

# GASB 87 – Leases: A Comprehensive Example

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# Agenda

- Example introduction
- Lessor accounting for FYE 12/31/2022 and lessee accounting for FYE 6/30/2022
- Second lease extension: remeasurement, lessor accounting for FYE 12/31/2023, and lessee accounting for FYE 6/30/2023 and FYE 6/30/2024
- GAAP lessor and lessee key note disclosures
- Cash Basis lessors and lessees: Schedule 09 coding, and key note disclosures
- What auditors want



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## Leases

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*This guidance does not represent legal or investment advice. Please consult with your legal counsel regarding the interpretation of language in leases, contracts, and other agreements.*

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### Preparing for GASB 87 – Leases

GASB Statement No. 87, Leases, is effective for fiscal years ending June 30, 2022 and after. (Note the new implementation date – see [Accounting Delays](#) webpage for more information.) That may seem like a long way off, but now is the time to continue to develop your implementation plan.

The new standard applies not only to new lease agreements going forward, but also *retroactively* to existing agreements. You can start today by identifying the population of current leases to which the standard will apply.

# Timing

- GASB 87 is effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter
- So, for years ending June 30, 2022 and thereafter
- Applied retroactively – restate prior comparative year





# General Lease Information

- A county (lessor) with a 12/31 FYE leases equipment to a special purpose district (lessee) with a 6/30 FYE
- Lease began 7/1/2021 and has a \$2,000 security deposit
- Initial term is 1 year with two 1-year extension options
- There is a \$500 lease incentive to extend
- Monthly rent is \$1,000 in year 1, \$1,100 in year 2, and \$1,200 in year 3
- District's program grant ends on 6/30/2023. It is reasonably certain District will exercise the first option to extend, but not the second option.



# Compare Initial Lease Term



- Lessee's GASB 87 implementation year begins 7/1/21 – at the inception of the lease – calculation of PV 7/1/21 through 6/30/23
- Lessor's GASB 87 implementation year begins 1/1/22 – in the 7th month of the lease – calculation of PV 1/1/22 through 6/30/23

<b>Lessee</b>	7/1/21 through 6/30/22
	7/1/22 through 6/30/23
<b>Lessor</b>	1/1/22 through 12/31/22
	1/1/23 through 6/30/23

# Lessor Specific Information

- Fiscal year end: 12/31
- Lease term: 1/1/22 – 6/30/23
- Discount rate: 2.9%, which is the implicit rate



# Lessor Accounting



Lessor	Assets	Deferred Inflow
<b>Inception of lease</b>	Lease receivable – equals the present value of future lease payments – includes fixed payments, variable payments based on an index or rate, reasonably certain residual guarantees, etc.	Equal to the lease receivable plus any up-front cash that relates to a future period.
<b>Subsequent recognition and measurement</b>	<p>Reduce the lease receivable by principal payments (i.e., less interest income).</p> <p>Continue to report the leased capital asset itself as usual.</p>	Recognize revenue over the lease term in a systematic and rational manner.



# Lessor Accounting – FYE 12/31/2022



**Step 1:** Calculate present value of lease payments

Date	Period	Cash	PV
1/1/2022	1	\$1,000	\$1,000
2/1/2022	2	\$1,000	\$998
3/1/2022	3	\$1,000	\$995
4/1/2022	4	\$1,000	\$993
5/1/2022	5	\$1,000	\$990
6/1/2022	6	\$1,000	\$988
7/1/2022	7	\$600	\$591
8/1/2022	8	\$1,100	\$1,082
9/1/2022	9	\$1,100	\$1,079
10/1/2022	10	\$1,100	\$1,076
11/1/2022	11	\$1,100	\$1,074
12/1/2022	12	\$1,100	\$1,071
1/1/2023	13	\$1,100	\$1,069
2/1/2023	14	\$1,100	\$1,066
3/1/2023	15	\$1,100	\$1,063
4/1/2023	16	\$1,100	\$1,061
5/1/2023	17	\$1,100	\$1,058
6/1/2023	18	\$1,100	\$1,056
<b>Total</b>		<b>\$18,700</b>	<b>\$18,310</b>

# Lessor Accounting – FYE 12/31/2022



**Step 2:** Create amortization table for lease receivable

2022 Totals	
Principal	Interest
\$11,766	\$334

Date	Principal	Interest	Lease Rec. Bal.
1/1/2022	\$1,000	\$0	\$17,310
2/1/2022	\$958	\$42	\$16,352
3/1/2022	\$960	\$40	\$15,392
4/1/2022	\$963	\$37	\$14,429
5/1/2022	\$965	\$35	\$13,464
6/1/2022	\$967	\$33	\$12,496
7/1/2022	\$570	\$30	\$11,926
8/1/2022	\$1,071	\$29	\$10,855
9/1/2022	\$1,074	\$26	\$9,781
10/1/2022	\$1,076	\$24	\$8,705
11/1/2022	\$1,079	\$21	\$7,626
12/1/2022	\$1,082	\$18	\$6,545
1/1/2023	\$1,084	\$16	\$5,460
2/1/2023	\$1,087	\$13	\$4,374
3/1/2023	\$1,089	\$11	\$3,284
4/1/2023	\$1,092	\$8	\$2,192
5/1/2023	\$1,095	\$5	\$1,097
6/1/2023	\$1,097	\$3	\$0

# Lessor Accounting – FYE 12/31/2022



**Step 3:** Create amortization table for deferred inflow

<b>2022 Total</b>
<b>Lease Revenue</b>
<b>\$12,207</b>

Straight Line Method		
Date	Lease Revenue	DI Balance
Beginning DI Balance		\$18,310
1/1/2022	\$1,017	\$17,293
2/1/2022	\$1,017	\$16,276
3/1/2022	\$1,017	\$15,259
4/1/2022	\$1,017	\$14,241
5/1/2022	\$1,017	\$13,224
6/1/2022	\$1,017	\$12,207
7/1/2022	\$1,017	\$11,190
8/1/2022	\$1,017	\$10,172
9/1/2022	\$1,017	\$9,155
10/1/2022	\$1,017	\$8,138
11/1/2022	\$1,017	\$7,121
12/1/2022	\$1,017	\$6,103
1/1/2023	\$1,017	\$5,086
2/1/2023	\$1,017	\$4,069
3/1/2023	\$1,017	\$3,052
4/1/2023	\$1,017	\$2,034
5/1/2023	\$1,017	\$1,017
6/1/2023	\$1,017	\$0

# Lessor Accounting – FYE 12/31/2022



**Step 3:** Alternative amortization method for deferred inflow

<b>2022 Total</b>
<b>Lease Revenue</b>
<b>\$11,766</b>

Interest Method		
Date	Lease Revenue	DI Balance
Beginning	DI Balance	\$18,310
1/1/2022	\$1,000	\$17,310
2/1/2022	\$958	\$16,352
3/1/2022	\$960	\$15,392
4/1/2022	\$963	\$14,429
5/1/2022	\$965	\$13,464
6/1/2022	\$967	\$12,496
7/1/2022	\$570	\$11,926
8/1/2022	\$1,071	\$10,855
9/1/2022	\$1,074	\$9,781
10/1/2022	\$1,076	\$8,705
11/1/2022	\$1,079	\$7,626
12/1/2022	\$1,082	\$6,545
1/1/2023	\$1,084	\$5,460
2/1/2023	\$1,087	\$4,374
3/1/2023	\$1,089	\$3,284
4/1/2023	\$1,092	\$2,192
5/1/2023	\$1,095	\$1,097
6/1/2023	\$1,097	\$0

# Lessor Accounting – FYE 12/31/2022



JE 1 – implement GASB 87

Lease Receivable	\$ 18,310	
Deferred Inflow		\$ 18,310

JE 2 – deposit was recorded at inception of lease

Cash	\$ 2,000	
Deposit Payable		\$ 2,000

JE 3 – record year 1 receipts

Cash	\$ 12,100	
Lease Receivable		\$ 11,766
Interest Revenue		\$ 334

JE 4 – amortize deferred inflows

Deferred Inflow	\$ 12,207	
Lease Revenue		\$ 12,207

# Lessee Specific Information

- Fiscal year end: 6/30
- Lease term: 7/1/21 – 6/30/23
- Discount rate: 3.2%, which is the incremental borrowing rate
- Lessee pays \$200 to get the equipment into service
- Insurance on the equipment is \$500 per year





# Lessee Accounting



Lessee	Assets	Lease Liability
<b>Inception of lease</b>	Intangible right-to-use asset – equals value of the lease liability plus any prepayments and initial direct costs necessary to place the asset in use.	Present value of future lease payments – includes fixed payments, variable payments based on an index or rate, reasonably certain residual guarantees, etc. Offset with any lease incentives.
<b>Subsequent recognition and measurement</b>	Amortize the asset over the shorter of its useful life or the lease term.	Reduce the lease liability by principal payments (i.e., less interest expense).

# Lessee Accounting – FYE 6/30/2022



**Step 1:** Calculate the present value of lease payments

Date	Period	Cash	PV
7/1/2021	1	\$1,000	\$1,000
8/1/2021	2	\$1,000	\$997
9/1/2021	3	\$1,000	\$995
10/1/2021	4	\$1,000	\$992
11/1/2021	5	\$1,000	\$989
12/1/2021	6	\$1,000	\$987
1/1/2022	7	\$1,000	\$984
2/1/2022	8	\$1,000	\$982
3/1/2022	9	\$1,000	\$979
4/1/2022	10	\$1,000	\$976
5/1/2022	11	\$1,000	\$974
6/1/2022	12	\$1,000	\$971
7/1/2022	13	\$600	\$581
8/1/2022	14	\$1,100	\$1,063
9/1/2022	15	\$1,100	\$1,060
10/1/2022	16	\$1,100	\$1,057
11/1/2022	17	\$1,100	\$1,054
12/1/2022	18	\$1,100	\$1,051
1/1/2023	19	\$1,100	\$1,049
2/1/2023	20	\$1,100	\$1,046
3/1/2023	21	\$1,100	\$1,043
4/1/2023	22	\$1,100	\$1,040
5/1/2023	23	\$1,100	\$1,037
6/1/2023	24	\$1,100	\$1,035
<b>Totals</b>		<b>\$24,700</b>	<b>\$23,941</b>

# Lessee Accounting – FYE 6/30/2022



**Step 2:** Calculate the lease asset

Lease liability	\$23,941
Cost to place asset into service	\$200
<b>Total lease asset</b>	<b>\$24,141</b>

**Step 3:** Create amortization table for lease liability

Date	Principal	Interest	Lease Liab. Bal.
Beginning Lease Liability			\$23,941
7/1/2021	\$1,000	\$0	\$22,941
8/1/2021	\$939	\$61	\$22,002
9/1/2021	\$941	\$59	\$21,061
10/1/2021	\$944	\$56	\$20,117
11/1/2021	\$946	\$54	\$19,171
12/1/2021	\$949	\$51	\$18,222
1/1/2022	\$951	\$49	\$17,271
2/1/2022	\$954	\$46	\$16,317
3/1/2022	\$956	\$44	\$15,360
4/1/2022	\$959	\$41	\$14,401
5/1/2022	\$962	\$38	\$13,440
6/1/2022	\$964	\$36	\$12,475
...	...	...	...

2022 Totals	
Principal	Interest
<b>\$11,466</b>	<b>\$534</b>

# Lessee Accounting – FYE 6/30/2022



**Step 4:** Create amortization table for lease asset

<b>2022 Total</b>
<b>Amortization</b>
<b>\$12,071</b>

<b>Date</b>	<b>Amortization</b>	<b>Lease Asset Bal.</b>
Beginning Lease Asset		\$24,141
7/1/2021	\$1,006	\$23,135
8/1/2021	\$1,006	\$22,129
9/1/2021	\$1,006	\$21,124
10/1/2021	\$1,006	\$20,118
11/1/2021	\$1,006	\$19,112
12/1/2021	\$1,006	\$18,106
1/1/2022	\$1,006	\$17,100
2/1/2022	\$1,006	\$16,094
3/1/2022	\$1,006	\$15,088
4/1/2022	\$1,006	\$14,082
5/1/2022	\$1,006	\$13,076
6/1/2022	\$1,006	\$12,071
...	...	...

# Lessee Accounting – FYE 6/30/2022

## Full Accrual Journal Entries



### JE 1 – Inception of the lease

Lease Asset	\$ 24,141	
Lease Liability		\$ 23,941
Cash		\$ 200

### JE 2 – Record security deposit

Deposit Receivable	\$ 2,000	
Cash		\$ 2,000

### JE 3 – Record year 1 payments

Lease Liability	\$ 11,466	
Interest Expense	\$ 534	
Cash		\$ 12,000

# Lessee Accounting – FYE 6/30/2022

## Full Accrual JE – Continued



JE 4 – Record lease asset amortization

Amortization Expense	\$ 12,071	
Accum. Amortization		\$ 12,071

JE 5 – Insurance payment

Insurance Expense	\$ 500	
Cash		\$ 500



# Lessee Accounting – FYE 6/30/2022

## Modified Accrual Journal Entries



### JE 1 – Inception of Lease

Expenditure - Capital Outlay	\$ 24,141	
Other Financing Source – Leases		\$ 23,941
Cash		\$ 200

### JE 2 – Record security deposit

Deposit Receivable	\$ 2,000	
Cash		\$ 2,000

# Lessee Accounting – FYE 6/30/2022

## Modified Accrual JE – Continued



JE 3 – Record year 1 payments

Expenditure - Debt Service Principal	\$ 11,446	
Expenditure - Debt Service Interest	\$ 534	
Cash		\$ 12,000

JE 4 – Insurance payment

Insurance Expenditure	\$ 500	
Cash		\$ 500

# New Lease Information

- In June 2023, the District is informed its program grant is extended to 6/30/24. The District will now exercise its second option to extend the lease.
- The District's new incremental borrowing rate is 2.8%. The County continues to use the implicit rate of 2.9%.
- In October 2023, the equipment is out of service for 3 days due to a warranty recall. The County grants the District a 10% (\$120) rent reduction for the month.



# Remeasurement



Remeasure the lease liability or receivable (if significant):

	Lessee	Lessor
Change in lease term	X	X
Change in likelihood of residual value guarantee	X	
Change in likelihood of purchase option	X	
Change in estimated amounts for payments already included	X	
Change in interest rate lessor charges	X	X
Contingency resolved for variable payments	X	X

# Lessor Accounting – FYE 12/31/2023

For January 2023 through June 2023, continue making monthly lease entries using previous amortization schedules

JE 1 – Record year 2 payments (Jan. to June)

Cash	\$ 6,600	
Lease Receivable		\$ 6,545
Interest Revenue		\$ 55

JE 2 – Amortize deferred inflows (Jan. to June)

Deferred Inflow	\$ 6,103	
Lease Revenue		\$ 6,103



# Lessor Accounting – FYE 12/31/2023



**Step 1:** Remeasure the lease receivable by calculating the present value of cash payments

Date	Period	Cash	PV
7/1/2023	1	\$700	\$700
8/1/2023	2	\$1,200	\$1,197
9/1/2023	3	\$1,200	\$1,194
10/1/2023	4	\$1,200	\$1,191
11/1/2023	5	\$1,200	\$1,188
12/1/2023	6	\$1,200	\$1,186
1/1/2024	7	\$1,200	\$1,183
2/1/2024	8	\$1,200	\$1,180
3/1/2024	9	\$1,200	\$1,177
4/1/2024	10	\$1,200	\$1,174
5/1/2024	11	\$1,200	\$1,171
6/1/2024	12	\$1,200	\$1,169
Totals		\$13,900	\$13,711



# Lessor Accounting – FYE 12/31/2023



**Step 2:** Create  
amortization table  
for lease receivable

Date	Principal	Interest	Lease Rec. Bal.
Beginning Lease Receivable			\$13,711
7/1/2023	\$700	\$0	\$13,011
8/1/2023	\$1,169	\$31	\$11,842
9/1/2023	\$1,171	\$29	\$10,671
10/1/2023	\$1,174	\$26	\$9,496
11/1/2023	\$1,177	\$23	\$8,319
12/1/2023	\$1,180	\$20	\$7,139
1/1/2024	\$1,183	\$17	\$5,957
2/1/2024	\$1,186	\$14	\$4,771
3/1/2024	\$1,188	\$12	\$3,583
4/1/2024	\$1,191	\$9	\$2,391
5/1/2024	\$1,194	\$6	\$1,197
6/1/2024	\$1,197	\$3	\$0

# Lessor Accounting – FYE 12/31/2023



**Step 3:** Create  
amortization table for  
deferred inflows

Date	Lease Revenue	DI Balance
Beginning	Deferred Inflow	\$13,711
7/1/2023	\$1,143	\$12,568
8/1/2023	\$1,143	\$11,425
9/1/2023	\$1,143	\$10,283
10/1/2023	\$1,143	\$9,140
11/1/2023	\$1,143	\$7,998
12/1/2023	\$1,143	\$6,855
1/1/2024	\$1,143	\$5,713
2/1/2024	\$1,143	\$4,570
3/1/2024	\$1,143	\$3,428
4/1/2024	\$1,143	\$2,285
5/1/2024	\$1,143	\$1,143
6/1/2024	\$1,143	\$0



# Lessor Accounting – FYE 12/31/2023

## JE 1 – Remeasurement of the lease (7/1/2023)

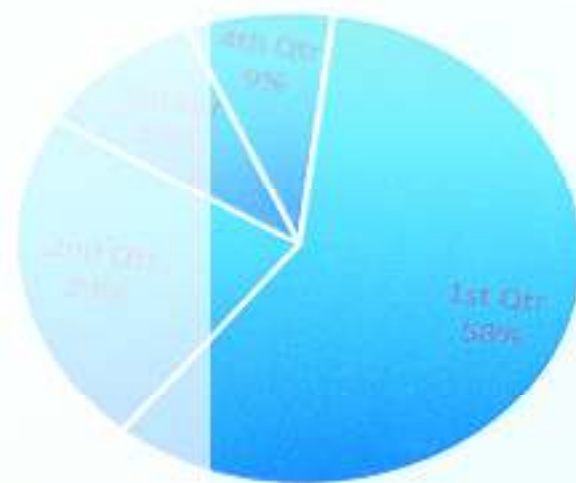
Lease Receivable	\$ 13,711	
Deferred Inflow		\$ 13,711

## Normal October monthly payment

Cash	\$ 1,200	
Lease Receivable		\$ 1,174
Interest Revenue		\$ 26
Deferred Inflow	\$ 1,143	
Lease Revenue		\$ 1,143

## JE 2 – October monthly payment with rent reduction

Cash	\$ 1,080	
Lease Receivable		\$ 1,174
Interest Revenue		\$ 26
Deferred Inflow	\$ 1,143	
Lease Revenue		\$ 1,023



1st Qtr 2nd Qtr 3rd Qtr 4th Qtr

# Lessee Accounting – FYE 6/30/2023

## Full Accrual Journal Entries



Follow the previous amortization schedules for these journal entries:

JE 1 – Record year 2 payments

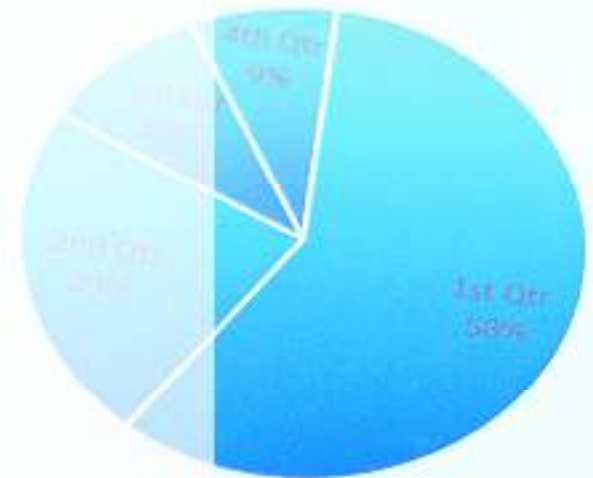
Lease Liability	\$ 12,475	
Interest Expense	\$ 225	
Cash		\$ 12,700

JE 2 – Record lease asset amortization

Amortization Expense	\$ 12,071	
Accum. Amortization		\$ 12,071

JE 3 – Insurance payment

Insurance Expense	\$ 500	
Cash		\$ 500



# Lessee Accounting – FYE 6/30/2023

## Modified Accrual Journal Entries



JE 1 – Record year 2 payments

Expenditure - Debt Service Principal	\$ 12,475	
Expenditure - Debt Service Interest	\$ 225	
Cash		\$ 12,700

JE 2 – Insurance payment

Insurance Expenditure	\$ 500	
Cash		\$ 500



# Lessee Accounting – FYE 6/30/2024



**Step 1:** Remeasure the lease liability by calculating the present value of cash payments. Remember to use updated incremental borrowing rate of 2.8%.

Date	Period	Cash	PV
7/1/2023	1	\$700	\$700
8/1/2023	2	\$1,200	\$1,197
9/1/2023	3	\$1,200	\$1,194
10/1/2023	4	\$1,200	\$1,192
11/1/2023	5	\$1,200	\$1,189
12/1/2023	6	\$1,200	\$1,186
1/1/2024	7	\$1,200	\$1,183
2/1/2024	8	\$1,200	\$1,181
3/1/2024	9	\$1,200	\$1,178
4/1/2024	10	\$1,200	\$1,175
5/1/2024	11	\$1,200	\$1,172
6/1/2024	12	\$1,200	\$1,170
Totals		\$13,900	\$13,717



# Lessee Accounting – FYE 6/30/2024



**Step 2:** Create amortization table for lease liability

Date	Principal	Interest	Lease Liab. Bal.
Beginning Lease Liability			\$13,717
7/1/2023	\$700	\$0	\$13,017
8/1/2023	\$1,170	\$30	\$11,847
9/1/2023	\$1,172	\$28	\$10,675
10/1/2023	\$1,175	\$25	\$9,500
11/1/2023	\$1,178	\$22	\$8,322
12/1/2023	\$1,181	\$19	\$7,142
1/1/2024	\$1,183	\$17	\$5,958
2/1/2024	\$1,186	\$14	\$4,772
3/1/2024	\$1,189	\$11	\$3,583
4/1/2024	\$1,192	\$8	\$2,392
5/1/2024	\$1,194	\$6	\$1,197
6/1/2024	\$1,197	\$3	\$0
<b>Totals</b>	<b>\$13,717</b>	<b>\$183</b>	

# Lessee Accounting – FYE 6/30/2024



**Step 3:** Create amortization table for lease asset

Date	Amortization	Lease Asset Balance
Beginning Lease Asset		\$13,717
7/1/2023	\$1,143	\$12,574
8/1/2023	\$1,143	\$11,431
9/1/2023	\$1,143	\$10,288
10/1/2023	\$1,143	\$9,145
11/1/2023	\$1,143	\$8,002
12/1/2023	\$1,143	\$6,859
1/1/2024	\$1,143	\$5,715
2/1/2024	\$1,143	\$4,572
3/1/2024	\$1,143	\$3,429
4/1/2024	\$1,143	\$2,286
5/1/2024	\$1,143	\$1,143
6/1/2024	\$1,143	\$0
<b>Total</b>	<b>\$13,717</b>	

# Lessee Accounting – FYE 6/30/2024

## Full Accrual Journal Entries

### JE 1 – Remeasurement of the lease

Lease Asset	\$ 13,717	
Lease Liability		\$ 13,717

### Normal October monthly payment

Lease Liability	\$ 1,175	
Interest Expense	\$ 25	
Cash		\$ 1,200
Amortization Expense	\$ 1,143	
Accum. Amortization		\$ 1,143

### JE 2 – October monthly payment with rent reduction

Lease Liability	\$ 1,175	
Interest Expense	\$ 25	
Cash		\$ 1,080
Amortization Expense	\$ 1,023	
Accum. Amortization		\$ 1,143



# Lessee Accounting – FYE 6/30/2024

## Modified Accrual Journal Entries

### JE 1 – Remeasurement of the lease

Expenditure - Capital Outlay	\$ 13,717	
Other Financing Source - Leases		\$ 13,717

### Normal October monthly payment

Expenditure - Debt Service Principal	\$ 1,175	
Expenditure - Debt Service Interest	\$ 25	
Cash		\$ 1,200

### JE 2 – October monthly payment with rent reduction

Expenditure - Debt Service Principal	\$ 1,055	
Expenditure - Debt Service Interest	\$ 25	
Cash		\$ 1,080



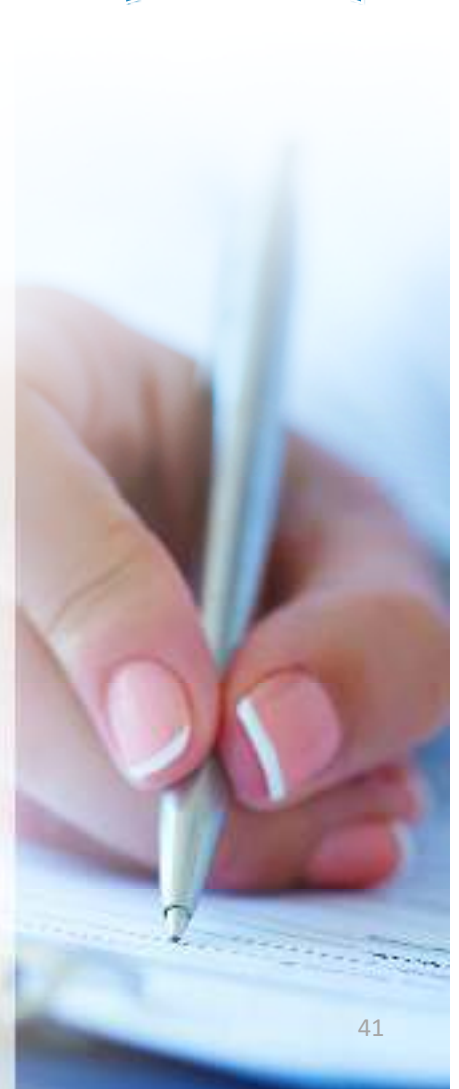
# GAAP Lessor – Key Note Disclosures

- General description of leasing arrangements
- Total amount of inflows recognized in the reporting period from leases and from variable payments not included in the lease receivable
- If lease payments secure lessor's debt, disclose terms and conditions of lessee's options to terminate lease or abate payments
- If lessor's principal ongoing operations are leasing assets, disclose schedule of future payments (P&I) for next 5 years and in 5-year increments thereafter



# GAAP Lessee – Key Note Disclosures

- General description of leasing arrangements
- Amount of assets recorded under leases and the related accumulated amortization – disclosed separately from other capital assets
- Principal and interest payments to maturity – for each of the 5 subsequent years and in 5-year increments thereafter
- Commitments for leases before commencement of the lease term
- Losses from impairments and related changes in the lease liability



# Example Note Disclosures



	Orig. Bal.	Inc.	Dec.	End. Bal.
Buildings and Improvements	\$55	\$55	\$55	\$55
Lessed buildings	\$55	\$55	\$55	\$55
Total	\$55	\$55	\$55	\$55
Less accum depr bldgs & impr.	\$55	\$55	\$55	\$55
Less accum amort leased bldg.	\$55	\$55	\$55	\$55
Total	\$55	\$55	\$55	\$55

	Prim.	Int.	Total
2021	\$55	\$55	\$55
2022	\$55	\$55	\$55
2023	\$55	\$55	\$55
2024	\$55	\$55	\$55
2025	\$55	\$55	\$55
2026-2030	\$55	\$55	\$55
2031-2035	\$55	\$55	\$55
Total	\$55	\$55	\$55



# Cash Basis Lessor



- Use **BARS 34P.PP** (P = applicable function) for lease payments received if leasing is the primary operation of a fund
- Use **BARS 362.00** for lease payments received that are not the primary operation of a fund or for leases that are infrequent in nature

Description

# Cash Basis Lessee



- Lease liability on Schedule 09 – Measured at the total amount of future lease payments
- At the inception of the lease you do NOT record any inflows or outflows on your Schedule 01
- Lease/rental payments use **BARS 591.PP.70** (P = applicable function) to reduce the lease liability
- Installment purchase payments use **BARS 594.PP.70** to reduce the liability



# Schedule 09 Coding – Lessee

- **263.51** – GO debt: installment purchases
- **263.52** – Revenue and non-GO debt: installment purchases
- **263.56** – GO debt: leases
- **263.57** – Revenue and non-GO debt: leases



# Cash Basis Lessee – Key Note Disclosures

- General description of leasing arrangements
- Lease payments to maturity – for each of the 5 subsequent years and in 5-year increments thereafter
- Commitments for leases before commencement of the lease term



# Cash Basis Lessee – Example Note Disclosures

- The District leases equipment from the County for \$1,000-\$1,100 per month under a lease agreement
- The lease began in July 2022, will end June 2023, and include options to renew
- The total amount paid for leases in 2022 was \$12,000. As of June 30, 2022, the future minimum lease payments are as follows:

Year ended December 31	Total
2023	\$12,700



# Cash Basis Lessee – Example Schedule 09



Example District							
For the Year Ended June 30, 2022							
Debt Type	ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue Obligations							
	263.57	Equipment	6/30/2023	-	24,700	12,000	12,700

- The additions balance is \$24,700 = (\$1,000 year 1 monthly payments \* 12 months) + (\$1,100 year 2 monthly payments \* 12 months) – (\$500 lease incentive for July 2022)
- Reductions are \$12,000 = \$1,000 monthly payment \* 12 payments made

# What Will Your Auditors Want?

- Documentation of your system of accounting and controls
- Your implementation plan
- Your process for determining an appropriate discount rate
- Your process for determining an appropriate threshold
- The complete population of leases, including short-term leases, other exceptions, and any that fell below the threshold





# What Will Your Auditors Want?

- May consider reviewing vendor activity and revenue accounts for potential leases
- Will test lessor and lessee accounting to determine that financial statement amounts are fairly stated
- Governmental funds – will look for correct recognition under modified accrual
- Will closely review restatement of beginning balances of assets and liabilities
- Note disclosures



# Questions



# Rooted in Good Government



# Information

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