



# GASB Update: Implementing GASB 87 and 96, and Beyond

## CGFOA Webinar 10/19/22

WEALTH ADVISORY | OUTSOURCING  
AUDIT, TAX, AND CONSULTING

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



The information herein has been provided by CliftonLarsonAllen LLP for general information purposes only. The presentation and related materials, if any, do not implicate any client, advisory, fiduciary, or professional relationship between you and CliftonLarsonAllen LLP and neither CliftonLarsonAllen LLP nor any other person or entity is, in connection with the presentation and/or materials, engaged in rendering auditing, accounting, tax, legal, medical, investment, advisory, consulting, or any other professional service or advice. Neither the presentation nor the materials, if any, should be considered a substitute for your independent investigation and your sound technical business judgment. You or your entity, if applicable, should consult with a professional advisor familiar with your particular factual situation for advice or service concerning any specific matters.

CliftonLarsonAllen LLP is not licensed to practice law, nor does it practice law. The presentation and materials, if any, are for general guidance purposes and not a substitute for compliance obligations. The presentation and/or materials may not be applicable to, or suitable for, your specific circumstances or needs, and may require consultation with counsel, consultants, or advisors if any action is to be contemplated. You should contact your CliftonLarsonAllen LLP or other professional prior to taking any action based upon the information in the presentation or materials provided. CliftonLarsonAllen LLP assumes no obligation to inform you of any changes in laws or other factors that could affect the information contained herein.

# Learning Objectives

- Recognize the requirements of GASB 87
- Perform the calculations required for lessee and lessor agreements under GASB 87
- Identify the disclosure requirements for the new lease standard
- Describe the steps for calculating amounts and example journal entries for implementation
- Recognize GASB 96 relating to software subscriptions
- Discuss other upcoming GASB pronouncements





# GASB 87 – Leases

WEALTH ADVISORY | OUTSOURCING  
AUDIT, TAX, AND CONSULTING

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

# Definition of a Lease

- 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
- Examples of nonfinancial assets
  - Buildings
  - Land
  - Vehicles
  - Equipment



## Before GASB 87

- Lessee - Capital and Operating Leases
- Lessor – Recognize Revenue for Cash Received (*operating lease*) or Reported as Sale (*capital lease*)

## After GASB 87 (*Effective 2022*)

- Lessee – All leases reported the same  
(*similar to previous capital leases*)
- Leases Presented as Financing Arrangements  
(*Principal and Interest*)
- Lessor – Lease Receivable



# Exclusions from GASB 87

- Short term leases (less than 12 months, after including all “noncancelable” options to extend)
- Leases for nominal amounts
- Building corporation leases
- Certificates of Participation
- Financial assets
- Intangible assets, software (*GASB 96*), biological assets, inventory, service concession arrangements, or supply contracts



# Lease Term

The lease term is the period during which a lessee has a **noncancelable right** to use an underlying asset, plus the following periods, if reasonably certain of being or not being exercised:

---

Periods covered by a lessee's option to extend the lease

---

Periods covered by a lessee's option to terminate the lease

---

Periods covered by a lessor's option to extend the lease

---

Periods covered by a lessor's option to terminate the lease



# Short-Term Lease Determination

The lease term used to determine if a lease is excluded as a short-term lease **can be different** than the lease term used in the lease calculations

## Short-term Lease Determination:

- Includes all noncancelable periods

## GASB 87 Lease Term Determination:

- Includes all noncancelable periods *that are reasonably certain to be exercised*



# Cancelable Right-To-Use (Excluded)

- If both parties have an option to terminate the lease at their discretion
  - Important: An option to terminate is not considered to be cancelable if it is based on a future event that may or may not happen (such as bankruptcy, late payment, sale of the underlying leased asset, etc)
  - Notice periods within an option to terminate are considered part of the noncancelable lease term
- If both parties have to agree to extend
- Month-to-month arrangements



# Lease Term – Fiscal Funding Clause

A fiscal funding or cancellation clause should affect the lease term **only** when it is reasonably certain that the clause will be exercised.

Therefore, clauses within lease agreements relating to TABOR only impact determination of the lease term if it is reasonably certain that the agreement will be terminated due to TABOR.



# Lessee - GASB 87 Implementation Process

1. Compile list of all leases where the entity is the lessee
2. Document key information from the leases
3. Calculate present value of lease payments
4. Create lease receipt schedule with principal and interest
5. Create amortization (depreciation) schedule for lease asset
6. Determine full accrual entries, government-wide/business-type entries
7. Determine modified accrual entries
  - If lease is recorded in a governmental fund
8. Evaluate for potential restatement (capital leases and comparative statements)



# GASB 87 – Steps for calculating leases - LESSEE

## 1. Compile a list of all leases currently in place

- Keep a folder for all the lease agreements that are currently in-place
- Be informed on any new leases



# GASB 87 – Steps for calculating leases - LESSEE

## 2. Document key information from the lease

- Lease commencement date (date of ownership of leased asset)
- Understanding of underlying asset (type, estimated useful life, etc)
- General description of lease (for footnote disclosure)
- Lease term
- Payment information – frequency/timing of payments, variable payments
- Interest rate (either included in lease or entity's estimated borrowing rate)



# Common Mistakes in Identifying Key Information

## Identifying Lease Term:

- Termination and Cancellation Clauses
- Termination Notice Periods
- Lease term is never perpetual

## Ownership Transfers at End of Lease:

- Not a lease – considered a “financed purchase”



# Common Mistakes in Identifying Key Information

## Incremental Borrowing Rate:

- Cannot be zero
- Document methodology for determining incremental borrowing rate
- Lower rate = higher lease asset/lease liability



# GASB 87 – Steps for calculating leases - LESSEE

## 3. Calculate the Present Value of Lease Payments

	A	B	C	D
1			<b>Discount Rate</b>	<b>3.50%</b>
2				
3	<b>Payment Date</b>	<b>Lease Payment #</b>	<b>Lease Payment</b>	<b>Present Value</b>
4	3/10/2022	1	(10,000.00)	10,000.00
5	4/10/2022	2	(10,000.00)	=PV(\$D\$1/12,B5-1,0,C5,1)
6	5/10/2022	3	(10,000.00)	9,941.92
7	6/10/2022	4	(11,000.00)	10,904.31
8	7/10/2022	5	(11,000.00)	10,872.60
9	8/10/2022	6	(11,000.00)	10,840.98
10	9/10/2022	7	(12,000.00)	11,792.13
11	10/10/2022	8	(12,000.00)	11,757.83
12	11/10/2022	9	(12,000.00)	11,723.64
13	12/10/2022	10	(13,000.00)	12,663.67
14	1/10/2023	11	(13,000.00)	12,626.85
15	2/10/2023	12	(13,000.00)	12,590.12
16	3/10/2023	13	(14,000.00)	13,519.16
17	4/10/2023	14	(14,000.00)	13,479.85
18	5/10/2023	15	(14,000.00)	13,440.65
19		<b>Total</b>	<b>(180,000.00)</b>	<b>\$ 176,124.63</b>



# GASB 87 – Steps for calculating leases - LESSEE

## Key Considerations:

- The present value of lease payments is recorded as the lease liability
- Can use =PV() formula in Excel to calculate the present value
  - Remember to enter the interest rate in the formula based on the number of periods
    - Example: 5% annual interest rate for monthly payments is entered as 0.4167% (5% / 12)
- Exclude down payments, prepayments or other payments prior to lease commencement date
- Net lease incentives (“rent holidays” or rebates) with payments



# GASB 87 – Steps for calculating leases - LESSEE

## Included in calculation of present value for lease asset and lease liability:

- Variable Payment that is “fixed in substance”
  - Example: Copier lease with a minimum of 1,000 pages at \$0.05 per copy are included in the payment each month would be included as "fixed in substance" payment of \$50 each month.
- Variable Payment based on an index or rate (like CPI)
  - Future lease payments are assumed to increase as if the index rate remains the same as the current rate through the entire lease term

## Excluded in calculation of present value for lease asset and lease liability:

- Variable Payment based on performance
  - Required to disclose the terms of the variable payment in the footnotes
    - Example: Copier lease with an additional payment per copy used



# GASB 87 – Steps for calculating leases - LESSEE

## 4. Create lease payment schedule with principal and interest

	A	B	C	D	E
1		<b>Discount Rate</b>	3.50%		
2					
3	<b>Date</b>	<b>Balance</b>	<b>Interest</b>	<b>Principal</b>	<b>Total Payment</b>
4	3/10/2022	<b>176,124.63</b>	-	10,000.00	10,000.00
5	4/10/2022	<b>=B4-D4</b>	<b>=B5*C1/12</b>	<b>=E5-C5</b>	10,000.00
6	5/10/2022	156,609.16	456.78	9,543.22	10,000.00
7	6/10/2022	147,065.94	428.94	10,571.06	11,000.00
8	7/10/2022	136,494.88	398.11	10,601.89	11,000.00
9	8/10/2022	125,892.99	367.19	10,632.81	11,000.00
10	9/10/2022	115,260.18	336.18	11,663.82	12,000.00
11	10/10/2022	103,596.36	302.16	11,697.84	12,000.00
12	11/10/2022	91,898.52	268.04	11,731.96	12,000.00
13	12/10/2022	80,166.56	233.82	12,766.18	13,000.00
14	1/10/2023	67,400.38	196.58	12,803.42	13,000.00
15	2/10/2023	54,596.96	159.24	12,840.76	13,000.00
16	3/10/2023	41,756.20	121.79	13,878.21	14,000.00
17	4/10/2023	27,877.99	81.31	13,918.69	14,000.00
18	5/10/2023	13,959.30	40.70	13,959.30	14,000.00
19	<b>Total</b>	<b>\$ -</b>	<b>\$ 3,875.37</b>	<b>\$ 176,124.63</b>	<b>\$ 180,000.00</b>

*\*If not already determined in lease agreement*



# GASB 87 – Steps for calculating leases - LESSEE

## How To:

- The payment schedule is created by multiplying the remaining principal (lease liability) by the interest rate (divided by number of annual payments) to determine the amount of interest expense per payment.
  - Repeat calculation for each payment
  - Lease liability should be zero when calculating the last lease payment
  - Same concept as a loan amortization schedule



# GASB 87 – Steps for calculating leases - LESSEE

## **IMPORTANT** – OPERATING LEASES:

- The lease payment schedule for operating leases for this calculation should begin as of the earliest period presented under GASB 87.
  - Payments prior to the earliest period presented would remain as expenses in previous years.
- This avoids the potential for significant restatements for operating leases in single year financial statement presentations. Restatement would still be necessary for comparative financial statements.
  - *Implementation Guide 2019-3 Q&A 4.76*



# GASB 87 – Steps for calculating leases - LESSEE

## 5. Create amortization schedule for lease asset

Lease Asset Depreciation	
Lease Asset Value	\$ 500,000.00
Is Asset Nondepreciable?	No - Depreciable
Depreciable Life	5 years
Lease Commencement Date	1/1/2022
Annual Depreciation Amount	\$ 100,000.00

Year #	FY Ending:	Depreciation Amount
1	12/31/2022	\$ 100,000.00
2	12/31/2023	100,000.00
3	12/31/2024	100,000.00
4	12/31/2025	100,000.00
5	12/31/2026	100,000.00



# GASB 87 – Steps for calculating leases - LESSEE

## Key Considerations

- *Lease asset = lease liability + payments prior to lease commencement*
  - Includes down payments and prepayments
- Asset is amortized over the lesser of the estimated useful life or the lease term
- Straight line amortization is acceptable
- If lease agreement contains a purchase option that is reasonably assumed to be exercised, asset is amortized over the estimated useful life of the asset
  - If the leased asset to be purchased is land, the land is considered nondepreciable
- Amortization can be grouped with depreciation expense for financial reporting



# GASB 87 – Steps for calculating leases - LESSEE

## 6. Full accrual entries *(government-wide and business-type funds)*

### ***Initial Recording:***

- Debit to “Lease Asset” for present value of lease + payments prior to lease commencement
- Credit to “Lease Liability” for present value of lease
- Credit to “Cash” for any difference relating to payments prior to lease commencement

### ***Recording Lease Payments:***

- Debit to “Lease Liability” based on lease payment schedule from Step 4.
- Debit to “Interest Expense” based on lease payment schedule from Step 4.
- Credit to “Cash”



# GASB 87 – Steps for calculating leases - LESSEE

## 6. Full accrual entries *(government-wide and business-type funds)*

### ***Recording Amortization/Depreciation:***

- Debit to “Depreciation Expense” based on amortization schedule
- Credit to “Accumulated Depreciation” for present value of lease

### ***Recording Accrued Interest Payable:***

- Debit to “Interest Expense”
- Credit to “Accrued Interest Payable”
  - Calculated identical to accrued interest for bonds and other long-term liabilities



# GASB 87 – Steps for calculating leases - LESSEE

## 7. Modified accrual entries (*governmental funds*)

### *Initial Recording:*

- Debit to “Lease Expenditure” for present value of lease payments
- Credit to “Other Financing Source – Lease” for present value of lease payments

### *Recording Lease Payments:*

- Debit to “Principal – Lease” based on lease payment schedule from Step 4.
- Debit to “Interest Expense” based on lease payment schedule from Step 4.
- Credit to “Cash”

**IMPORTANT: All leases will have a budgetary impact when the lease commences**



# GASB 87 – Steps for calculating leases - LESSEE

## 8. Consider Potential for Restatement – **Capital Leases ONLY**

Capital Leases that commenced prior to beginning of GASB 87 implementation year will need to be evaluated for potential restatement.

Why could a restatement be required?

- Previously presented capital leases are required to go through the same calculation process as operating leases
  - Lease Liability = Lease Asset
- Previously presented capital leases may present differences between the capital lease liability and capital asset
  - Principal payments vs. Depreciation



# GASB 87 – Steps for calculating leases - LESSEE

## 8. Consider Potential for Restatement

- Previously Presented Capital Leases
- Comparative Financial Statements

### ***May not need a restatement based on:***

- Operating Leases (excluded under Implementation Guide 2019 Q4.76)
- Timing of the lease commencement date
- Difference between reduction in principal and reduction in amortization expense is not material



# GASB 87 - Required Disclosures - Lessee

## ***Required Disclosures:***

- General description of the lease
- Total amount of lease assets (by major class) and related accumulated amortization
  - Included in capital asset footnote table but shown separate from other capital assets (Q&A 4.41)
  - Capital Assets relating to capital leases will need to be reclassified into the lease section
- Amount of current year outflows related to variable payments
- Principal and interest requirements to maturity
  - First five years, and in five year increments after. Same presentation as debt schedules
- Commitments under leases before commencement of the lease term
- Components of any loss associated with an impairment



# GASB 87 – Example Capital Asset Footnote

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
Total Capital Assets Not Being Depreciated	1,000,000	-	-	1,000,000
Capital Assets Being Depreciated:				
Furniture and Equipment	3,000,000	1,000,000	-	4,000,000
Total Capital Assets Being Depreciated	3,000,000	1,000,000	-	4,000,000
Lease Assets Being Amortized				
Buildings	5,000,000	-	-	5,000,000
Total Lease Assets Being Amortized	5,000,000	-	-	5,000,000
Less Capital Asset Accumulated Depreciation:				
Furniture and Equipment	(1,000,000)	(300,000)	-	(1,300,000)
Total Capital Asset Accumulated Depreciation	(1,000,000)	(300,000)	-	(1,300,000)
Less Lease Asset Accumulated Amortization				
Buildings	(2,000,000)	(500,000)	-	(2,500,000)
Total Lease Asset Accumulated Amortization	(2,000,000)	(500,000)	-	(2,500,000)



# Potential Timing Issue

- GASB 87, Paragraph 94

94. Leases should be recognized and measured using the facts and circumstances that **existed at the beginning of the period of implementation.** If applied to earlier periods, leases should be recognized and measured using the facts and circumstances that existed at the beginning of the earliest period restated.



# Potential Timing Issue

<b>Example:</b>	<b>Year #</b>	<b>Date</b>	<b>Payment</b>
10 year lease	1	3/31/2020	30,000
Began 2 years before GASB 87 implementation	2	3/31/2021	30,000
\$30k annual lease payments in March each year	<b>GASB Implementation</b>	<b>7/1/2021</b>	<b>-</b>
6/30 year end	3	3/31/2022	30,000
3% discount rate	4	3/31/2023	30,000
	5	3/31/2024	30,000
	6	3/31/2025	30,000
	7	3/31/2026	30,000
	8	3/31/2027	30,000
	9	3/31/2028	30,000
	10	3/31/2029	30,000



# Potential Solution – XNPV Formula

H	I	J	K
<b>Discount Rate</b>	3%	<b>XNPV</b>	<b>212,149.20</b>
	<b>XNPV Formula: =XNPV(I1,K4:K12,J4:J12)</b>		
<b>Lease Year #</b>	<b>XNPV Periods</b>	<b>Date</b>	<b>Payment</b>
<b>GASB Implementation</b>	1	<b>7/1/2021</b>	-
3	2	3/31/2022	30,000
4	3	3/31/2023	30,000
5	4	3/31/2024	30,000
6	5	3/31/2025	30,000
7	6	3/31/2026	30,000
8	7	3/31/2027	30,000
9	8	3/31/2028	30,000
10	9	3/31/2029	30,000



# Potential Solution – XNPV Formula

N	O	P	Q	R	S
<b>Discount Rate</b>	3%	<b>XNPV</b>	<b>212,149.20</b>		
<b>XNPV Periods</b>	<b>Date</b>	<b>Payment Amt</b>	<b>Balance</b>	<b>Principal</b>	<b>Interest</b>
1	7/1/2021	-	212,149.20	-	-
2	3/31/2022	30,000	186,891.70	25,257.50	4,742.50
3	3/31/2023	30,000	162,498.45	24,393.25	5,606.75
4	3/31/2024	30,000	137,386.96	25,111.49	4,888.51
5	3/31/2025	30,000	111,508.57	25,878.39	4,121.61
6	3/31/2026	30,000	84,853.83	26,654.74	3,345.26
7	3/31/2027	30,000	57,399.44	27,454.39	2,545.61
8	3/31/2028	30,000	29,126.21	28,273.23	1,726.77
9	3/31/2029	30,000	-	29,126.21	873.79



# Potential Solution – XNPV Formula

N	O	P	Q	R	S
<b>Discount Rate</b>	3%	<b>XNPV</b>	<b>212,149.20</b>		
<b>XNPV Periods</b>	<b>Date</b>	<b>Payment Amt</b>	<b>Balance</b>	<b>Principal</b>	<b>Interest</b>
1	7/1/2021	-	212,149.20	-	-
2	3/31/2022	30,000	=Q4-R5	=P5-S5	=Q4*((1+\$O\$1)^((O5-O4)/365)-1)
3	3/31/2023	30,000	162,498.45	24,393.25	5,606.75
4	3/31/2024	30,000	137,386.96	25,111.49	4,888.51
5	3/31/2025	30,000	111,508.57	25,878.39	4,121.61
6	3/31/2026	30,000	84,853.83	26,654.74	3,345.26
7	3/31/2027	30,000	57,399.44	27,454.39	2,545.61
8	3/31/2028	30,000	29,126.21	28,273.23	1,726.77
9	3/31/2029	30,000	-	29,126.21	873.79



# Potential Solution – XNPV Formula

## **IMPORTANT NOTES:**

- The XNPV formula automatically compounds interest, whereas most leases are calculated using simple interest.
- Therefore, the interest rate used in the calculation will be slightly greater when using the XNPV formula rather than the PV formula
- The XNPV formula can also be used for instances where lease payments are irregular.



# Lessor - GASB 87 Implementation Process

1. Compile list of all leases where the entity is the lessor
2. Document key information from the leases
3. Calculate present value of future lease receipts
4. Create lease receipt schedule with principal and interest
  - Same process as for lessees. Required to use Interest Method (no straight-line)
5. Create Deferred Inflow of Resources amortization schedule
  - Interest method, straight-line, other
6. Determine journal entries
7. Evaluate for potential restatement (comparative statements)



# GASB 87 – Steps for calculating leases - LESSOR

## 1. Compile a list of all leases currently in place

- Keep a folder for all the lease agreements that are currently in-place
- Be informed on any new leases



# GASB 87 – Steps for calculating leases - LESSOR

## 2. Document key information from the lease

- Lease commencement date (date of ownership of leased asset)
- General description of lease (for footnote disclosure)
- Lease term
- Payment information – frequency/timing of payments, variable payments
- Determination of Interest rate (if not included in lease)



# GASB 87 – Steps for calculating leases - LESSOR

## 3. Calculate the Present Value of lease receipts

	A	B	C	D
1			<b>Discount Rate</b>	<b>3.50%</b>
2				
3	<b>Payment Date</b>	<b>Lease Payment #</b>	<b>Lease Payment</b>	<b>Present Value</b>
4	3/10/2022	1	(100,000.00)	100,000.00
5	3/10/2023	2	(100,000.00)	=PV(D1,B5-1,0,C5,1)
6	3/10/2024	3	(100,000.00)	\$93,351.07
7	3/10/2025	4	(100,000.00)	\$90,194.27
8	3/10/2026	5	(100,000.00)	\$87,144.22
9	3/10/2027	6	(100,000.00)	\$84,197.32
10	3/10/2028	7	(100,000.00)	\$81,350.06
11	3/10/2029	8	(100,000.00)	\$78,599.10
12	3/10/2030	9	(100,000.00)	\$75,941.16
13	3/10/2031	10	(100,000.00)	\$73,373.10
14		<b>Total</b>	<b>(1,000,000.00)</b>	<b>860,768.65</b>



# Lessor - Initial Recognition

## KEY CONSIDERATIONS

- Calculated as the present value of lease payments
  - Determine implicit rate, if not specifically stated in lease agreement
  - Reduced by any amounts determined to be uncollectible
  - Include variable payments fixed in substance
  - Include variable payments based on an index or rate
  - Exclude variable payments based on performance
  - Reduce payments by any incentives



# GASB 87 – Steps for calculating leases - LESSOR

## 4. Create lease receipt schedule with principal and interest

	A	B	C	D	E	F
1		<b>Discount Rate</b>	3.50%			
2						
3	<b>Date</b>	<b>Balance</b>	<b>Interest</b>	<b>Principal</b>	<b>Total Receipts</b>	<b>FYE Interest Receivable</b>
4	3/10/2022	<b>860,768.65</b>	-	100,000.00	100,000.00	5,033.58
5	3/10/2023	<b>=B4-D4</b>	<b>=B5*C1</b>	<b>=E5-C5</b>	100,000.00	4,548.11
6	3/10/2024	687,395.55	24,058.84	75,941.16	100,000.00	4,045.65
7	3/10/2025	611,454.40	21,400.90	78,599.10	100,000.00	3,525.60
8	3/10/2026	532,855.30	18,649.94	81,350.06	100,000.00	2,987.36
9	3/10/2027	451,505.24	15,802.68	84,197.32	100,000.00	2,430.27
10	3/10/2028	367,307.92	12,855.78	87,144.22	100,000.00	1,853.69
11	3/10/2029	280,163.70	9,805.73	90,194.27	100,000.00	1,256.92
12	3/10/2030	189,969.43	6,648.93	93,351.07	100,000.00	639.27
13	3/10/2031	96,618.36	3,381.64	96,618.36	100,000.00	-
14		<b>Total</b>	<b>\$ 139,231.35</b>	<b>\$ 860,768.65</b>	<b>\$ 1,000,000.00</b>	



# GASB 87 – Steps for calculating leases - LESSOR

## 5. Create Deferred Inflow of Resources amortization schedule

$$\begin{array}{r} \text{Lease Receivable} \\ + \text{Receipts Prior to Lease Commencement} \\ \hline \text{Deferred Inflow of Resources - Lease} \end{array}$$

**Amortization** – Rational and systematic method

1. Interest Method
2. Straight-Line
3. Any other rational and systematic method



# GASB 87 – Steps for calculating leases - LESSOR

**“Amortization of the Deferred Inflow of Resources for Leases”**

**TRANSLATION:**

**“Revenue Recognition”**



# GASB 87 – Steps for calculating leases - LESSOR

## 5. Create Deferred Inflow of Resources amortization schedule Interest Method (Match to Receivable)

Lease Receivable					Deferred Inflow - Lease		
Date	Balance	Interest	Principal	Total Receipts	Date	Balance	Lease Revenue
3/10/2022	860,768.65	-	100,000.00	100,000.00	3/10/2022	860,768.65	100,000.00
3/10/2023	760,768.65	26,626.90	73,373.10	100,000.00	3/10/2023	760,768.65	73,373.10
3/10/2024	687,395.55	24,058.84	75,941.16	100,000.00	3/10/2024	687,395.55	75,941.16
3/10/2025	611,454.40	21,400.90	78,599.10	100,000.00	3/10/2025	611,454.39	78,599.10
3/10/2026	532,855.30	18,649.94	81,350.06	100,000.00	3/10/2026	532,855.29	81,350.06
3/10/2027	451,505.24	15,802.68	84,197.31	100,000.00	3/10/2027	451,505.23	84,197.31
3/10/2028	367,307.92	12,855.78	87,144.22	100,000.00	3/10/2028	367,307.92	87,144.22
3/10/2029	280,163.70	9,805.73	90,194.27	100,000.00	3/10/2029	280,163.70	90,194.27
3/10/2030	189,969.43	6,648.93	93,351.07	100,000.00	3/10/2030	189,969.43	93,351.07
3/10/2031	96,618.36	3,381.64	96,618.36	100,000.00	3/10/2031	96,618.36	96,618.36
	<b>Total</b>	<b>\$ 139,231.35</b>	<b>\$ 860,768.65</b>	<b>\$ 1,000,000.00</b>			<b>860,768.65</b>



# GASB 87 – Steps for calculating leases - LESSOR

## 5. Create Deferred Inflow of Resources amortization schedule

### Straight-Line

Lease Receivable					Deferred Inflow - Lease		
Date	Balance	Interest	Principal	Total Receipts	Date	Balance	Lease Revenue
3/10/2022	860,768.65	-	100,000.00	100,000.00	3/10/2022	860,768.65	86,076.87
3/10/2023	760,768.65	26,626.90	73,373.10	100,000.00	3/10/2023	774,691.78	86,076.87
3/10/2024	687,395.55	24,058.84	75,941.16	100,000.00	3/10/2024	688,614.91	86,076.87
3/10/2025	611,454.40	21,400.90	78,599.10	100,000.00	3/10/2025	602,538.04	86,076.87
3/10/2026	532,855.30	18,649.94	81,350.06	100,000.00	3/10/2026	516,461.17	86,076.87
3/10/2027	451,505.24	15,802.68	84,197.31	100,000.00	3/10/2027	430,384.30	86,076.87
3/10/2028	367,307.92	12,855.78	87,144.22	100,000.00	3/10/2028	344,307.43	86,076.87
3/10/2029	280,163.70	9,805.73	90,194.27	100,000.00	3/10/2029	258,230.56	86,076.87
3/10/2030	189,969.43	6,648.93	93,351.07	100,000.00	3/10/2030	172,153.69	86,076.87
3/10/2031	96,618.36	3,381.64	96,618.36	100,000.00	3/10/2031	86,076.82	86,076.82
	<b>Total</b>	<b>\$ 139,231.35</b>	<b>\$ 860,768.65</b>	<b>\$ 1,000,000.00</b>			<b>860,768.65</b>



# GASB 87 – Steps for calculating leases - LESSOR

## Other Method (Match Lease Revenue to Cash Receipts)

- When payments are not made at the end of each month, accrued Interest will increase interest income at the end of the year.
- This additional interest income causes total revenue (interest plus lease revenue) to exceed the amount of cash receipts during the year.
- Another “rational and systematic” method is to adjust the lease revenue so that for each fiscal year presented:
  - **Interest Income + Accrued Interest + Lease Revenue = Cash Receipts**
  - **Total Revenue = Cash Receipts**
- Likely immaterial in many cases, but can be material for large leases with one annual payment



# GASB 87 – Steps for calculating leases - LESSOR

## 5. Create Deferred Inflow of Resources amortization schedule

### Other Method (Match Lease Revenue to Cash Receipts)

Year Ending:	Principal	Interest Receipts	Total Payment	Receivable Balance	Interest Receivable	Interest Income	Deferred Inflow of Resources - Lease				Difference
							Interest Method		Match to Cash Receipts		
							Lease Revenue	Balance	Lease Revenue	Balance	
12/31/2022	95,175.37	4,824.63	100,000.00	778,529.74	18,879.34	23,703.97	95,175.37	778,529.74	76,296.03	797,409.08	18,879.34
12/31/2023	76,644.11	23,355.89	100,000.00	701,885.63	17,068.06	21,544.61	76,644.11	701,885.63	78,455.39	718,953.69	(1,811.28)
12/31/2024	78,884.88	21,115.12	100,000.00	623,000.75	15,107.77	19,154.83	78,884.88	623,000.75	80,845.17	638,108.52	(1,960.29)
12/31/2025	81,309.98	18,690.02	100,000.00	541,690.77	13,136.00	16,718.25	81,309.98	541,690.77	83,281.75	554,826.77	(1,971.77)
12/31/2026	83,749.28	16,250.72	100,000.00	457,941.49	11,105.08	14,219.80	83,749.28	457,941.49	85,780.20	469,046.57	(2,030.92)
12/31/2027	86,261.76	13,738.24	100,000.00	371,679.73	9,038.30	11,671.46	86,261.76	371,679.73	88,328.54	380,718.03	(2,066.78)
12/31/2028	88,818.60	11,181.40	100,000.00	282,861.13	6,859.38	9,002.48	88,818.60	282,861.13	90,997.52	289,720.51	(2,178.92)
12/31/2029	91,514.17	8,485.83	100,000.00	191,346.96	4,640.16	6,266.61	91,514.17	191,346.96	93,733.39	195,987.12	(2,219.22)
12/31/2030	94,259.59	5,740.41	100,000.00	97,087.37	2,354.38	3,454.63	94,259.59	97,087.37	96,545.37	99,441.75	(2,285.78)
12/31/2031	97,087.37	2,912.63	100,000.00	-	-	558.25	97,087.37	-	99,441.75	-	(2,354.38)



# Deferred Inflow of Resources Amortization (*Revenue Recognition*)

- **Interest Method:**
  - Revenue recognition close to cash receipts (budget consideration)
  - Lease Receivable and Deferred Inflow will closely match
- **Straight-Line Method:**
  - Potentially the largest early revenue recognition (fund balance consideration)
  - Lease Receivable and Deferred Inflow will not match
  - Consistent lease revenue for budgeting (though not interest income)
- **Other – Match Lease Revenue to Scheduled Cash Receipts:**
  - Not a standard method in software solutions
  - Revenue recognition will match cash receipt schedule
  - Accounts for accrued interest (useful for annual lease payments)



# Lessor - Recording Subsequent Receipts

## *Recording Lease Receipts*

- Debit Deferred Inflow of Resources – Lease based on the amortization schedule created in *Step 5*
- Credit Lease Revenue based on the amortization schedule created in *Step 5*
- Debit Cash for the total amount of the lease receipts
- Credit Lease Receivable based on the *Principal* amount in the payment schedule created in *Step 4*
- Credit Interest Income based on the *Interest* amount in the payment schedule created in *Step 4*



# Lessor - Initial Recognition

- Potential Restatement:
  - Restatement to re-recognize underlying asset if previously removed under pre-GASB 87 recording as a capital lease
    - Previously presented similar to sale of capital asset
  - Restatement for comparative financial statements



# Lessor - Financial Reporting

- *Governmental funds*
  - Recognize lease receivable and deferred inflow of resources.
- Government-wide and Business-type Funds
  - Recognize lease receivable and deferred inflow of resources.
  - *Should NOT derecognize or remove underlying asset, but continue to depreciate and evaluate for impairment*



# Lessor - Disclosures

- *Disclosures:*
  - General description of the lease arrangement
  - Total amount of revenues
    - (if not directly presented on face of statements)
  - Total amount of revenues from variable payments
  - Existence, terms and conditions of options by lessee to terminate the lease or abate payments, when the lessor has issued debt secured by lease payments



# Re-measurement

- As the “lease term” defined in GASB 87 includes periods that may be subject to re-negotiations in the future, circumstances of the lease agreement may significantly change from the initial recording.
- The lease liability/receivable should be remeasured if there is a change in the circumstances of the lease, such as:
  - Change in lease term (includes lease extensions)
  - Additional amounts are expected to be paid/received based on changes in circumstances outlined in the agreement
  - Change in interest rate the lessor charges the lessee, if used as the discount rate



# Re-measurement *(continued)*

- When lease liabilities are remeasured, lease assets should be adjusted by the same amount.
- When lease receivables are re-measured, deferred inflows of resources relating to leases should be adjusted by the same amount.

***IMPORTANT:*** *Need to consider whether changes to the lease should be considered a lease modification and re-measured OR a new lease agreement with termination of the previous lease*





# GASB 96 – Subscription-Based Information Technology Arrangements (SBITA)

WEALTH ADVISORY | OUTSOURCING  
AUDIT, TAX, AND CONSULTING

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

# GASB 96 – Subscription-Based Information Technology Arrangements

- Subscription-Based Information Technology Arrangements (SBITA) – defined as a contract that conveys control of the right to use another party’s IT software for a specified period of time
- SBITA is accounted for as a right-to-use subscription asset (capital asset) and a corresponding subscription liability
- GASB 96 is very similar in concept to GASB 87 for leases
- Effective for fiscal years beginning after June 15, 2022



# Relationship between Leases and SBITAs

- **All SBITAs meet definition of lease**
- **Depends on what the underlying asset is:**
  - Tangible capital assets alone –Statement 87
  - IT software alone –Statement 96
  - IT software in combination with tangible capital assets:
    - Software component is insignificant compared to cost of tangible capital asset –Statement 87
    - Otherwise –Statement 96
- **Also excluded from Statement 96:**
  - Governments acting as SBITA vendors
  - Contracts that meet the definition of a P3 in Statement 94
  - Perpetual software licenses



# Exemptions to GASB 96

- Contracts that meet the definition of a lease under GASB 87
- Governments that provide other entities the right to use their own IT software and associated tangible assets through a SBITA
- Contracts that meet the scoping criteria for GASB 94, Public-Private and Public-Public Partnerships (PPP)
- Any licensing arrangements providing the entity a perpetual license to use a vendor's computer software
- Short-term SBITAs



# Similarities with Leases under GASB 87

- Determination of Lease Term
- Treatment of Optional Terms
- Short-term exclusion ( $\leq 1$  year)
- Determination of Incremental Borrowing Rate
- Net Present Value Calculations
- Full Accrual Asset and Liability
- Principal and Interest Payments
- Accrued Interest
- Treatment and Disclosure of Variable Payments
- Depreciation of SBITA Asset
- Expenditure and Other Financing Source for modified accrual during commencement
- Excludes fiscal funding cancellation clauses
- Remeasurement



# Differences from Leases under GASB 87

- “Lessor” SBITA arrangements (where government receives payment) are excluded
- Payments are divided into phases, with costs either capitalized or expensed depending on the phase



# Subscription Costs

On-Going Subscription Costs

- Capitalized

Subscription Costs Paid Prior to Commencement

- Capitalized (asset only)

Variable Payments

- Capitalized if fixed in substance or based on an index

Subscription Incentives

- Reduction in capitalized costs



# Outlays Other Than Subscription Payments

Preliminary Project Stage

- Expensed

Initial Implementation Stage

- Capitalized

Operation and Additional Implementation Stage

- Expensed unless meeting capitalization criteria

Training Costs

- Expensed, regardless of stage



# Stages of Implementation

- Preliminary Project Stage (*expensed as incurred*)
  - Costs relating to conceptual formulation and evaluation of alternatives, determination of existence of needed technology, and final selection of alternatives.
  - Includes all costs prior to all of the following events occurring:
    - Determination of the specific objective of the project and nature of the service capacity of the subscription asset
    - Demonstration of the technical or technological feasibility that the subscription asset will provide
    - Demonstration of the current intention, ability, and presence of effort to enter into a SBITA contract



# Stages of Implementation

- Initial Implementation Stage (*capitalized*)
  - Costs relating to design, configuration, coding, testing, installation, and other ancillary charges necessary to place the subscription asset into service.
  - Phase is completed when the subscription asset is placed into service



# Stages of Implementation

- Operation and Additional Implementation Stage  
*(expensed unless meeting capitalization criteria)*
  - Costs relating to on-going operations, maintenance, troubleshooting, other activities relating to ongoing access to the underlying IT assets, and additional implementation activities such as adding new modules.
  - Capitalization Criteria:
    - Increase in the functionality of the subscription asset - meaning the software can perform tasks that it could not previously perform
    - Increase in the efficiency of the subscription asset or increase in the level of service provided by the subscription asset



# Contracts with Multiple Components

- Contracts may contain multiple components such as:
  - Software subscription,
  - IT services,
  - IT assets,
  - Perpetual licenses, and
  - Maintenance services for IT assets
- Judgment Required – Allocate reasonable costs to subscription



# Disclosures

- General description of the SBITA and the related terms and conditions
- Total amount of subscription assets and related accumulated amortization, disclosed separately from other capital assets
- Variable payments incurred during the reporting period that were not previously included in the subscription liability
- Principal and interest requirements to maturity, presented separately, for each of the five subsequent years and in five-year increments thereafter
- Commitments under SBITAs before commencement of the subscription term
- Impairment loss on a SBITA, if applicable





# Other Upcoming GASB Pronouncements

WEALTH ADVISORY | OUTSOURCING  
AUDIT, TAX, AND CONSULTING

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

# Effective Dates – December 31<sup>st</sup> fiscal year ends

## December 31: Fiscal Year 2021

- Statement 89 – construction-period interest
- Statement 93 – interbank offered rates (except LIBOR removal and lease modifications)
- IG 2019-1 – update
- Statement 98 – the annual comprehensive financial report

## December 31: Fiscal Year 2022

- Statement 87 – leases
- Statement 91 – conduit debt
- Statement 92 – omnibus (multiple effective dates)
- Statement 93 – LIBOR removal and lease modifications
- Statement 97 – certain component unit criteria and Section 457 plans
- IG 2019-3 – leases
- IG 2020-1 – update
- IG 2021-1 – update (4.22)

## December 31: Fiscal Year 2023

- Statement 94 – public-private partnerships
- Statement 96 – SBITAs
- IG 2021-1 – update (4.1–4.21, 4.23, 5.2, and 5.4)

## December 31: Fiscal Year 2024

- IG 2021-1 – update (5.1)



# Effective Dates – June 30<sup>th</sup> fiscal year ends

## June 30: Fiscal Year 2022

- Statement 87 – leases
- Statement 89 – construction-period interest
- Statement 92 – omnibus (multiple effective dates)
- Statement 93 – LIBOR removal and lease modifications
- Statement 97 – certain component unit criteria and Section 457 plans
- Statement 98 – the annual comprehensive financial report
- IG 2019-3 – leases
- IG 2020-1 – update (except 4.6–4.17 and 4.19–4.21)
- IG 2021-1 – update (4.22)

## June 30: Fiscal Year 2023

- Statement 91 – conduit debt
- Statement 94 – public-private partnerships
- Statement 96 – SBITAs
- IG 2020-1 – update (4.6–4.17 and 4.19–4.21)
- IG 2021-1 – update (4.1–4.21, 4.23, 5.2, and 5.4)

## June 30: Fiscal Year 2024

- IG 2021-1 – update (5.1)



# Other Standards Being Implemented

- Statement 100 –Accounting Changes and Error Corrections
- Statement 101 –Compensated Absences



# GFOA - Current Technical Agenda Overview (as of April 2022)

## ▪ **Conceptual Framework:**

- Disclosure Framework
- Recognition

## ▪ **Comprehensive Projects:**

- Financial Reporting Model Re-examination
- Revenue and Expense Recognition

## ▪ **Major Projects:**

- Going Concern and Severe Financial Stress

## ▪ **Practice Issues:**

- Accounting Changes and Error Corrections
- Compensated Absences
- Implementation Guide—Update
- Nonfinancial Assets
- Omnibus
- Certain Risks Disclosures

## ▪ **Pre-Agenda Research Activities:**

- Capital Assets
- Subsequent Events



# GFOA - Current Technical Agenda Overview (as of July 2022) <https://www.gasb.org/info/preagendaresearch>

## ▪ **Conceptual Framework:**

- Disclosure Framework
- Recognition

## ▪ **Comprehensive Projects:**

- Financial Reporting Model Re-examination
- Revenue and Expense Recognition

## ▪ **Major Projects:**

- Going Concern and Severe Financial Stress

## ▪ **Practice Issues:**

- Accounting Changes and Error Corrections
- Compensated Absences
- Implementation Guide—Update
- Nonfinancial Assets
- Omnibus
- Certain Risks Disclosures

## ▪ **Pre-Agenda Research Activities:**

- Capital Assets
- Subsequent Events



# Thank You!

## Contact Information:

**Allison Slife, CPA**

**Principal, State and Local Government**

**303-439-6018**

**Allison.Slife@CLAconnect.com**



CLAconnect.com



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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