

GASB 87 FAQs

1. When is GASB 87 effective?

A. GASB 87 is effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter. For schools this will be fiscal year 2022 and for entities with a December 31st year end, this will be calendar 2022.

2. What is a GASB 87 lease?

A. For purposes of applying GASB 87, a lease is defined as 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. (GASB 87 ¶4)

3. What is a financed purchase?

A. A financed purchase is similar to capital leases where ownership of the asset transfers at the end of the lease. GASB explains financed purchases:

A contract that (a) transfers ownership of the underlying asset to the lessee by the end of the contract and (b) does not contain termination options (see GASB 87 ¶ 12), but that may contain a fiscal funding or cancellation clause that is not reasonably certain of being exercised (see GASB 87 ¶13), should be reported as a financed purchase of the underlying asset by the lessee or sale of the asset by the lessor. (GASB 87 ¶19)

4. Will regulatory and OCBOA filers need to implement GASB 87, Leases?

A. GASB 87 requires the recognition of certain lease assets and lease liabilities for leases that meet the GASB 87 definition. This definition may include contracts that were previously classified as operating leases.

These lease assets and liabilities will not be recognized on regulatory statements or on OCBOA cash basis; therefore, regulatory and OCBOA cash filers will only need to incorporate changes to their Notes to the Basic Financial Statements. When preparing the Notes to the Basic Financial Statements, for both regulatory and OCBOA cash basis, the following note disclosures should be made:

- the summary of significant accounting policies should describe the accounting treatment for leases (leases as defined by GASB 87)
- the debt note should include disclosures for financed purchases (as defined by GASB 87)

For OCBOA modified cash, modifications for lease assets/liabilities should only be made when the transaction follows a cash transaction, there is substantial support in GAAP or other accounting literature, and the modification is logical. Since not all OCBOA modified cash prepares will elect to make this modification for leases, note disclosures should be made as follows:

- If a local government is electing to make a modification for GASB 87 because the GASB 87 lease follows a cash transaction, the corresponding disclosure requirements from GASB 87 should be made.

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- If an OCBOA modified cash preparer is electing not to make the GASB 87 modifications, the OCBOA cash basis disclosures identified above should be made.

5. How do I know if a lease follows a cash transaction?

A. The signing of an agreement when the seller and lender are the same party does not constitute a cash transaction; however, the signing of a note and the purchasing of an asset can be a cash transaction:

... with regard to equipment purchasing and financing, a government entity may acquire some equipment by merely signing a note with a financial institution and having the financial institution directly pay the vendor for the purchase of the equipment. This single-step transaction or event, although not directly resulting in a cash inflow or outflow to the government entity signing the note and purchasing the asset, may be recorded as an in-substance two-step cash transaction or event as a cash receipt resulting from the note proceeds and a cash disbursement for the purchase of the equipment. However, care should be taken in applying this in-substance two-step cash transaction or event concept to other noncash transactions or events that do not involve an in-substance cash transaction, such as the donation of noncash assets or the signing of a capital lease agreement when the seller and lender are the same party. (From: Applying Special Purpose Frameworks in State and Local Governmental Financial Statements, practice pointer, page 11-12)

6. GASB 87 indicates leases for a nominal amount should be accounted for consistent with GASB 33, but what does GASB 33 require?

A. GASB acknowledges that the existing guidance for nonexchange transactions in Statement 33 does not specifically address the right to use nonfinancial assets in nonexchange transactions, such as the free use of office space. The Board noted that those nonexchange transactions, although not in the scope of this Statement, are expected to be addressed as part of the GASB's project on revenue and expense recognition. (GASB 87 ¶B10 See also GASBIG 2019-3, Q4.1; CIG 12.2.1)

7. When do easements meet the GASB 87 definition of a lease?

A. An easement provides the right to use a tangible asset, for example, land. Some easements meet the definition of a lease, while other easements do not. GASB 87 ¶4 states that, among other things, a lease is "for a period of time in an exchange or exchange-like transaction" (footnote reference omitted). Permanent easements, which last indefinitely without cancellation options, do not meet the period-of-time criterion. In addition, easements obtained for an amount that does not meet the description of exchange or exchange-like transactions in Section N50 do not meet the exchange or exchange-like criterion. (GASBIG 2019-3, Q4.5; CIG 12.2.5)

8. When do cell phone tower contracts meet the definition of a lease?

A. If the agreements meet the definition of a lease in GASB 87 ¶4, including the control criterion, then such agreements are leases. The control criterion generally is met if a cell phone tower or

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antenna placement 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. (GASBIG 2019-3, Q4.8; CIG 12.2.8]

9. Does the right of substitution affect the evaluation of whether the contract conveys control of the right to use the asset?

A. No. A lease conveys control of the right to use another entity's asset. That right is distinct from the underlying asset. That is, 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 is consistent with the definition of a lease in GASB 87 ¶4. (GASBIG 2019-3, Q4.9; CIG 12.3.1)

10. Can leases of oil and mineral rights or biological assets be considered GASB 87 leases?

A. GASB 87 does not apply to oil and mineral rights or biological assets (GASB 87 ¶8); however, if the land is the underlying asset of the lease, it could meet the GASB 87 definition. (GASBIG 2019-3, Q4.10 and Q4.11; CIG 12.5.1 & 12.6.1)

11. Do leases that are signed every year (a new lease each year with no option to extend) and are expected to be signed each year in the future meet the definition of a short-term lease?

A. Yes. Whether a lease is a short-term lease depends on the terms of the contract. The history of new leases being signed every year and the likelihood of a new lease being signed next year are not relevant for making the determination of whether a lease is a short-term lease. (GASBIG 2020-1, Q4.11; CIG 12.17.7)

12. Do I need to recognize my intangible right to use for items below my capitalization threshold? What about the corresponding liability?

A. Lease liabilities that are significant, either individually or in the aggregate, should be recognized. Authoritative pronouncements do not provide specific guidance related to a determination of capitalization threshold amounts. However, governments often establish capitalization thresholds. (See Question 7.9.8 of Implementation Guide No. 2015-1 or CIG 7.9.8.) When applying a capitalization threshold to leases, lessees should consider the quantitative and qualitative significance of the lease liability, in addition to the significance of the lease asset in accordance with the guidance provided in Question 7.4.1 of Implementation Guide 2015-1 or CIG Question 7.4.1. (GASBIG 2019-3, Q4.23; CIG 12.22.1)

13. On a lease receivable, how are lease payments received before the commencement of the lease handled?

A. 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

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in paragraphs 61 and 62) paid to, or on behalf of, the lessee at or before the commencement of the lease term should be included in the deferred inflow. (GASB 87 ¶53b)

14. I have a lease contract that does not specify an interest rate, can an interest rate of zero be used?

A. No, GASB believes that a discount rate can be imputed on any future payment stream, even if it was not explicitly factored into the determination of the payment amounts. (GASB 87 ¶B69)

15. If an internal service fund leases assets to other departments do these leases meet the definition of a GASB 87 lease?

A. No. The definition of a lease in paragraph 4 of Statement 87, in part, requires conveyance of control of the right to use another entity's underlying asset. In this circumstance, control is not conveyed to another legal entity; therefore, the agreements should not be reported as leases in the local government's basic financial statements. (GASBIG 2021 Q4.4)

16. When can I use an incremental borrowing rate to discount a lease receivable?

A. If the lease contract contains a stated interest rate, the stated rate generally is the rate the lessor charges the lessee. If the stated rate is the rate the lessor charges the lessee, the lessor should use that rate. If there is no stated rate (or if the stated rate is not the rate the lessor charges the lessee), the lessor should determine whether the rate implicit in the lease can be estimated. Paragraph 47 of Statement 87 provides that lessors may apply the guidance for imputation of interest in paragraphs 173–187 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. Paragraph 183 of Statement 62 states that “the prevailing rates for similar instruments of issuers with similar credit ratings will normally help determine the appropriate interest rate. . . .” Lessors should use professional judgment to determine their best estimate for the interest rate, maximizing the use of observable information; for example, using the lessee's estimated incremental borrowing rate or published market rates for similar instruments. If there is no stated rate (or if the stated rate is not the rate the lessor charges the lessee) and the implicit rate cannot be determined, the lessor may presume (unless there is persuasive evidence to the contrary) that it is recovering its cost associated with interest cost and use the lessor's own incremental borrowing rate as the discount rate. (GASBIG 2020-1, Q4.15; CIG 12.71.1)

17. Does amortization of the intangible right to use asset need to be straight-line?

A. No, GASB concluded that amortization of the lease asset should be calculated in a systematic and rational manner to be consistent with depreciation and amortization of other capital assets. Amortization in a systematic and rational manner does not necessarily mean the same amount would be amortized in each period. For example, a calculation that results in a constant total lease cost (the total of the separately determined interest and amortization) could be considered systematic and rational in some cases. (GASB 87 ¶ B56)

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18. What methodology should be used to amortize the discount on the lease receivable?

A. Lease receivables should be amortized using the interest method. (GASBIG 2019-3; CIG 12.72.1)

19. Does the amortization of deferred inflows need to be straight line?

A. No, the only requirement is for the amortization to be in a systematic and rational manner over the term of the lease. (GASB 87 ¶54) Note that in financial statements prepared using the current resources measurement focus, these amounts should also be available (GASB 87¶ 56)

20. Do GASB 87 contracts need to be in writing?

A. The definition of a lease in GASB 87 ¶4 uses the term contract so that a lease, whether written or verbal be legally enforceable. (GASB 87 ¶B7)

21. Will my leases always report accrued interest receivable/payable at year end?

A. GASB 87 ¶24 indicates that for the lessee, any payments made should be allocated first to the accrued interest liability and then to the lease liability and GASB 87 ¶48 indicates for the lessor any payments received should be allocated first to the accrued interest receivable and then to the lease receivable.

The lease contract will need to be evaluated to determine what period the lease payments related to. Some lease payments are made in advance (e.g. early in the month) to cover the entire period (e.g. through the end of the month). Therefore, any interest is paid through the end of the period.

22. Do the terms “lease” or “rent” in the contract indicate that it meets the GASB 87 definition of a lease?

A. No, the use of the words “lease” or “rent” in an agreement does not mean a contract should be accounted for as a lease under the requirements of GASB 87. In order to be accounted for as a lease under the requirements of GASB 87 the contract must meet the definition outlined in GASB 87 ¶ 4 and not be one of the exceptions outlined in GASB 87 ¶ 8 as amended by GASB Statement Nos. 91, 94 and 96. Every agreement of a government would need to be evaluated separately to determine the appropriate accounting requirements.

GASB 87 Examples

For reference, in all GASB 87 examples, the GASB 87 ¶4 definition of a lease is as follows:

. . .a lease is defined as 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.

Example 1 – Lessor

Facts and Assumptions

Ohio County (lessor) owns office space that is leased to XYZ Corporation (lessee). The term (non-cancelable) begins on 1/1/2021 with the final payment occurring on 1/1/2050. XYZ Corporation will pay quarterly payments in the amount of \$6,500 on the 1st day of the month. The County has identified the market value of the office space to be \$623,150. No interest rate is stated in the agreement. The terms of the agreement meet the GASB 84 ¶4 definition of a lease. How should the lessor account for this lease under GASB 87?

Solution

Key Information

Lease Commencement (1)	January 1, 2021
Initial Term (2)	29.25 years
Base quarterly payment (1)	\$6,500
Due Date (1)	1 st day of each quarter
Present value (3)	\$623,150

- (1) Information provided above.
- (2) Based upon last payment of January 1, 2050. Note there are no optional periods to extend or terminate to consider for inclusion so this would represent the lease term.
- (3) The market value would be the present value of the lease as market value would represent the current value. For the purposes of this example we are assuming the market value has been appropriately determined and supported by the County. (This would represent the lease receivable and the corresponding deferred inflow as of 1/1/2021)

See FAQ 16 above for discussion of determining the applicable interest rate.

In the scenario above the current market value is provided as \$623,150 and the value of the agreement over its lifetime is \$760,500 (\$6,500 quarterly payments x 29.25 years x 4 quarters per year). Therefore using a financial calculator or Microsoft Excel (for example the [RATE function \(microsoft.com\)](https://support.microsoft.com/en-us/office/rate-function-16960273-6b84-4851-8023-947d94484231)) we can determine the estimated quarterly rate implicit in the lease is 0.35% and the annual rate is 1.40% (0.35% x 4).

Based upon this rate the following amortization can be calculated (note: for illustration purposes only a portion of the amortization schedules, quarterly and annual, are presented below):

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Quarterly amortization:

Date	Principal	Interest	Total Payment	Balance
				\$623,150
1/1/2021	\$4,319	\$2,181	\$6,500	618,831
4/1/2021	4,334	\$2,166	6,500	614,497
7/1/2021	4,349	\$2,151	6,500	610,148
10/1/2021	4,365	\$2,135	6,500	605,783
Total	17,367	8,633	26,000	
1/1/2022	\$4,380	\$2,120	\$6,500	601,403
4/1/2022	4,395	\$2,105	6,500	597,008
7/1/2022	4,410	\$2,090	6,500	592,598
10/1/2022	4,426	\$2,074	6,500	588,172
Total	17,611	8,389	26,000	

Annual amortization:

Year	Principal	Interest	Total Payment	Balance
				\$623,150
2021	\$17,367	\$8,633	\$26,000	605,783
2022	17,611	8,389	26,000	588,172
2023	17,859	8,141	26,000	570,313
2024	18,110	7,890	26,000	552,203
2025	18,365	7,635	26,000	533,838
2026	18,624	7,376	26,000	515,214
2027-2031	97,125	32,875	130,000	418,089
2032-2036	104,155	25,845	130,000	313,934

Based upon the above information, the County would record a lease receivable and deferred inflow (note for this example we are assuming there were no lease payments received at or before commencement – See GASB 87 ¶ 53b) of \$623,150 at January 1, 2021. Based upon the above amortization schedules for the year ended December 31, 2021, the County would have reduced the lease receivable by the principal payments received of \$17,367. Deferred inflows would be recognized as revenue in a systematic and rational manner over the term lease (GASB 87 ¶ 54).

Example 2 – Lessee

Facts and Assumptions

Assume the facts and assumptions are the same from Example 1 except the lessee is the City of ABC (a government) instead of XYZ Corporation. In addition, assume the office space for City of ABC will be utilized (and thus paid for) from governmental funds. How should the City of ABC account for this lease under GASB 87?

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Solution

In the year of inception, the City would report an expenditure and other financing source in the amount of \$623,150 within its governmental funds on the fund financial statements (current financial resources measurement focus). Governmental fund lease payments would then be accounted for consistent with the principles for debt service payments on long term debt in the fund financial statements. (GASB 87 ¶ 36)

On the government-wide financial statements (economic resources measurement focus), at inception, the City would report an intangible right-to-use lease asset and a corresponding lease liability of \$623,150. For the year ending December 31, 2021, the City would also recognize interest payments of \$8,633 and reduce the lease liability by \$17,367 for principal payments made. Amortization expense of the lease asset would be recognized in a systematic and rational manner over the shorter of the useful life of the underlying asset (office space) or the lease term. This amortization expense may be combined with depreciation expense related to other capital assets for financial reporting purposes (see GASB 87 ¶ 31).

Example 3 – Variable Payments

Facts and Assumptions

Any LSD has an agreement to rent 20 copiers from Smith's Copiers for a period of 5 years beginning 7/15/21. The agreement provides for a monthly rental fee of 2.5 cents per copy. Any LSD is billed monthly. The District is required to pay a termination fee if the agreement is terminated early. Ownership of the copiers does not transfer to Any LSD upon completion of the agreement. Smith's Copiers pays all maintenance expenses other than costs beyond the normal use of the copiers. How should Any LSD account for this agreement?

Solution

The copiers would not be accounted for as a lease liability or intangible right to use asset under GASB 87. Although the agreement meets the GASB 87 ¶4 definition of a lease, and the government makes lease payments based solely on the use of lease equipment, the future payments are variable based on usage of the underlying asset. See GASB 87 ¶ 21 for accounting treatment of other types of variable payments, including variable payments that depend on an index or rate and variable payments that are fixed in substance.

Because the contract is based upon variable payments that are based on the future usage of the copiers, the payments would not be included in the measurement of the lease liability. These payments would be recognized as outflows or resources (expenses) in the months in which the obligations for those payments are incurred. (GASB 87 ¶ 22)

Since this lease does not meet the short-term exception, the lessee should apply the lease disclosure requirements of GASB 87 ¶37-39

Please note that this is just an example. Accounting for copier rental agreements under GASB 87 may vary depending on the circumstances of the agreement.

Example 4 – Short-Term Lease -- Initial Year of Implementation

Facts and Assumptions

Any LSD has an agreement to rent a building from Ohio County from 7/1/2007 to 6/30/2022 for \$50 per year for use by its extracurricular activities. The market rate for this building is \$35,000 per year. The contract conveys control of the right to use the building as specified within the terms of the agreement. The agreement is non-cancelable and there are no options to extend or terminate the lease that are reasonably certain. Any LSD is implementing GASB 87 for the fiscal year ended 6/30/2022 and Ohio County will be implementing GASB 87 for the fiscal year ending 12/31/2022. How should this agreement be accounted for on the financial statements of Any LSD and Ohio County under GASB 87?

Solution

This agreement would not meet the definition of a lease under GASB 87 for either the District or the County. In order to meet the definition of a lease under GASB 87 ¶ 4 the agreement would need to represent an exchange or exchange-like transaction. This transaction would not meet the definition of an exchange or exchange-like transaction under GASB 33 as the District and the County are not receiving or giving up essentially equal value. See also GASB Comp. Imp. Guide 12.2.1.

Assume the agreement was on terms that represented an exchange or exchange-like transaction and thus met the definition of a lease under GASB 87 ¶ 4. How would the lease be treated under the requirements of GASB 87 in this scenario?

According to GASB 87 ¶ 94, leases should be recognized and measured using the facts and circumstances that existed at the beginning of the period of implementation. Therefore Any LSD would evaluate the agreement as if it began on 7/1/2021 and Ohio County would evaluate the agreement as if it began on 1/1/2022 (the beginning of the year for the first year of implementation). Based upon these circumstances, the lease term for financial reporting purposes would be 12 months for Any LSD and 6 months for Ohio County. Because there is a maximum possible term of 12 months (or less) upon the implementation of GASB 87, the provisions for short-term leases contained in GASB 87 ¶ 16-18 would apply. Any LSD would recognize an expense based upon the payment provisions of the lease contract. An asset would be recognized if payments are made in advance and a liability would be reported if payments are to be made subsequent to the period.

Ohio County would recognize revenue based upon the payment provisions of the lease agreement. A liability would be recognized if payments are received in advance and an asset would be reported if payments are to be received subsequent to the period.

Governments may wish to refer to GASB Comp. Imp. Guide 12.128.1 – 12.128.3 for more guidance regarding the recognition and measurement of leases at transition.

Example 5 – Contracts That Transfer Ownership

Any LSD enters into a “Lease-Purchase Agreement” with XYZ Dealership on 9/15/21 to lease a cargo van for use by the school district valued at \$39,500 over a 5 year term. Annual payments are fixed by an amortization schedule established as part of the agreement in the amount of \$8,204 beginning on 9/15/2021 with final payment due on 9/15/2025. Principal and interest have been determined by the established amortization schedule. Any LSD will own the vehicle at the end of the agreement and the contract does not contain any termination options. How should Any LSD account for this agreement under the requirements of GASB 87?

Solution

This contract meets the requirements of GASB 87 ¶ 19 as this contract (1) transfers ownership of the underlying asset (the vehicle) and (2) does not contain a termination option. Therefore Any LSD should report this transaction as a financed purchase of the vehicle (long-term debt). Please refer to GASB 87 ¶ 19 and GASB Comp. Imp. Guide 12.20.1-12.20.3.

Note see FAQ 22 above as the title of the agreement does not indicate contract should be accounted for as a lease under the requirements of GASB 87

Example 6 – Stadium Lease

Facts and Assumptions

Certain CSD entered into an agreement with the City of Certain for the lease of a football stadium beginning July 1, 2009 and ending on June 30, 2039. The agreement calls for annual rent of \$32,500 to be paid from the CSD to the City by August 1 each year. The agreement grants the CSD the right to use the premises for the operation of the athletic field as well as educational activities consistent with the facilities purpose. At the termination of the Lease, CSD will surrender the premises to the City in good working condition except for ordinary wear and tear. The lease contains no options to extend or terminate that are reasonably certain of being exercised. Certain CSD’s estimated incremental borrowing rate is 3 percent. Certain CSD is implementing GASB 87 for the period ended June 30, 2022. How should Certain CSD account for this agreement under GASB 87 at July 1, 2021, if applicable?

Solution

Based upon the above facts and assumptions, this agreement would qualify as a lease under GASB 87 as it meets the GASB 87 ¶4 definition. The CSD would record an intangible right to use lease asset and a lease liability.

Since the CSD is implementing GASB 87 for the year ended June 30, 2022, the amount of the corresponding lease asset and liability would be based upon the facts and circumstances as of July 1, 2021 (see GASB 87 ¶ 94). Therefore the term of the lease for the purposes of computing the asset and liability would be July 1, 2021 through June 30, 2039 (18 years remaining as of July 1, 2021).

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In order to calculate the lease liability Certain CSD would determine the present value of payments which would qualify to be included under GASB 87 ¶ 21. The only payments included in this example which would qualify would be the annual payments of \$32,500 ($\$32,500 \times 18 = \$585,000$). The CSD would then utilize an appropriate discount rate to calculate the present value of these payments in order to record the appropriate liability. This example does not contain a stated interest rate that the lessor charges the lessee and, in addition, a rate that is implicit in the lease cannot be determined. Therefore, the CSD would utilize their estimated incremental borrowing rate of 3 percent as the discount rate (GASB 87 ¶ 23). Based upon this, the lease liability would be recorded at \$460,399 (calculated with PV MS Excel function) at July 1, 2021.

For this example, the lease asset would be recorded in an amount equal to the lease liability at July 1, 2021, as no lease payments were noted to be made at or before the commencement of the lease term, no lease incentives were noted and no initial direct costs were noted to place the asset into service (GASB 87 ¶ 30).

For the year ended June 30, 2022, the CSD would amortization the discount on the lease liability and report that amount as interest expense for the period. Any payments made would first be allocated to any accrued interest liability and then to the lease liability (GASB 87 ¶ 24).

For the year ended June 30, 2022, the CSD would amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the stadium (GASB ¶ 31).

Additional Examples/Illustrations

Additional non-authoritative examples prepared by the Governmental Accounting Standards Board (GASB) are contained within the GASB Codification at L20.901.