



July 23, 2019

GASB's New Lease Standard

GASB Statement No. 87

OFM

OFFICE OF FINANCIAL MANAGEMENT



Overview of GASB 87, *Leases*

Summary of GASB 87, Leases

- Establishes a single approach to account for leases
 - Eliminates the current operating and capital lease classifications
- Leases will be treated as financing transactions
 - Lessees required to recognize a lease liability and an intangible right-to-use asset
 - Lessors required to recognize lease receivable and deferred inflow of resources
- Effective for fiscal year 2021

Scope – What's in

What is a lease?

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

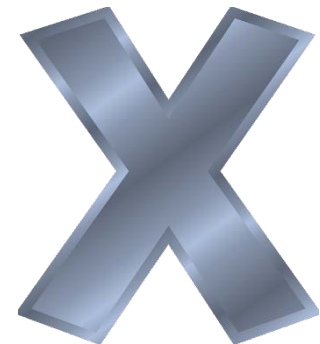
Includes:

- Subleases
- Contracts that are not specifically identified as a lease, but meet the definition
- Contracts with multiple components

Scope – What's Out

Exclusions:

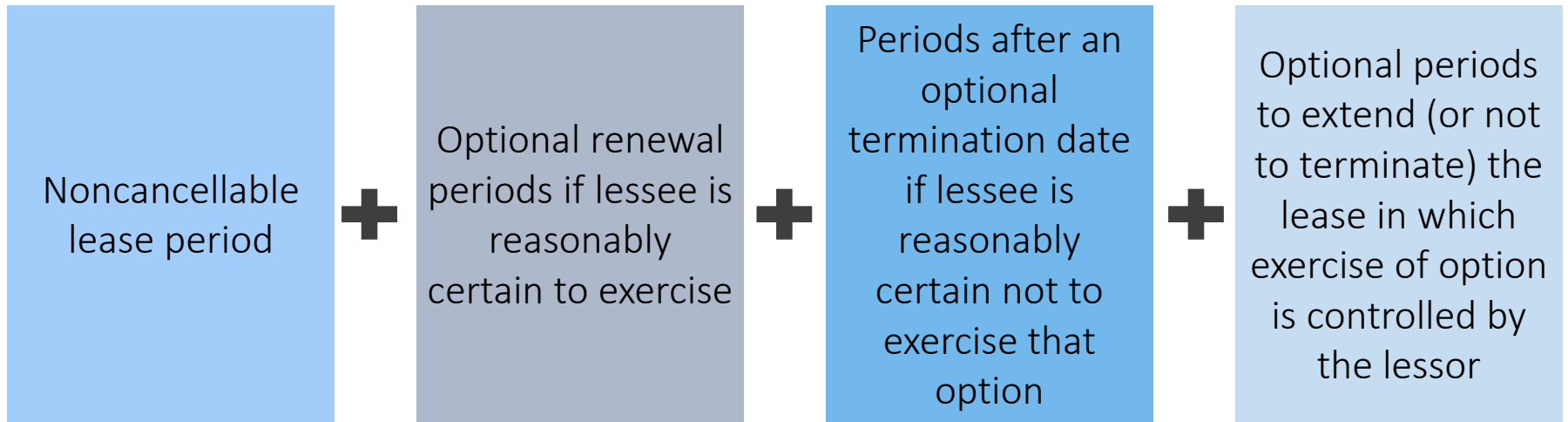
- Leases between state agencies
- Leases of intangible assets such as software and IT hardware (for now...)
- Leases of biological assets such as timber and living plants and animals
- Assets financed with outstanding conduit debt
- Leases of inventory
- Service concession arrangements
- Supply contracts such as power purchase agreements



Other Exclusions - Three Types of Leases

Short-term leases	Contracts that transfer ownership	All other leases
<ul style="list-style-type: none">○ <i>Maximum possible term</i> at commencement date of 12 months or less○ Accounting: Payments are expensed as incurred by lessee and recognized as revenue by lessors	<ul style="list-style-type: none">○ Contract that:<ul style="list-style-type: none">• Transfers ownership of the underlying asset to the lessee by the end of the contract, and• Does not contain termination options○ Accounting: financed purchase of the underlying asset by lessee and sale of an asset by lessor	<ul style="list-style-type: none">○ Lease liability and lease asset are recognized <div data-bbox="1321 719 1750 929" style="text-align: center;"><p>Focus of GASB 87</p></div>
<p>Exceptions to GASB 87 Requirements</p>		

Lease Term



Fiscal funding/cancelation clauses ignored unless reasonably certain it will be exercised

Reasonably Certain

- Lessee has a compelling economic reason to exercise the renewal or purchase option, or not to exercise a termination option.
- Consider all factors relevant to the assessment:



Market-based factors

Contract-based factors

Asset-based factors

Government specific factors

Lessee Accounting Overview

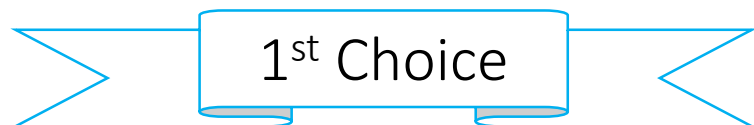
	Assets	Liabilities
Lease Inception	Recognize intangible lease asset (right to use underlying asset) equal to value of lease liability plus prepayments and initial direct costs to place asset in use	Recognize lease liability equal to present value of future lease payments
Subsequent Periods	Amortize the intangible lease asset over shorter of useful life of asset or lease term	Reduce lease liability by lease payments (less amount for interest expense)

What is included in the lessee's lease payments?

Fixed payments	Termination Penalties	Purchase Options	Variable payments	Residual Value Guarantees	Other payments
= Fixed payments + in-substance fixed payments – lease incentives	Include unless reasonably certain not to be exercised	Include only if reasonably certain to exercise	Only if they depend on an index or a rate (CPI)	Amounts reasonably certain of being paid	Any other payments that are reasonably certain of being paid

Variable payments based on future performance of the lessee or usage of the asset should not be included in the calculation of the lease liability and would be recorded as an expense.

Discount Rate to Calculate Present Value



OR



Interest Rate in the Lease

- Interest rate the lessor charges the lessee
- May be explicit or implicit

Incremental Borrowing Rate

- An estimate of the rate of interest that would be charged for borrowing the lease payment amounts during the lease term
- State will provide the rate

Initial Measurement of Lease Asset & Lease Liability

Payment Type	Include in Measurement?	Amount	
Base payment	Yes, fixed payments are included	\$54,480	(\$1,000/month x 60 mths discounted at 4%)
Excess use charge	No, variable payments based on future usage are excluded	---	
Repair & maintenance	No, service (non-lease) components are excluded	---	
Initial value of lease liability		\$54,480	
Delivery & installation	Yes, initial direct costs are included	1,500	(\$800 delivery + \$700 installation)
Initial value of lease asset		\$55,980	

Subsequent Measurement of Lease Asset

Use straight-line method to amortize over the shorter of the lease term or the asset's useful life

Initial value of lease asset	\$55,980	
Divided by lease term	60	months
Amortization expense	\$933	per month

Subsequent Measurement of Lease Liability

Monthly payment schedule based on present value of lease payments

Date	Beginning Balance	Interest Paid	Principal Paid	Total Payment	Balance after Payment
1/1/20X1	\$54,480	\$ --	\$1,000	\$1,000	\$53,480
2/1/20X1	53,480	178	822	\$1,000	52,658
3/1/20X1	52,658	176	824	\$1,000	51,834
4/1/20X1	51,834	173	827	\$1,000	51,007
5/1/20X1	51,007	170	830	\$1,000	50,177
6/1/20X1	50,177	167	833	\$1,000	49,344
		\$864	\$5,136	\$6,000	

Lessors Accounting Overview

	Assets	Deferred Inflow of Resources
Lease Inception	<p>Recognize lease receivable (generally includes same items as lessee's liability)</p> <p>Continue to report the leased asset</p>	<p>Recognize deferred inflow of resources equal to lease receivable plus any cash received up front that relates to a future period</p>
Subsequent Periods	<p>Reduce receivable by lease payments (less amount needed to cover interest)</p> <p>Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition)</p>	<p>Reduce deferred inflow of resources and recognize revenue over the lease term in a systematic and rational manner</p>

Note Disclosures

Lessees	Lessors
<ol style="list-style-type: none">1. General description of leasing arrangements2. Amount of assets recorded under leases, disaggregated by major asset class3. Amount of variable and other payments not included in lease liability4. Maturity analysis of future lease payments5. Lease commitments for leases that haven't begun6. Components of any net impairment loss	<ol style="list-style-type: none">1. General description of leasing arrangements2. Amount of inflows recognized (if not displayed on face of financials)3. Amount of variable and other payments not included in lease receivable4. Maturity analysis of future lease payments only if government's principal ongoing operations consist of leasing to other entities5. Additional disclosures if lease payments secure lessor's debt and for regulated assets

Other Considerations

- **Multiple Components** should be split out and accounted for as separate contracts if practicable
 - Lease component (right to use a building) and a non-lease component (maintenance services)
 - Multiple underlying assets with different lease terms or that are in different major classes of assets
- **Contract Combinations:** contracts entered into at or near the same time with the same counterparty should be considered part of the same lease contract

Lease Amendments

- **Lease Termination (Partial or Full)**

An amendment to a lease contract that results in a *decrease* to the lessee's right to use the asset

- Lessee: Reduce the carrying value of the lease liability and lease asset. Report the difference as a gain or loss.
- Lessor: Reduce the carrying value of the lease receivable and deferred inflow. Report the difference as a gain or loss.

- **Lease Modifications**

An amendment to a lease contract that does not decrease the lessee's right to use the asset

- Lessee: Remeasure the lease liability and adjust the related lease asset. Report the difference as a gain or loss.
- Lessor: Remeasure the lease receivable and adjust the related deferred inflow. Report the difference as a gain or loss.

Subleases and Leaseback Transactions

- **Subleases** (lessee leases asset to a third party)
 - Treated as transactions separate from the lease
 - Lessee in the original lease and lessor in the sublease
- **Sale-leaseback Transactions** (asset is sold then buyer leases the asset back to the original owner)
 - Sale and lease portions of transaction should be accounted for as separate transactions
 - Any difference between the carrying value of asset and the net proceeds from the sale should be reported as a deferred inflow or outflow of resources and recognize over lease term
- **Lease-leaseback Transactions** (lessee leases asset back to lessor)
 - Accounted for as a net transaction

A grayscale photograph of the Washington State Capitol building, showing the large dome and classical columns. The image is faded and serves as a background for the text.

State of Washington's Implementation Plan

What is OFM doing?

1. Revising SAAM policies, procedures, and illustrative entries related to leases
2. Working with Lease Workgroup to understand current leasing activities and provide feedback (DES, DNR, DOT, DSHS, WaTech, DOC, and UW)
3. Modifying the Facilities Portfolio Management Tool (FPMT) to serve as a comprehensive lease tracking system and to record accounting entries in AFRS.
4. Providing training to agencies

Facilities Portfolio Management Tool (FPMT)

- Used by all state agencies to track owned and leased facilities as required by RCW 43.82.150
- Secure vendor hosted, web-based facilities portfolio management technology tool
- Includes most of the data needed for over 900 leases



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History Search Filter Selections

	A Office of Financial Management	15
	Agency	
	F Facilities	7
	LF Leased Facilities	3
<input type="checkbox"/>	LF GOV - DC	
	Leased Facility	
	Unique Facility Identifier: A01648	
	Lease Number: WO 310681.2	
	Lessee (Agency Name): Office of Financial Management - 105	
<input type="checkbox"/>	LF OFM - Storage Facility	
	Leased Facility	
	Unique Facility Identifier: A01121	
	Lease Number: A01121 OFM	
	Lessee (Agency Name): Office of Financial Management - 105	
<input type="checkbox"/>	LF OFM -Raad Building	
	Leased Facility	
	Unique Facility Identifier: A01316	
	Lease Number: SRL 14-0121	
	Lessee (Agency Name): Office of Financial Management - 105	
	RLF Receivable Leased Facilities	4
	SOW State of Washington	1





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Documents (0)



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F 128 10th Ave SW

LF OFM -Raad Building

Lease Contract Details

Lease Number

SRL 14-0121

Lessor

Raad And Associates, LLC

Lessee (Agency Name)

Office of Financial Management - 105

Lease Type

Lease - A contractual obligation for all or part of a property. This type of agreement is generally used when the state contracts with private lessors.

Real Estate Authority

Department of Enterprise Services

Lease Primary Address

Lease Secondary Address

Lease City

Leased Square Feet

21,000

Leased Square Feet Type

Rentable

Lease Executed Date

1/12/2015

Lease Start Date

1/1/2016

Lease End Date

12/31/2021

Parking Included in Lease

Yes

Parking Stall Count

24

Assessment

Lessor Paid - Lessor pays for the service directly and no variable change is applied to the tenant.



BASE RENT - 0001

Lease Payment



Manage



Select



Documents (0)



Open



Photos (0)



Reports

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Washington



State Legislative District 22



Office of Financial Management



Olympia



Workforce Training and Education Coordinating Board



Office of the Governor



Thurston



128 10th Ave SW



OFM -Raad Building



SRL 14-0121

Lease Payment Details

Lease Number

SRL 14-0121

Payment Series Number

0001

Payment Frequency

Monthly

Payment Type

Base Rent

Payment Amount

\$28,000.00

Payment Start Date

1/1/2016

Payment End Date

12/31/2021

Lease Payment Status

Active

Active Date

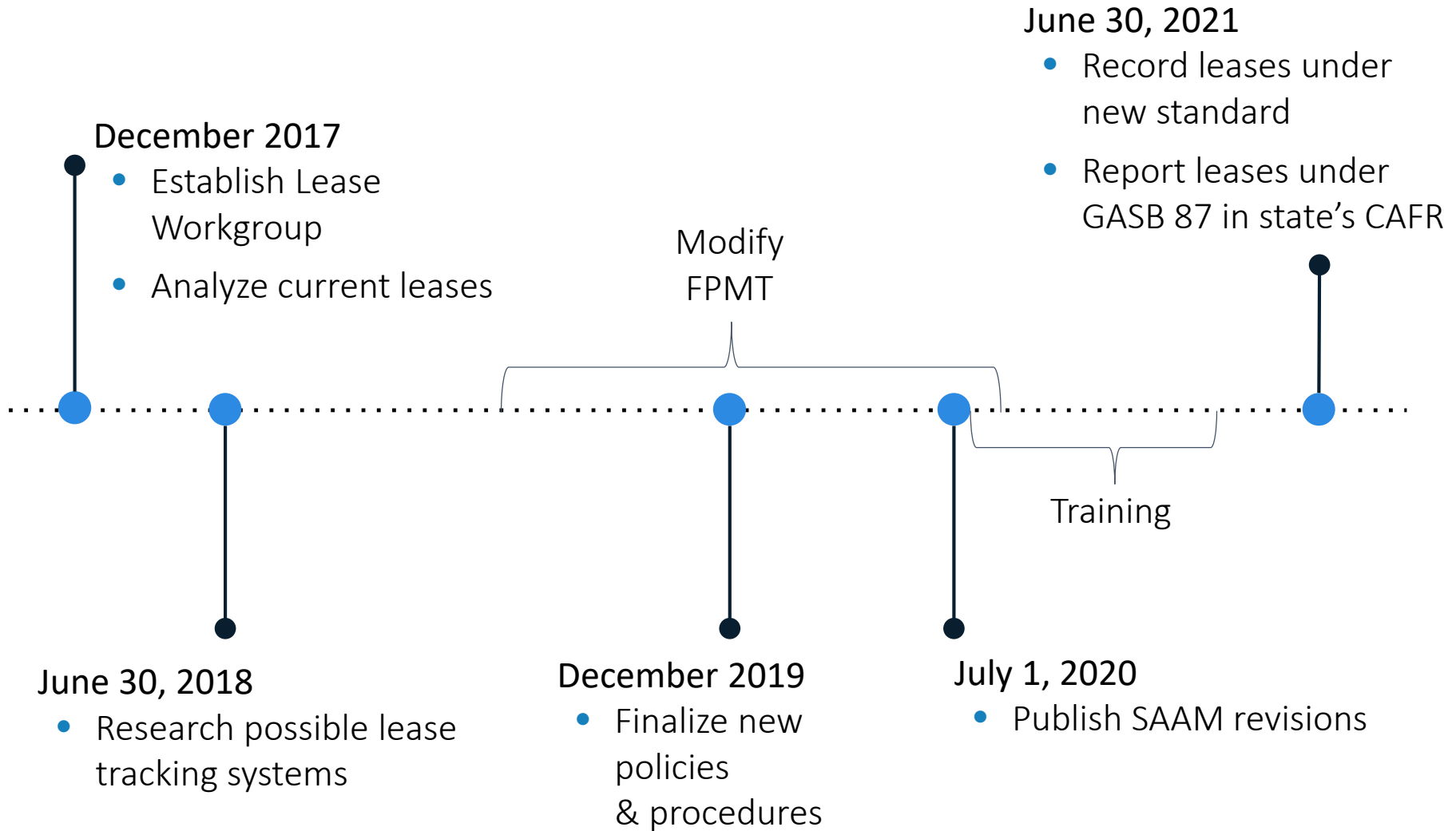
6/27/2017

Inactive Date

Date Last Updated

6/27/2017

TIMELINE



What should you do now to prepare?

- Review current leases
 - Create a list of contracts to evaluate
 - Determine which contracts meet the definition of a lease
 - Review lease contracts with multiple components
- Think about new processes
 - How will a lease be identified?
 - How will you gather key data from the contracts?
 - How will you verify that all leases have been accounted for correctly?
- Ask questions!



FOR MORE INFORMATION:

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