



GASB-S87 :

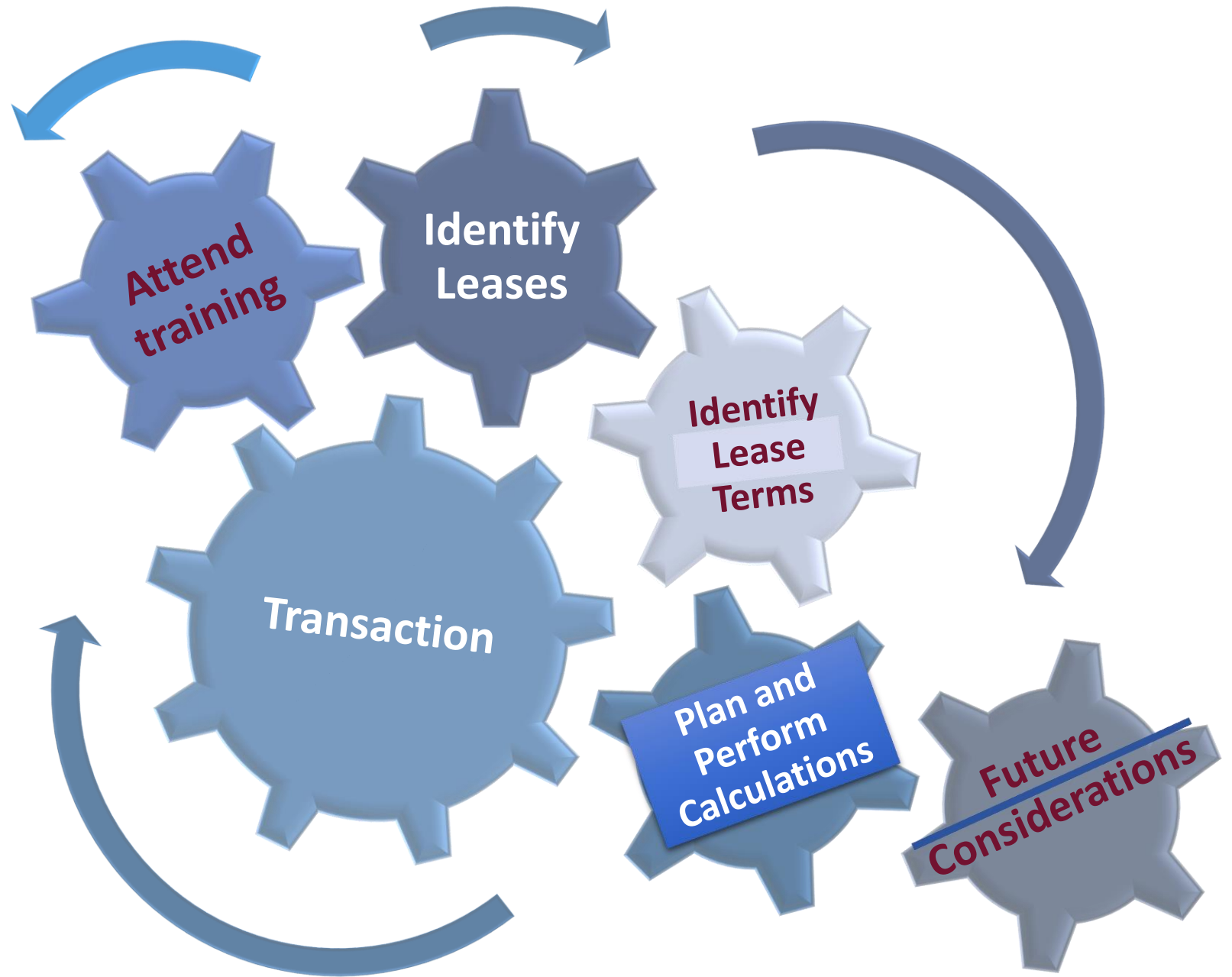
To Lease or Not to Lease

No Escaping the Balance Sheet

Summary of Session Goals

- Understand GASB- S87: Leases and why it changes the accounting and financial reporting landscape
- Identify relevant components of the standard and how they apply to the implementation
 - What is a lease?
 - What is NOT a lease?
 - Examples
- Audit and Future Considerations (Internal Controls)

Another COG to Add to the Finance Functions



Why the need for change?

1. Improving accounting and financial reporting for leases
2. Enhancing the comparability of financial statements between governments
3. Augmenting the relevance, reliability (representational faithfulness), and consistency of information about leasing activities of governments.

GASB Consideration of Costs/Benefits

- To reduce the cost of implementation, and in response to stakeholder feedback, the GASB considered and added various exceptions, simplifications, and efficiencies related to primarily:
 - Short-term leases
 - Contracts transferring ownership
 - Leasing investments and inventories
 - Certain regulated leases

This Statement Does Not Apply To:

- 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 apply to the intangible right-to-use assets that are created by the original leases of tangible underlying assets.
- Leases of biological assets, including timber, living plants and animals.
- Leases of inventory.
- Service Concession Arrangements (GASB-S60)
- Underlying asset – conduit debt
- Supply contracts, such as power purchase agreements

Where to start?

- Find a Leader
 - If necessary, lead for each decentralized department, or Finance Department gathers information from other departments.
 - Read GASB-S87 – Leases
 - Implementation Guide 2019
 - Implementation Guide 2020-1
 - Implementation Guide 2021-1
 - Identify platform/database for implementation. Where are the contracts located?
 - Future Considerations

What is a Lease Anyway?

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.

Pay attention to the key words in the standard. The sentence above communicates most of the criteria simply.

More Jargon

- **Contract:** legally enforceable
- **Control of the right to use**
 - Distinct from the asset itself
 - Right to obtain the present service capacity from the use of the underlying asset
 - Right to determine the nature and manner of its use.
 - Simply, you have all risks and benefits of ownership during the lease period.
- **Nonfinancial Asset/ Underlying Asset:** Capital Asset
- **Exchange & Exchange Like:** Relatively Equal Value, even if cash is not exchanged

Jargon Continued

- Lease **Terms**: short-term vs. long-term
- **Lessee**: the party that is leasing the asset to another party
- **Lessor**: the party that is leasing the asset from another party.
- **Contract**
 - Multiple **Components**, lease vs. nonlease
 - Best estimate to componentize or combine into single lease unit
 - **Contract Combinations**
 - If separate legal contracts with same party at or near same time

Jargon Continued

- Lease **Modifications** and **Terminations**
 - Any change to lease terms is considered a **modification** *unless* the result is a *decline* in the lessee's right to use the underlying asset *decreases*. If there is a decline in the lessee's right to use the underlying asset, the transaction would not be called a full or partial lease *termination*.
- **Subleases** and **Leaseback** Transactions



KerberRose

Jump in!

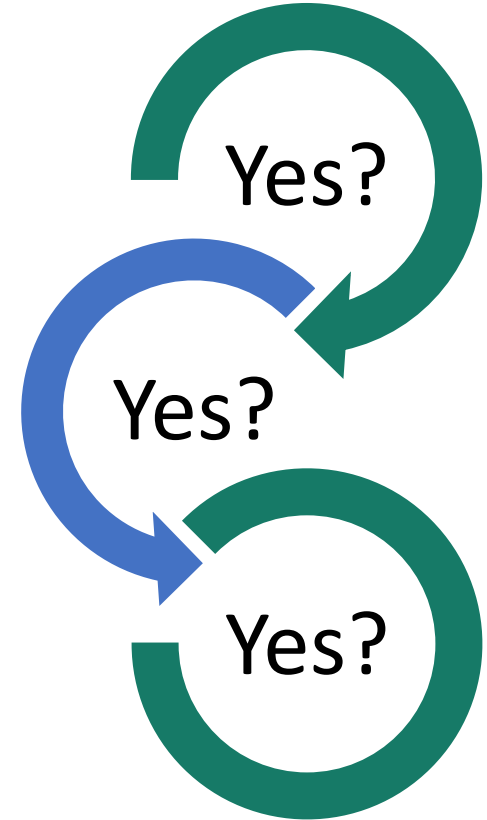


Identify Existing Leases - Lessee

- Calling all contracts!
 - If you have several departments, source from department heads (HINT: they appreciate lead time).
 - Review Trial Balance for potential lease items.
 - Look for recurring or annual invoices, that could be an indicator of a potential lease.
 - Ask, ask, and ask some more.

Ask What?

- Identify Lease Agreements
 - Written?
 - Any unwritten service agreements?
 - What kind of asset is it for?
 - Tangible?
 - Does ownership transfer?
 - Do you have the right to control the use of the asset?
 - Is it noncancelable?
 - Time period of agreement > 12 months?
 - Exchange or exchange-like?



Document Lease Evaluation: Contract Features



Evaluation of contracts as a lessee

Contract Features

	Contract #	Supplier	Item	Initial term	Optional terms	Contract Date	Contract Start	Contract End	Initial contract value	Contract options
1	2222	Equipment 'R Us	10 Copiers	5 years	After 2 years, cancellable	12/21/2020	1/1/2021	1/1/2026	60,000	none
2										
3										

Lease Term Details

Term and duration: period during which a lessee has a noncancelable right to use an underlying asset (noncancelable period) plus the following periods, if applicable. **(reassess if plans change)**

- a. Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option.
- b. Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option.
- c. Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option.
- d. Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option.

Lease Term Details

Pay special attention to lease provisions that:

1. Automatically renew
2. Options that require both parties to mutually agree to extend
3. Explain that either party may terminate within “X” days notice
4. Termination provisions

Document Lease Evaluation: Lease Identification



Paragraph 4 (detail in Appendix B, Paragraph 7)

Evaluation of contracts as a lessee (continued)

Identification of Lease						
Contract	Lessee Controls Asset		Non-Financial Asset?	Exchange Transaction?		
Contract is in writing or verbal and is legally binding	Right to present service capacity from use of underlying asset	Right to determine the nature and manner of use of the underlying asset	Lessee controls asset	Non-financial Asset (Financial Asset defined in GASB 72)	Non-exchange transactions are excluded from the contract	Possible Lease
Yes	Yes	Yes	Yes No No	Yes	Yes	Yes No No

Contracts that Transfer Ownership

The contract must meet both conditions described below.

- a. Transfers ownership of the underlying asset to the lessee by the end of the contract and
- a. Does not contain termination options, but that may contain a fiscal funding or cancellation clause that is not reasonably certain of being exercised, should be reported as a financed purchase of the underlying assets by the lessee or sale of the asset by the lessor.

Document Lease Evaluation: Exclusions



Paragraphs 8, 16, 17, and 18

Evaluation of contracts as a lessee (continued)

A short-term lease is a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. For a lease that is cancelable by either the lessee or the lessor, such as a rolling month-to-month lease or a year-to-year lease, the maximum possible term is the noncancelable period, including any notice periods.

Exclusions							Evaluate Further Since Meets "Lease" Definition
Scope Exclusions (see next tab for examples)					Short-term		
Intangible asset	Biological Asset	Service concession arrangements (GASB 60)	Supply contracts	Inventory	Term 12 months or less	Excludable	
No	No	No	No	No	No	No No No	Yes No No

Lease Exclusions

Short-Term Leases

At commencement of the lease term, has a maximum possible term under the lease contract of 12 months or less (including options to extend, regardless of the probability of being exercised).

For a lease that is cancelable by either the lessee or the lessor, such as a rolling month-to-month lease or a year-to-year lease, the maximum possible term is the noncancelable period, including any notice periods.

Lease Exclusions: Short-term Leases

Treatment of Short-Term Leases

Lessee: recognize short-term lease payments as outflows of resources (expense/expenditure) based on the payment provisions of the lease contract. Should recognize an asset for prepaids or payables for amounts owed at the end of the fiscal period. Rent holiday does not result in an outflow of resources during the period.

Lessor: recognize short-term lease payments as inflows of resources (revenues) based on the payment provisions of the lease contract. Should recognize a liability for prepayments received in advance of the rental period or assets for amounts due at the end of the fiscal period. Rent holiday does not result in an inflow of resources during the period.

Lease Liability

- ✓ Present value of payments expected to be made during the lease term.
 - Fixed payments
 - Variable payments that depend on an index or a rate, initially measured using the index/rate as of the commencement of the lease term.
 - Variable payments fixed in substance
 - Amounts that are reasonably certain of being required to be paid by the lessee under residual value guarantees
 - The exercise price of a purchase option if it is reasonably certain that the lessee will exercise it
 - Payments for penalties for terminating the lease
 - Any lease incentives receivable from the lessor
 - Any other payments that are reasonably certain of being required based on the agreement in place.

Lease Asset

- ✓ A lessee initially should measure the lease asset as the sum of:
 - ❑ The amount of the initial measurement of the lease liability.
 - ❑ Lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term
 - ❑ Initial direct costs that are ancillary charges necessary to place the lease asset into service.
 - ❑ Should be amortized systematically and rationally over the shorter of either:
 - ❖ The lease term
 - ❖ The useful life of the underlying asset/s
 - ❑ Look out for impairment indicators which would change the manner and duration of the use of the lessee's right to use asset.

Fund Accounting

- ✓ Governmental fund accounting principles should be used.
 - Generic wording because of new Financial Reporting Standard expected.
 - In the period during which the lease is recognized, according to the terms, the governmental funds should report an other financing source and expenditure measured in accordance with the requirements related to the lease liability.
 - Subsequent lease payments would be recognized in accordance with existing principles for debt service payment on long-term debt (generally only when due and payable).

Document Lease Evaluation: Financed Purchases and Conclusions

Paragraph 19



If classified as a Finance Lease, the contract is not subject to the recognition requirements of GASB-87 and is the transaction is treated as a sale.

Evaluation of contracts as a lessee (continued)

Financed Purchase (lessee)			Classified as Finance Purchase	Finance Purchase?	Subject to GASB 87	Note
Transfer of ownership of the underlying asset at end of contact	AND Does not contain termination options (other than fiscal funding or cancellation clauses)					
No	No	No	No	Yes	Lease subject to new GASB 87 requirements	
		No	No	No	Not considered to be a lease	
		No	No	No	Not considered to be a lease	



**So You've Got a
Lease: Now What?**



Lease Recognition and Measurement

- Start with calculation considerations
 - Does the lease contain only fixed components, variable components, or a combination?
 - Does the agreement include a service component?
 - Timing of when payments are made or received
 - What are the stream of payments?
 - What indexes to use for future value?

Lease Recognition and Measurement (Cont.)

- Start with calculation considerations
 - How do you determine the discount rate, or the incremental borrowing rate?
 - Is there money due up front or are there any lease incentives?
 - Does the lease contain termination clauses?
 - How will the chart of accounts be updated?

Discount Rate

- What discount rate to use to present value the future lease payments?
 - Rate lessor charges the lessee – if known
 - Interest rate implicit in the lease
 - Incremental borrowing rate, if interest rate cannot be readily determined by the lessee.

Discount Rate Options

- Imputing the discount rate to arrive at the sum of the present value of the lease payments equal to the exchange price of the leased asset.
- Using average interest rates on maturity ranges on a recent debt issue.
- Recent debt issue of other local municipalities with similar credit ratings.
- Applicable Federal Rate (AFR) published by the IRS or other published market rates.

Applicable Federal Rate (AFR) published by the IRS

(example)

Applicable Federal Rates (AFR) for December 2021				
	<u>Annual</u>	<u>Period for Compounding</u>		<u>Monthly</u>
		<u>Semiannual</u>	<u>Quarterly</u>	
<u>Short-term</u>				
AFR	0.33%	0.33%	0.33%	0.33%
110% AFR	0.36%	0.36%	0.36%	0.36%
120% AFR	0.40%	0.40%	0.40%	0.40%
130% AFR	0.43%	0.43%	0.43%	0.43%
<u>Mid-term</u>				
AFR	1.26%	1.26%	1.26%	1.26%
110% AFR	1.39%	1.39%	1.39%	1.39%
120% AFR	1.52%	1.51%	1.51%	1.51%
130% AFR	1.65%	1.64%	1.64%	1.63%
150% AFR	1.90%	1.89%	1.89%	1.88%
175% AFR	2.22%	2.21%	2.20%	2.20%
<u>Long-term</u>				
AFR	1.90%	1.89%	1.89%	1.88%
110% AFR	2.09%	2.08%	2.07%	2.07%
120% AFR	2.28%	2.27%	2.26%	2.26%
130% AFR	2.48%	2.46%	2.45%	2.45%



Kerberos

Lessee

(Lessee) Perform the Calculations - Example

Entry at 7/1/19										
Lease asset							13,296.68			
Lease liability							(13,296.68)			
lease asset							(\$738.70)			
Lease liability							\$1,684.21			
interest expense							20.75			
rent expense							(\$1,704.96)			
Amortization of lease							\$738.70			
	Deliver/Install	Var. comp?	Discount rate	Payment	Term	Lease amount				
	\$1,012.00	N/A	0.9867%	\$375.00	36.00	13,296.68				
Month	Period	Beg. Balance	Payment	Liab princ	Interest	End Liab balar	Deprec. asset	End asset bal		
1	5/15/2019	\$13,296.68	\$1,358.48	1,347.55	10.93	\$11,949.13	(\$369.35)	\$12,927.32	=PV(\$D\$21/12,A25,0,-D25,0)	
2	6/15/2019	\$11,949.13						11,557.97	PV(rate, nper, pmt, [fv], [type])	
3	7/15/2019	\$11,612.47						1,188.62	345.63	
4	8/15/2019	\$11,275.54						1,819.27	345.34	
5	9/15/2019	\$10,938.33						1,449.92	345.06	
6	10/15/2019	\$10,600.84						1,080.56	344.78	
7	11/15/2019	\$10,263.08						711.21	344.49	
8	12/15/2019	\$9,925.04						341.86	344.21	
9	1/15/2020	\$9,586.72						972.51	343.93	
10	2/15/2020	\$9,248.12						603.16	343.64	
11	3/15/2020	\$8,909.24						233.80	343.36	
12	4/15/2020	\$8,570.09						864.45	343.08	
13	5/15/2020	\$8,230.66						495.10	342.80	

Calculating the Present Value of Future Lease Payments

Function Arguments

PV

Rate: \$D\$17/12 = 0.000822222

Nper: A21 = 1

Pmt: 0 = 0

Fv: -D21 = -1358.48

Type: 0 = 0

Returns the present value of an investment: the total amount that a series of future payments is worth now.

Rate is the interest rate per period. For example, use 6%/4 for quarterly payments at 6% APR.

Formula result = \$1,357.36

Help on this function

OK Cancel

(Lessee) Discount Rate - Example Based on Bond Pricing of Recently Issued Bonds

Bond Component	Maturity Date	Amount	Rate	Yield	Price
Serial Bond Component:					
	09/01/2020	910,000	5.000%	0.980%	103.116
	09/01/2021	1,215,000	5.000%	0.980%	107.077
	09/01/2022	1,275,000	5.000%	1.000%	110.940
	09/01/2023	1,340,000	5.000%	1.010%	114.761
	09/01/2024	1,405,000	5.000%	1.060%	118.317
	09/01/2025	1,475,000	5.000%	1.120%	121.657
	09/01/2026	1,550,000	5.000%	1.210%	124.599

(Lessee) Journal Entry #1: Retroactive Adjustments

		Entry at 7/1/19									
		Lease asset		13,296.68							
		Lease liability		(13,296.68)							
		lease asset		(\$738.70)							
		Lease liability		\$1,684.21							
		interest expense		20.75							
		rent expense		(\$1,704.96)							
		Amortization of lease		\$738.70							
		<div style="border: 1px solid red; padding: 5px; display: inline-block;">Record entry for initial setup of asset and liability amounts</div>									
		<div style="border: 1px solid blue; padding: 5px; display: inline-block;">Record prior year activity as if implementation had already occurred, or asset and liability amounts will be incorrect</div>									
	Deliver/Install	Var. comp?	Discount rate	Payment	Term	Lease amount					
	\$1,012.00	N/A	0.9867%	\$375.00	36.00	13,296.68					
Month	Period	Beg. Balance	Payment	Liab princ	Interest	End Liab balar	Deprec. asset	End asset bal	PV calculation	Total PV	
1	5/15/2019	\$13,296.68	\$1,358.48	1,347.55	10.93	\$11,949.13	(\$369.35)	\$12,927.32	\$1,357.36	\$13,296.68	
2	6/15/2019	\$11,949.13	\$346.48	336.66	9.82	\$11,612.47	(\$369.35)	\$12,557.97	345.91		
3	7/15/2019	\$11,612.47	\$346.48	336.93	9.55	\$11,275.54	(\$369.35)	\$12,188.62	345.63		
4	8/15/2019	\$11,275.54	\$346.48	337.21	9.27	\$10,938.33	(\$369.35)	\$11,819.27	345.34		
5	9/15/2019	\$10,938.33	\$346.48	337.49	8.99	\$10,600.84	(\$369.35)	\$11,449.92	345.06		
6	10/15/2019	\$10,600.84	\$346.48	337.76	8.72	\$10,263.08	(\$369.35)	\$11,080.56	344.78		
7	11/15/2019	\$10,263.08	\$346.48	338.04	8.44	\$9,925.04	(\$369.35)	\$10,711.21	344.49		
8	12/15/2019	\$9,925.04	\$346.48	338.32	8.16	\$9,586.72	(\$369.35)	\$10,341.86	344.21		
9	1/15/2020	\$9,586.72	\$346.48	338.60	7.88	\$9,248.12	(\$369.35)	\$9,972.51	343.93		
10	2/15/2020	\$9,248.12	\$346.48	338.88	7.60	\$8,909.24	(\$369.35)	\$9,603.16	343.64		
11	3/15/2020	\$8,909.24	\$346.48	339.15	7.33	\$8,570.09	(\$369.35)	\$9,233.80	343.36		
12	4/15/2020	\$8,570.09	\$346.48	339.43	7.05	\$8,230.66	(\$369.35)	\$8,864.45	343.08		

(Lessee) Journal Entry #2: Current Year Adjustments

		Entry at 6/30/20									
		lease asset				(\$4,432.23)					
		Lease liability				\$4,061.51					
		interest expense				96.25					
		rent expense				(\$4,157.76)					
		Amortization of lease				\$4,432.23					
		Deliver/Install	Var. comp?	Discount rate	Payment	Term	Lease amount				
		\$1,012.00	N/A	0.9867%	\$375.00	36.00	13,296.68				
Month	Period	Beg. Balance	Payment	Liab princ	Interest	End Liab balan	Deprec. asset	End asset bal	PV calculation	Total PV	
1	5/15/2019	\$13,296.68	\$1,358.48	\$1,347.55	10.93	\$11,949.13	(\$369.35)	\$12,927.32	\$1,357.36	\$13,296.68	
2	6/15/2019	\$11,949.13	\$346.48	336.66	9.82	\$11,612.47	(\$369.35)	\$12,557.97	345.91		
3	7/15/2019	\$11,612.47	\$346.48	336.93	9.55	\$11,275.54	(\$369.35)	\$12,188.62	345.63		
4	8/15/2019	\$11,275.54	\$346.48	337.21	9.27	\$10,938.33	(\$369.35)	\$11,819.27	345.34		
5	9/15/2019	\$10,938.33	\$346.48	337.49	8.99	\$10,600.84	(\$369.35)	\$11,449.92	345.06		
6	10/15/2019	\$10,600.84	\$346.48	337.76	8.72	\$10,263.08	(\$369.35)	\$11,080.56	344.78		
7	11/15/2019	\$10,263.08	\$346.48	338.04	8.44	\$9,925.04	(\$369.35)	\$10,711.21	344.49		
8	12/15/2019	\$9,925.04	\$346.48	338.32	8.16	\$9,586.72	(\$369.35)	\$10,341.86	344.21		
9	1/15/2020	\$9,586.72	\$346.48	338.60	7.88	\$9,248.12	(\$369.35)	\$9,972.51	343.93		
10	2/15/2020	\$9,248.12	\$346.48	338.88	7.60	\$8,909.24	(\$369.35)	\$9,603.16	343.64		
11	3/15/2020	\$8,909.24	\$346.48	339.15	7.33	\$8,570.09	(\$369.35)	\$9,233.80	343.36		
12	4/15/2020	\$8,570.09	\$346.48	339.43	7.05	\$8,230.66	(\$369.35)	\$8,864.45	343.08		
13	5/15/2020	\$8,230.66	\$346.48	339.71	6.77	\$7,890.95	(\$369.35)	\$8,495.10	342.80		
14	6/15/2020	\$7,890.95	\$346.48	339.99	6.49	\$7,550.96	(\$369.35)	\$8,125.75	342.52		

The ending liability & asset balances in the GL should match this worksheet after these entries

(Both) Summary of Significant Accounting Policies Disclosure

The government as a lessee recognizes lease liabilities and assets at the commencement of the lease term, unless the lease is short-term, or ownership is transferred 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, such as rent holidays). The leased asset was measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

The government as a lessor recognizes lease receivables and deferred inflows of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases; unless the lease is short-term, or ownership is transferred of the underlying asset. As the lessor the government continues to recognize assets underlying leases to others. The lease receivables are 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 on before the commencement of the lease term that relate to future periods.

(Lessee) Notes to the Financial Statements – Laundry List

- ✓ General description of the leasing arrangements, including the 1) the basis, terms, and conditions on which variable payments not included in the measurement of the lease liability are determined and 2) the existence, terms, and conditions of residual value guarantees provide by the lessee not included in the measurement of the lease liability.
- ✓ The total amount of leased assets, and the related accumulated amortization, disclosed separately from other capital assets.
- ✓ The amount of the leased assets by major asset classes, disclosed separately from other assets *(if you have a lot of leases).*
- ✓ The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the lease liability

- ✓ The amount of outflows of resources recognized in the reporting period for 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
- ✓ The components of any loss associated with an impairment (the impairment
- ✓ Loss and any related change in the lease liability

(Lessee) Notes to the Financial Statements – Documentation



Additional information required for GASB 87 Disclosure

Contract Features										Borrowing Rate (per year)	Monthly Payment	Number of Payments	Financial Reporting Approach	
Contract #	Supplier	Item	Initial term	Optional terms	Contract Date	Contract Start	Contract End	Initial contract value	Contract options					
1 2 3	2222	Equipment 'R Us	10 Copiers	5 years	After 2 years, cancellable	12/21/2020	1/1/2021	1/1/2026	60,000	none	6.00%	2,000.00	60	Record Lease Asset and Lease Liability (Short

(Lessee) Notes to the Financial Statements – Rare Disclosures

A lessee should provide relevant disclosures if they have:

1. Sublease transactions (see paragraph 81)
2. Sale-leaseback transactions (see paragraph 85)
3. Lease-leaseback transactions (see paragraph 87)

If pledged collateral for the lease is the underlying asset (for the lessee), there is no need to disclose this separately since it would be implied that if you stop paying, you would lose the asset.

(Lessee) Notes to the Financial Statements – Example

The government entered into an agreement to lease storage containers for thirty-six months, beginning May 2019. The lease terminates May 2022. Under the terms of the lease, the District pays \$346 per month over the life of the agreement.

At June 30, 2020, the government has recognized a right to use asset of \$8,126 and a lease liability of \$7,551 related to this agreement. During the fiscal year, the District recorded \$4,432 in amortization expense and \$96 in interest expense for the right to use the storage containers. The District used an incremental discount rate of 0.9867% based on the true interest cost for its most recent debt issuance for the same time periods.

(Lessee) Notes to the Financial Statements – Example (Cont.)

Remaining obligations associated with these leases are as follows:

Fiscal Year Ended June 30	Principal	Interest
2021	\$ 910,364	\$ 17,780
2022	1,288,785	3,673
2023	9,375	108
2024	5,030	53
2025	2,534	7
Total	<u>\$ 2,216,088</u>	<u>\$ 21,621</u>

The District amortized the right to use assets as follows during the fiscal year:

Leasee activities	Balance at June 30, 2019	Additions	Deletions	Balance at June 30, 2020
Right to use assets				
Office space	\$ -	\$ 2,691,279	\$ (897,093)	\$ 1,794,186
Printers and copiers	-	78,023	(21,673)	56,350
Mail postage machine	-	24,774	(2,478)	22,296
Storage bins	-	12,558	(4,432)	8,126
Totals, right to use assets	<u>\$ -</u>	<u>\$ 2,806,634</u>	<u>\$ (925,676)</u>	<u>\$ 1,880,958</u>

(Lessee) Notes to the Financial Statements – Example (Cont.)

Capital asset activity for the year ended June 30, 2020, is as follows:

Capital Assets	Balance at June 30, 2019	Transfers	Additions	Deletions	Balance at June 30, 2020
Depreciable assets					
Water systems	\$ 591,041,739	\$ 14,362,174	\$ 590,248	\$ -	\$ 605,994,161
Capacity rights	133,059,258	7,696,176	-	-	140,755,434
Building	5,755,374	-	-	-	5,755,374
Automobiles and equipment	24,664,017	294,950	690,375	(31,264)	25,618,078
Total cost of depreciable assets	754,520,388	22,353,300	1,280,623	(31,264)	778,123,047
Less accumulated depreciation					
Water systems	(330,851,199)	-	(14,810,493)	-	(345,661,692)
Capacity rights	(22,448,017)	-	(3,142,800)	-	(25,590,817)
Buildings	(4,189,500)	-	(96,162)	-	(4,285,662)
Automobiles and equipment	(15,711,754)	-	(2,781,435)	31,264	(18,461,925)
Total accumulated depreciation	(373,200,470)	-	(20,830,890)	31,264	(394,000,096)
Net depreciable assets	381,319,918	22,353,300	(19,550,267)	-	384,122,951
Amortized assets					
Intangible asset - right to use leased asset	-	-	2,806,634	-	2,806,634
Total amortized assets	-	-	2,806,634	-	2,806,634
Less accumulated amortization					
Intangible asset - right to use leased asset	-	-	(925,676)	-	(925,676)
Total accumulated amortization	-	-	(925,676)	-	(925,676)
Net amortized assets	-	-	1,880,958	-	1,880,958

Present the “right to use assets” separately

(Lessee) Example Accounts from General Ledger

Business Unit	Object Account	Subsidiary	Account Description
MASTERCOA	16900		Intangible Right to Use A
MASTERCOA	16905		Intangible Right to Use
MASTERCOA	16910		Intangible Right to Use
MASTERCOA	16910	100	Mobile Storage Containers
MASTERCOA	16910	101	Mail machine
MASTERCOA	16910	102	Copiers and Printers
MASTERCOA	16910	103	AV Pkwy bldng lease

Business Unit	Object Account	Subsidiary	Account Description
MASTERCOA	23500		PV of Future Lease Paymen
MASTERCOA	23505		PV of Future Lease Payme
MASTERCOA	23510		PV of Future Lease Paym
MASTERCOA	23510	100	Mobile Storage Containers
MASTERCOA	23510	101	Mail machine
MASTERCOA	23510	102	Copiers and Printers
MASTERCOA	23510	103	AV Pkwy bldng lease

(Lessee) Termination Clause Example

Termination Clause

2.06 After the thirtieth (30th) month of the Term, Tenant shall have the ongoing right (the "Termination Right") to terminate and cancel this Lease effective as of the date (the "Termination Date") specified in the Termination Notice (as defined below), subject to and in accordance with the terms of this agreement. For avoidance of doubt, the earliest date that Tenant may deliver the Termination Notice to Landlord would be on the last day of the twenty fourth (24th) month, for the earliest possible Termination Date of the last day of the thirtieth (30th) month of the Term. As used herein, the "Termination Consideration" shall mean an amount equal to the sum of: (A) an amount equal to the unamortized Allowance (as defined in Exhibit C attached hereto), (B) an amount equal to the unamortized abated Base Rent pursuant to Section 3.02 below, and (C) an amount equal to the unamortized leasing commission utilizing a six percent (6%) cost of funds.

Adding termination clause into lease liability:

Unamortized allowance ± (\$1M/48 x 18 months at termination) = \$375,000

Unamortized abated rent ± (\$150k/48 x 18 months at termination) = \$56,250

6% cost of funds (Total rent due over 48 months [\$4,176,900] x 6%/48 x 18 months at termination) = \$93,980

Total termination liability - \$525,230

Other factors:

Base rent - \$75k/month, increasing 10% annually
Move in Allowance - \$1.0M
Term of agreement ± 48 months
2nd and 3rd months rent abated (\$150k total)
Reasonably certain lessee will exercise right

(Lessee) Termination Clause Example (Cont.)

		Termination Clause							
Period	Beg Bal	Payment by Month	Prin pmt	Int	End Liab balance	Deprec. asset	End asset bal	PV calculation	
9/1/2019	\$2,767,761	-	(2,212.83)	2,212.83	2,769,974.10	(\$92,258.71)	\$2,675,502.56	\$0	
10/1/2019	2,769,974	-	(2,139.07)	2,139.07	2,772,113.17	(\$92,258.71)	\$2,583,243.85	\$0	
11/1/2019	2,772,113	75,000.00	70,495.39	2,065.31	2,701,617.78	(\$92,258.71)	\$2,490,985.14	\$74,815	
12/1/2019	2,701,618	75,000.00	70,569.15	1,991.55	2,631,048.63	(\$92,258.71)	\$2,398,726.43	\$74,754	
1/1/2020	2,631,049	75,000.00	70,642.91	1,917.79	2,560,405.72	(\$92,258.71)	\$2,306,467.72	\$74,692	
2/1/2020	2,560,406	75,000.00	70,716.68	1,844.02	2,489,689.04	(\$92,258.71)	\$2,214,209.01	\$74,631	
3/1/2020	2,489,689	75,000.00	70,790.44	1,770.26	2,418,898.60	(\$92,258.71)	\$2,121,950.31	\$74,570	
4/1/2020	2,418,899	75,000.00	70,864.20	1,696.50	2,348,034.40	(\$92,258.71)	\$2,029,691.60	\$74,508	
5/1/2020	2,348,034	75,000.00	70,937.96	1,622.74	2,277,096.44	(\$92,258.71)	\$1,937,432.89	\$74,447	
6/1/2020	2,277,096	75,000.00	71,011.72	1,548.98	2,206,084.72	(\$92,258.71)	\$1,845,174.18	\$74,386	
7/1/2020	2,206,085	75,000.00	73,186.11	1,813.89	2,132,898.61	(\$92,258.71)	\$1,752,915.47	\$74,325	
8/1/2020	2,132,899	75,000.00	73,246.28	1,753.72	2,059,652.33	(\$92,258.71)	\$1,660,656.76	\$74,264	
9/1/2020	2,059,652	82,500.00	80,806.51	1,693.49	1,978,845.82	(\$92,258.71)	\$1,568,398.05	\$81,623	
10/1/2020	1,978,846	82,500.00	80,872.95	1,627.05	1,897,972.87	(\$92,258.71)	\$1,476,139.34	\$81,556	
11/1/2020	1,897,973	82,500.00	80,939.44	1,560.56	1,817,033.43	(\$92,258.71)	\$1,383,880.63	\$81,489	
12/1/2020	1,817,033	82,500.00	81,005.99	1,494.01	1,736,027.44	(\$92,258.71)	\$1,291,621.92	\$81,422	
1/1/2021	1,736,027	82,500.00	81,072.60	1,427.40	1,654,954.84	(\$92,258.71)	\$1,199,363.22	\$81,355	
2/1/2021	1,654,955	82,500.00	81,139.26	1,360.74	1,573,815.58	(\$92,258.71)	\$1,107,104.51	\$81,288	
3/1/2021	1,573,816	82,500.00	81,205.97	1,294.03	1,492,609.61	(\$92,258.71)	\$1,014,845.80	\$81,222	
4/1/2021	1,492,610	82,500.00	81,272.74	1,227.26	1,411,336.87	(\$92,258.71)	\$922,587.09	\$81,155	
5/1/2021	1,411,337	82,500.00	81,339.57	1,160.43	1,329,997.30	(\$92,258.71)	\$830,328.38	\$81,088	
6/1/2021	1,329,997	82,500.00	81,406.45	1,093.55	1,248,590.85	(\$92,258.71)	\$738,069.67	\$81,022	
7/1/2021	1,248,591	82,500.00	81,473.38	1,026.62	1,167,117.47	(\$92,258.71)	\$645,810.96	\$80,955	
8/1/2021	1,167,117	607,730.00	606,770.37	959.63	560,347.10	(\$92,258.71)	\$553,552.25	\$595,860	

Abated rent

Termination Clause

Includes lease termination payment

Must calculate PV of future lease termination payment in the month it will occur



KerberRose

Lessor

(Lessor) Perform the Calculations - Example

Mountain Gate Res Cell Site License									
Month	Period	Beg. Balance	Payment	Lease receivable	Interest	End Rec balance	PV Calculation	3.79%	Initial Setup Entry
1	1/1/2016	577,548.51	35,000.00	34,175.91	1,824.09	543,372.60	=PV(\$12/12,A3,0,-D3,1)		Lease Receiv
2	2/1/2016	543,372.60	-	(1,716.15)	1,716.15	545,088.75	PV(rate, nper, pmt, [fv], [type])		ferred Inf
3	3/1/2016	545,088.75	-	(1,721.57)	1,721.57	546,810.32	\$0		To remove PY
4	4/1/2016	546,810.32	-	(1,727.01)	1,727.01	548,537.33	\$0		Cell License P
5	5/1/2016	548,537.33	-	(1,732.46)	1,732.46	550,269.79	\$0		Cell License P
6	6/1/2016	550,269.79	-	(1,737.94)	1,737.94	552,007.73	\$0		Lease receiva
7	7/1/2016	552,007.73	-	(1,743.42)	1,743.42	553,751.15	\$0		Lease interest
8	8/1/2016	553,751.15	-	(1,748.90)	1,748.90	555,499.05			(70,445.90) 100000.45355
9	9/1/2016	555,500							1.26005.100
10	10/1/2016	557,254							
11	11/1/2016	559,014							
12	12/1/2016	560,780							
13	1/1/2017	562,551							
14	2/1/2017	526,887							
15	3/1/2017	528,552							
16	4/1/2017	530,221							
17	5/1/2017	531,895							
18	6/1/2017	533,575							
19	7/1/2017	535,261							
20	8/1/2017	536,951							
21	9/1/2017	538,647							
22	10/1/2017	540,348							
23	11/1/2017	542,055							
24	12/1/2017	543,767							

Calculating the Present Value of Future Leases to be received

Function Arguments

PV

Rate: \$12/12 = 0.003158333

Nper: A3 = 1

Pmt: 0 = 0

Fv: -D3 = -36000

Type: 1 = 1

= 35886.65797

Returns the present value of an investment: the total amount that a series of future payments is worth now.

Rate is the interest rate per period. For example, use 6%/4 for quarterly payments at 6% APR.

(Lessor) Discount Rate - Example Based on SBA Loan Rates

Commercial Loan **Direct** Login Help - Search Chat 800-887-0797
M-F 9am-7pm EST

SBA 504

SBA 504 is a loan product guaranteed by the Small Business Administration for the financing of owner-occupied real estate and/or machinery and equipment. LTVs go up to 90% and may be used for construction or existing properties.

SBA 504 Loan Rates				
Term	Fixed Rate - Purchase**	Fixed Rate - Refinance**	Max LTV*	Max Amortization
10 Years	3.790%	3.790%	90% - Owner-Occupied	10 Years
20 Years	3.640%	2.640%	90% - Owner-Occupied	20 Years
25 Years	3.710%	3.710%	90% - Owner-Occupied	25 Years

Loan Amount \$750,000+

* Not available for all property types

** SBA debenture rate only

(Lessor) Journal Entry #1: Retroactive Adjustments

Mountain Gate Res Cell Site License										Initial Setup Entry		
Month	Period	Beg. Balance	Payment	Lease receivable	Interest	End Rec balance	PV Calculation	3.79%				
1	1/1/2016	577,548.51	36,000.00	34,175.91	1,824.09	543,372.60	\$35,887	\$577,549	Lease Receivable	\$577,549	1.16730.100	
2	2/1/2016	543,372.60	-	(1,716.15)	1,716.15	545,088.75	\$0		Deferred Inflow	(577,549)	1.26005.100	
3	3/1/2016	545,088.75	-	(1,721.57)	1,721.57				To remove PY Payments recorded and implement GASB 87			
4	4/1/2016	546,810.32	-	(1,727.01)	1,727.01				Cell License Revenu	152,871.70	100000.45715	
5	5/1/2016	548,537.33	-	(1,732.46)	1,732.46				Cell License Revenu	(82,426.80)	100000.45715	
6	6/1/2016	550,269.79	-	(1,737.94)	1,737.94				Lease receivable	(82,426.80)	1.16730.100	
7	7/1/2016	552,007.73	-	(1,743.42)	1,743.42				Lease interest	(70,445.90)	100000.45355	
8	8/1/2016	553,751.15	-	(1,748.93)	1,748.93	555,500.08	\$0		Deferred Inflow	82,426.80	1.26005.100	
9	9/1/2016	555,500.08	-	(1,754.45)	1,754.45	557,254.53	\$0					
10	10/1/2016	557,254.53	-	(1,760.00)	1,760.00	559,014.53	\$0					
11	11/1/2016	559,014.53	-	(1,765.55)	1,765.55	560,780.08	\$0					
12	12/1/2016	560,780.08	-	(1,771.13)	1,771.13	562,551.21	\$0					
13	1/1/2017	562,551.21	37,440.00	35,663.28	1,776.72	526,887.93	\$35,936					
14	2/1/2017	526,887.93	-	(1,664.09)	1,664.09	528,552.02	\$0					
15	3/1/2017	528,552.02	-	(1,669.34)	1,669.34	530,221.36	\$0					
16	4/1/2017	530,221.36	-	(1,674.62)	1,674.62	531,895.98	\$0					
17	5/1/2017	531,895.98	-	(1,679.90)	1,679.90	533,575.88	\$0					
18	6/1/2017	533,575.88	-	(1,685.21)	1,685.21	535,261.09	\$0					
19	7/1/2017	535,261.09	-	(1,690.53)	1,690.53	536,951.62	\$0					
20	8/1/2017	536,951.62	-	(1,695.87)	1,695.87	538,647.49	\$0					
21	9/1/2017	538,647.49	-	(1,701.23)	1,701.23	540,348.72	\$0					
22	10/1/2017	540,348.72	-	(1,706.60)	1,706.60	542,055.32	\$0					
23	11/1/2017	542,055.32	-	(1,711.99)	1,711.99	543,767.31	\$0					
24	12/1/2017	543,767.31	-	(1,717.40)	1,717.40	545,484.71	\$0					
25	1/1/2018	545,484.71	38,937.60	37,214.78	1,722.82	508,269.93	\$35,986					

Record entry for initial setup of asset and deferred inflow amounts

Cell License Revenu	152,871.70	100000.45715
Cell License Revenu	(82,426.80)	100000.45715
Lease receivable	(82,426.80)	1.16730.100
Lease interest	(70,445.90)	100000.45355
Deferred Inflow	82,426.80	1.26005.100

Record prior year activity as if implementation had already occurred, or asset and deferred inflow amounts will be incorrect

(Lessor) Journal Entry #2: Current Year Adjustments

Mountain Gate Res Cell Site License									
Month	Period	Beg. Balance	Payment	Lease receivable	Interest	End Rec balance	PV Calculation	3.79%	Initial Setup Entry
40	4/1/2019	490,459.90	-	(1,549.04)	1,549.04	492,008.94	\$0		
41	5/1/2019	492,008.94	-	(1,553.93)	1,553.93	493,562.87	\$0		
42	6/1/2019	493,562.87	-	(1,558.84)	1,558.84	495,121.71	\$0		
43	7/1/2019	495,121.71	1,650.00	86.24	1,563.76	495,035.47	\$1,441	Amendment	To record FY 19/20 activity
44	8/1/2019	495,035.47	-	(1,563.49)	1,563.49	496,598.96	\$0		Cell License Revenue 47,196.90 100000.45715
45	9/1/2019	496,598.96	-	(1,568.43)	1,568.43	498,167.39	\$0		Lease receivable (28,884.40) 1.16730.100
46	10/1/2019	498,167.39	-	(1,573.38)	1,573.38	499,740.77	\$0		Lease Interest (18,312.50) 100000.45355
47	11/1/2019	499,740.77	-	(1,578.35)	1,578.35	501,319.12	\$0		Deferred Inflow 28,884.40 1.26005.100
48	12/1/2019	501,319.12	-	(1,583.33)	1,583.33	502,902.45	\$0		Cell License Revenue (28,884.40) 100000.45715
49	1/1/2020	502,902.45	45,546.90	43,958.57	1,588.33	458,943.88	\$39,026		
50	2/1/2020	458,943.88	-	(1,449.50)	1,449.50	460,393.38	\$0		6/30/19 balance 495,121.71
51	3/1/2020	460,393.38	-	(1,454.08)	1,454.08	461,847.46	\$0		6/30/20 balance 466,237.31 Due w/in 1 yr
52	4/1/2020	461,847.46	-	(1,458.57)	1,458.67	463,306.13	\$0		6/30/21 balance 436,096.34 30,140.97
53	5/1/2020	463,306.13	-	(1,463.28)	1,463.28	464,769.41	\$0		6/30/2022 402,668.14
54	6/1/2020	464,769.41	-	(1,467.90)	1,467.90	466,237.31	\$0		6/30/2023 366,356.60
55	7/1/2020	466,237.31	-	(1,472.53)	1,472.53	467,709.84	\$0		6/30/2024 326,355.06
56	8/1/2020	467,709.84	-	(1,477.18)	1,477.18	469,187.02	\$0		6/30/2025 282,645.66
57	9/1/2020	469,187.02	-	(1,481.85)	1,481.85	470,668.87	\$0		6/30/2026 234,998.77
58	10/1/2020	470,668.87	-	(1,486.53)	1,486.53	472,155.40	\$0		6/30/2027 183,172.46
59	11/1/2020	472,155.40	-	(1,491.22)	1,491.22	473,646.62	\$0		
60	12/1/2020	473,646.62	-	(1,495.93)	1,495.93	475,142.55	\$0		
61	1/1/2021	475,142.55	47,368.78	45,868.12	1,500.66	429,274.43	\$39,080		
62	2/1/2021	429,274.43	-	(1,355.79)	1,355.79	430,630.22	\$0		
63	3/1/2021	430,630.22	-	(1,360.07)	1,360.07	431,990.29	\$0		
64	4/1/2021	431,990.29	-	(1,364.37)	1,364.37	433,354.66	\$0		
65	5/1/2021	433,354.66	-	(1,368.68)	1,368.68	434,723.34	\$0		
66	6/1/2021	434,723.34	-	(1,373.00)	1,373.00	436,096.34	\$0		

The ending asset & deferred inflow balances in the GL should match this worksheet after these entries

(Both) Summary of Significant Accounting Policies Disclosure

The government as a lessee recognizes lease liabilities and assets at the commencement of the lease term, unless the lease is short-term, or ownership is transferred 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, such as rent holidays). The leased asset was measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

The government as a lessor recognizes lease receivables and deferred inflows of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases; unless the lease is short-term, or ownership is transferred of the underlying asset. As the lessor the government continues to recognize assets underlying leases to others. The lease receivables are 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 on before the commencement of the lease term that relate to future periods.

(Lessor) Notes to the Financial Statements - Laundry List

- ✓ A general description of its leasing arrangements, including the basis, terms, and conditions on which any variable payments not included in the measurement of the lease receivable are determined
- ✓ 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
- ✓ The existence, terms, and conditions of options by the lessee to terminate the lease or abate payments if the lessor government has issued debt for which the principal and interest payments are secured by the lease payments.

(Lessor) Notes to the Financial Statements - Documentation



Additional information required for GASB 87 Disclosure

Contract Features										Borrowing Rate (per year)	Monthly Payment	Number of Payments	Financial Reporting Approach	
Contract #	Lessee	Item	Initial term	Optional terms	Contract Date	Contract Start	Contract End	Initial contract value	Contract options					
1	5822	Great Community Business, Inc.,	Office Space in main building	1 year	3 year option	44352	7/1/2021	7/1/2024	5,000 install cost	42,000 annually	4.00%	3,500.00	36	Record Lease Receivable and corresponding Deferred Inflow of Resources
2														
3														

(Lessor) Notes to the Financial Statements – Rare Disclosures

A lessor should provide relevant disclosures if they have:

1. Leases of assets that are investments (see paragraph 41)
2. Certain regulated leases (see paragraph 60)
3. Sublease transactions (see paragraph 81)
4. Sale-leaseback transactions (see paragraph 85)
5. Lease-leaseback transactions (see paragraph 87)

Additionally, there are special considerations for situations where the lessor's principal ongoing operations consist of leasing assets to other entities (e.g. airports).

Also, a lessor with more than one regulated lease (see paragraphs 42-43, e.g. airports leasing to airlines) needs to add additional disclosures.

(Lessor) Notes to the Financial Statements - Example

The District licenses (leases) a portion of its facilities for cellular tower antenna sites. These licenses are non-cancelable for a period of 10 years, with one renewal period of five years. The District believes the licenses will exercise the renewal option with reasonable certainty. The agreements allow for 3.0%-4.0% annual CPI increases to the license payments. At termination, lessees must remove all equipment and restore the site to its original state. During the fiscal year, the District recognized \$1,312,711 in lease revenue and \$601,770 in interest income related to these agreements. At June 30, 2020, the District recorded \$15,175,090 in lease receivables and deferred inflows of resources for these arrangements. The District used an interest rate of between 3.64% and 3.79% based on the rates available to finance real estate or machinery and equipment over the same time periods.

(Lessor) Notes to the Financial Statements – Example (Cont.)

Leases receivable	Balance at June 30, 2019, as restated	Additions	Deletions	Balance at June 30, 2020
License agreements	\$ 16,382,530	\$ -	\$ (1,207,440)	\$ 15,175,090
Total leases receivable	<u>\$ 16,382,530</u>	<u>\$ -</u>	<u>\$ (1,207,440)</u>	<u>\$ 15,175,090</u>

Remaining amounts to be received associated with these leases are as follows:

Fiscal Year Ended June 30	Lease Revenue
2021	1,248,675
2022	1,323,083
2023	1,317,997
2024	1,324,143
2025	1,339,159
2026-2030	8,368,182
2031-2035	<u>253,850</u>
Total	<u>\$ 15,175,090</u>

(Lessor) Example Accounts from General Ledger

Business Unit	Object Account	Subsidiary	Account Description
MASTERCOA	16720		Leases Receivable
MASTERCOA	16725		Leases Receivable
MASTERCOA	16730		Leases Receivable - ATT
MASTERCOA	16730	100	Mountain Gate Res - ATT
MASTERCOA	16730	101	Horse Trails PS- ATT
MASTERCOA	16730	102	Downtown Res- ATT
MASTERCOA	16730	103	Westridge - ATT

Business Unit	Object Account	Subsidiary	Account Description
MASTERCOA	26000		Deferred Inflows - Leases
MASTERCOA	26005		Deferred Inflows - ATT
MASTERCOA	26005	100	Mountain Gate Res - ATT
MASTERCOA	26005	101	Horse Trails PS- ATT
MASTERCOA	26005	102	Downtown Res- ATT
MASTERCOA	26005	103	Westridge - ATT

Lease Modifications and Terminations

- Contract provisions amended while the contract is in effect often modify the provisions of the lease contract that was originally accounted for during the year of the transaction.
 - Changes in contract price
 - Lengthening or shortening the lease term
 - Adding or removing an underlying asset or assets

Is it a Modification or a Termination?

Modification

Any amendment that *doesn't* result in a decrease of the use of any underlying assets.

Result is to account for the modification as a separate lease contract if both

1) the lease modification gives the lessee an additional lease asset by adding one or more underlying assets that were not included in original lease

2) the increase in lease payments for the additional lease asset does not appear to be unreasonable based on the terms of the amended contract or professional judgment.

Termination (full/partial)

Any amendment that results in a decrease in the use of any underlying assets.

Result is to reduce the carrying values of the lease receivable and related deferred inflow of resources; with the recognition of a gain or loss difference.

For a lessee, if the reason the lease is terminated is due to the purchase of the asset, of course the originally recorded underlying asset should also be reclassified accordingly as a capital asset (in the appropriate asset class)

(Lessor) Accounting for Amendments Example

This Amendment No. 1 to the Communications Facility License Agreement (this "Amendment No. 1") is made this 26 day of June, 2019, by and between Moulton Niguel Water

District ("District") a California water district existing and operating pursuant to Division 13 of

2. **Additional License Fee.** In addition to Licensee's existing obligations under the

Agreement, Licensee shall pay additional License Fee in the amount of Three Thousand Three

Hundred and 00/100 dollars (\$3,300.00) due annually, Commencing on the earlier of: (i) the first

day of the month following the date the District issues its consent letter allowing Licensee to

commence work, specified in the attached Exhibits; or (ii) July 1, 2019. The addition License Fee

shall be pro-rated for the period from the Commencement date to December 31, 2019.

Licensee shall remit payment on or before sixty (60) calendar days from the Commencement

Date. The Annual License Fee due January 1, 2020 shall be Forty-Five Thousand Five Hundred

Forty-Six and 90/100 dollars (\$45,546.90) annually and shall continue during the Term, subject

to adjustment as provided in Section 4 of the Agreement.

(Lessor) Accounting for Amendments Example (Cont.)

Mountain Gate Res Cell Site License										
Month	Period	Beg. Balance	Payment	Lease receivable	Interest	End Rec balance	PV Calculation	3.79%	Initial Setup Entry	
40	4/1/2019	490,459.90	-	(1,549.04)	1,549.04	492,008.94	\$0			
41	5/1/2019	492,008.94	-	(1,553.93)	1,553.93	493,562.87	\$0			
		62.87	-	(1,558.84)	1,558.84	495,121.71	\$0			
		21.71	1,650.00	86.24	1,563.76	495,035.47	\$1,441	Amendment	To record FY 19/20 activity	
		35.47	-	(1,563.49)	1,563.49	496,598.96	\$0		Cell License Revenue	47,196.90 100000.45715
		98.96	-	(1,568.43)	1,568.43	498,167.39	\$0		Lease receivable	(28,884.40) 1.16730.100
		97.39	-	(1,573.38)	1,573.38	499,740.77	\$0		Lease interest	(18,312.50) 100000.45355
		40.77	-	(1,578.35)	1,578.35	501,319.12	\$0		Deferred Inflow	28,884.40 1.26005.100
		501,319.12	-	(1,583.33)	1,583.33	502,902.45	\$0		Cell License Revenue	(28,884.40) 100000.45715
49	1/1/2020	502,902.45	45,546.90	43,958.57	1,588.33	458,943.88	\$0		6/30/19 balance	495,121.71
50	2/1/2020	458,943.88	-	(1,449.50)	1,449.50	460,393.38	\$0		6/30/20 balance	466,237.31 due w/in 1 yr
51	3/1/2020	460,393.38	-	(1,454.08)	1,454.08	461,847.46	\$0		6/30/21 balance	436,096.34 30,140.97
52	4/1/2020	461,847.46	-	(1,458.67)	1,458.67	463,306.13	\$0			
53	5/1/2020	463,306.13	-	(1,463.28)	1,463.28	464,769.41	\$0		6/30/2022	402,868.14
54	6/1/2020	464,769.41	-	(1,467.90)	1,467.90	466,237.31	\$0		6/30/2023	366,356.60
55	7/1/2020	466,237.31	-	(1,472.53)	1,472.53	467,709.84	\$0		6/30/2024	326,355.06
56	8/1/2020	467,709.84	-	(1,477.18)	1,477.18	469,187.02	\$0		6/30/2025	282,645.66
57	9/1/2020	469,187.02	-	(1,481.85)	1,481.85	470,668.87	\$0		6/30/2026	234,998.77
58	10/1/2020	470,668.87	-	(1,486.53)	1,486.53	472,155.40	\$0		6/30/2027	183,172.46
59	11/1/2020	472,155.40	-	(1,491.22)	1,491.22	473,646.62	\$0		6/30/2028	126,911.91
60	12/1/2020	473,646.62	-	(1,495.93)	1,495.93	475,142.55	\$0		6/30/2029	65,948.67
61	1/1/2021	475,142.55	47,368.78	45,868.12	1,500.66	429,274.43	\$39,080		6/30/2030	0.05
62	2/1/2021	429,274.43	-	(1,355.79)	1,355.79	430,630.22	\$0			
63	3/1/2021	430,630.22	-	(1,360.07)	1,360.07	431,990.29	\$0			
64	4/1/2021	431,990.29	-	(1,364.37)	1,364.37	433,354.66	\$0			
65	5/1/2021	433,354.66	-	(1,368.68)	1,368.68	434,723.34	\$0			
66	6/1/2021	434,723.34	-	(1,373.00)	1,373.00	436,096.34	\$0			

\$3,300/year prorated until December 31, 2019, then \$45,546.90 annually starting January 1, 2020

Still need to calculate the PV of amendment value

Contracts with Multiple Components

- Lease components (right to use a building) and nonlease (maintenance services provided for the building) components in the same contract.
 - Each component should be treated as a separate lease and underlying component, using any prices and information available in the contract itself.
 - The exception: the contract does not include prices for individual components, or the prices appear unreasonable. In this case, professional judgment should be used to allocate the components, unless impracticable.
 - Be careful with allocated discounts in the contract if not allocated evenly among components. This could render the allocation unreasonable, resulting in a manual allocation as in the exception noted above.

Contract Combinations

- Numerous contracts that are entered into at or near the same time with the same counterparty should be considered part of the same contract if either of the following criteria is met:
 - The contracts are negotiated as a package with a single objective.
 - The amount of consideration to be paid in one contract depends on the price or performance of the other contract.
 - If multiple contracts are determined to be part of the same contract, they should be evaluated as components, as noted on the directly previous slide.

Rare Scenarios for Reference

- Subleases
- Sale-Leaseback Transactions
- Lease-Leaseback Transactions
- Intra-Entity Leases
- Leases between Related Parties
 - Consideration for substance of the transaction, rather than legal form.
 - E.g. the legal document is a short-term lease, but related parties have a mutual understanding that the lease contract will stay in effect for several more years. This lease should be considered long-term rather than short-term.

Materiality

- Must be considered in the aggregate, rather than for each individual asset.
 - E.g., Ten copier leases with argument that each copier is immaterial does not work.

Audit Considerations

- Document your processes and controls.
 - Someone should be reviewing and preparing the schedules
 - Another person should be reviewing it
- Auditors may assist you with the workpapers and lease determinations, as long as you can review and approve the work and results, as well as sign a management representation letter clarifying that you have included all information for the audit.
- A spreadsheet like we have developed internally (showcased throughout the presentation) can be utilized to make the process more efficient.
- A share cloud site could be used to transfer information between departments if your ERP System or General Ledger System does not have the built in capabilities to deal with this.

Additional Examples


Copiers

Solution					
Item	Product Description	Agreement Information		Trade Information	Requested Install Date
1.	W7970P (WORKCENTRE 7970) - Br Booklet Maker - Customer Ed - Analyst Services	Lease Term: Purchase Option:	60 months FMV	- Xerox WC7775P S/N RFX355726 Trade-In as of Payment 36	1/15/2016
2.	5955APT (WORKCENTRE 5955) - 3 Hole Punch Kit - Off Finisher 50sheet - Customer Ed - Analyst Services	Lease Term: Purchase Option:	60 months FMV	- Xerox WC5150 S/N VXX095807 Trade-In as of Payment 36	1/19/2016
3.	5875APT (5875A PT/COP/4TRAY) - 3-hole - Ofcfn Only - Office Finisher-rohs - Customer Ed - Analyst Services	Lease Term: Purchase Option:	60 months FMV	- Xerox NAAOM75 S/N XEL567728 Trade-In as of Payment 36	1/15/2016
4.	5875APT (5875A PT/COP/4TRAY) - 3-hole - Ofcfn Only - Office Finisher-rohs - Customer Ed - Analyst Services	Lease Term: Purchase Option:	60 months FMV	- Xerox NAAOM75 S/N XEL567990 Trade-In as of Payment 36	1/15/2016

Additional Examples (Cont.)

Four Copiers

Lease Agreement




Monthly Pricing

Item	Lease Minimum Payment	Print Charges			Maintenance Plan Features
		Meter	Volume Band	Per Print Rate	
1. W7970P	\$465.14	1: BW 2: Color	All Prints All Prints	\$0.0063 \$0.0592	- Consumable Supplies Included for all prints - Pricing Fixed for Term
2. 5955APT	\$169.98	1: BW	All Prints	\$0.0042	- Consumable Supplies Included for all prints - Pricing Fixed for Term
3. 5875APT	\$222.49	1: BLACK	All Prints	\$0.0042	- Consumable Supplies Included for all prints - Pricing Fixed for Term
4. 5875APT	\$213.00	1: BLACK	All Prints	\$0.0042	- Consumable Supplies Included for all prints - Pricing Fixed for Term
Total	\$1,070.61	Minimum Payments (Excluding Applicable Taxes)			

Additional Examples (Cont.)

Four Copiers

Lease Agreement

xerox 

INTRODUCTION:

1. NEGOTIATED CONTRACT. The Products are subject solely to the terms in the Negotiated Contract identified on the face of this Agreement, and, for any option you have selected that is not addressed in the Negotiated Contract, the then-current standard Xerox terms for such option.

PRICING PLAN/OFFERING SELECTED:

2. FIXED PRICING. If "Pricing Fixed for Term" is identified in Maintenance Plan Features, the maintenance component of the Minimum Payment and Print Charges will not increase during the initial Term of this Agreement.

3. REFINANCE. The "Amount Refinanced" is included in the amount financed under this Agreement. If the Amount Refinanced is under an agreement with a third party, you acknowledge you have the right to terminate the agreement and you will provide Xerox with a statement from the third party identifying the equipment at issue, the amount to be paid off and the payee's name and mailing address. If the Amount Refinanced is under an agreement with Xerox, the refinancing will render your prior agreement null and void. If you breach any of your obligations under this Agreement, the full Amount Refinanced will be immediately due and payable.

GENERAL TERMS & CONDITIONS:

4. REMOTE SERVICES. Certain models of Equipment are supported and serviced using data that is automatically collected by Xerox or transmitted to or from Xerox by the Equipment connected to Customer's network ("Remote Data") via electronic transmission to a secure off-site location ("Remote Data Access"). Remote Data Access also enables Xerox to transmit to Customer Releases for Software and to remotely diagnose and modify Equipment to repair and correct malfunctions. Examples of Remote Data include product registration, meter read, supply level, Equipment configuration and settings, software version, and problem/fault code data. Remote Data may be used by Xerox for billing, report generation, supplies replenishment, support services, recommending additional products and services, and product improvement/development purposes. Remote Data will be transmitted to and from Customer in a secure manner specified by Xerox. Remote Data Access will not allow Xerox to read, view or download the content of any Customer documents or other information residing on or passing through the Equipment or Customer's information management systems. Customer grants the right to Xerox, without charge, to conduct Remote Data Access for the purposes described above. Upon Xerox's request, Customer will provide contact information for Equipment such as name and address of Customer contact and IP and physical addresses/locations of Equipment. Customer will enable Remote Data Access via a method prescribed by Xerox, and Customer will provide reasonable assistance to allow Xerox to provide Remote Data Access. Unless Xerox deems Equipment incapable of Remote Data Access, Customer will ensure that Remote Data Access is maintained at all times Maintenance Services are being performed.

Additional Examples (Cont.)

Land Lease Following Sale

11. Lease by Seller. IF Seller so desires, Buyer will enter into a lease with Seller for the property being sold herein based on the following terms.

- a. Lease amount of \$10.00 per year.
- b. Property to be used by Seller for farming purposes only.
- c. Lease shall not be assignable by Seller.
- d. Lease shall be for a term of five years. Buyer shall have the right to cancel the lease by giving Seller written notice prior to January 1 of the year of cancellation. Seller shall then receive from Buyer \$1,000.00 per year for any remaining years on the five year lease.

Additional Examples (Cont.)

Short-term?

... TO HOLD for an initial term of 16 months commencing on August 5, 2021 and extending through December, 2022 and upon 30 days notice to Lessor, Lessee reserves the option to extend said lease an additional 4 months but to terminate no later than April 30, 2023. Lessee yielding and paying rent therefore in the sum of \$ 16,000 for the first 16 month term and \$ 1,000 for each additional month thereafter. Said rental shall be paid for the initial term upon the execution of this agreement, and Lessor hereby acknowledges the receipt thereof. In the event said Lessee desires to terminate this lease in advance of the expiration of said 16 month period herein agreed upon, it shall have the right to vacate and abandon said parcel of land. However, Lessor shall not be obligated to refund any of the advance rental herein paid for any unused portion of the 16 month rental period.

Additional Examples (Cont.)

Long-term?

1. **LEASE LAND.** LESSOR hereby leases the following described land (PROPERTY), which is located in to the LESSEE, subject to the terms and conditions of this LEASE:

Section 2, T18N, R23E, described as parcel numbers 052-802-102-000 and 052-802-103-000 which contain 47.3 farmable acres, and parcel number 052-802-201-000, which contains 24.7 farmable acres.

2. **TERM AND TERMINATION.**

(a) The term of this LEASE is from midnight at the start of the day on April 1, 2021 through midnight at the end of the day on March 31, 2026.

Additional Examples (Cont.)

Various
terms to
explore

WHEREAS, Landlord has agreed to lease to Tenant and Tenant has agreed to lease from Landlord that certain real estate identified on the attached EXHIBIT A (the "Leased Premises"), such Leased Premised being part of a larger parcel owned by Landlord and not subject to the Lease, to be used generally as a parking lot to park semi-trailers for the benefit of Tenant from time to time, on the terms **and conditions** herein contained.

Future Considerations

- ✓ What processes and procedures will you add to your internal control framework and procedural manuals?
 - Identifying leases in the future as they arise. Do other departments need to be notified/included in this process?
 - How will Finance know about current leases that are modified?
 - What types of internal controls are put in place to ensure timely and accurate data?
 - Set up new internal policies and procedures to review new agreements prior to execution or modification in order to gather information and seek additional input from Finance.

Tracking Leases Internally

- ✓ How will you track your leases? Prepare now, be happy later!
 - Will the tools at our disposal be effective at gathering efficient and accurate information, with approvals documented along the way for audits?
 - Does your ERP or G/L System support any sort of reporting of the assets and amortization of the assets? Could use capital asset module.
 - How will the information be prepared, recorded, reconciled and approved?
 - Communicate early with your auditors about any preferences or interpretations if you are unsure!!!

Thank You!

David Minch, Senior Manager
David.Minch@kerberrose.com

