, the department should remove the capitalized cost of the underlying asset from the Report 18/19 beginning balance and provide an explanation for the adjustment.

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20) Complete **annual reporting to the SCO** for lease and financed purchase contracts.

- The SCO will provide training and instructions for all departments to submit their GAAP adjustments for GASB 87.
- The training and instructions will be provided on the SCO website:
https://sco.ca.gov/sard_gaap_basis_reporting.html.
- **Lessee – FI\$Cal Departments**
 - i. Use the “GASB 87 – FI\$Cal Lessee Departmental Training” (coming soon)
 - ii. This training will provide education and step-by-step instructions on preparing and submitting GAAP adjustments for lease and financed purchase contracts qualifying for GASB 87 reporting when the department is the lessee.
 - iii. This training will be available when all enhancements to FI\$Cal are in production tentatively available in August 2023.
- **Lessee – Non-FI\$Cal Departments**
 - i. Use the “GASB 87 – Non-FI\$Cal Lessee Departmental Training”
 - ii. This training will provide education and step-by-step instructions on preparing and submitting GAAP adjustments for lease and financed purchase contracts qualifying for GASB 87 reporting when the department is the lessee.
- **Lessor – All Departments**
 - i. Use the “GASB 87 – Lessor Departmental Training”
 - ii. This training will provide education and step-by-step instructions on preparing and submitting GAAP adjustments for lease contracts qualifying for GASB 87 reporting when the department is the lessor.