

Identifying Leases Subject to the New Requirements

Presenter Information



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Identifying Leases Subject to the New Accounting Requirements

Today's Topics

- Prepare for Lease Accounting
- Creating a List of Leases
- Deciding which leases to include or exclude
- Definitions
- Resources
- Questions and Answers



Preparing for Lease Accounting

- GASB 87 guidance became effective: September 1, 2021
- This is for the 2021-22 School Year.
 - Your 8/31/2022 F196 will need to be under the new rules

• The guidance applies retroactively to all your leases.

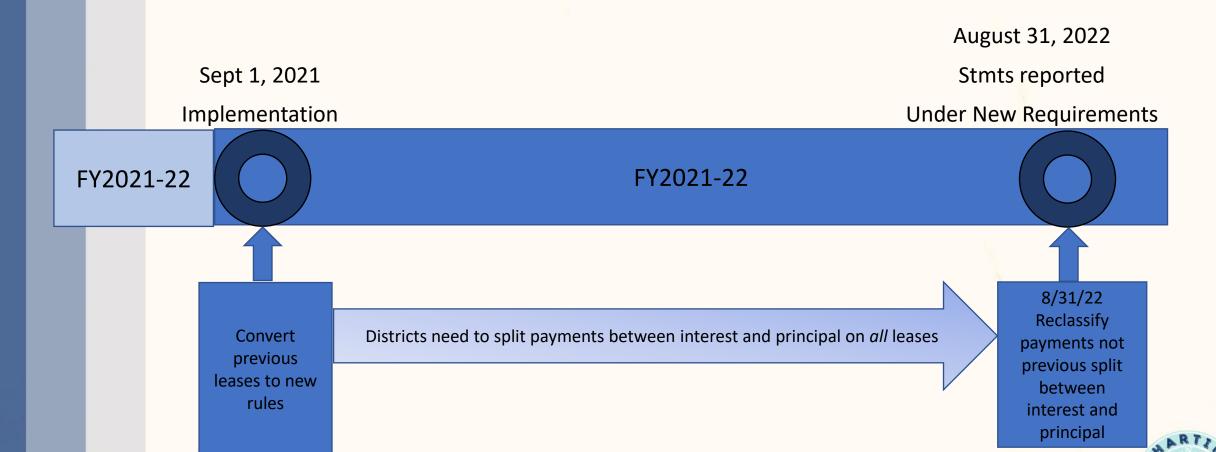


Summary of Changes

- Operating and capital leases will become one: Leases
- Leases are recorded as an expenditure and long-term financing for the total years of the lease
 - Modified and full accrual at present value
 - Cash Basis at current value
- Principal and interest payments are recorded separately
 - Modified and full accrual only
- Lessor accounting also changes



Understanding the Timeline FY21-22



First Step: Create your List

Create your list of all leases in effect in the 21-22 fiscal year.

Purpose is to determine whether the new rules apply to the lease.

This list will be covered in detail in this session.



Step Two – Lease Spreadsheet

For leases that need to be included:

- 1) Determine the value of the lease for all the years of the lease (the terms).
- 2) Find the interest rate
- 3) Separate each payment between interest and principal
 - Applies to Modified and Full accrual districts only
- 4) Compute the running balance of the lease.

Resource: WASBO On-Demand Session – Creating a Simple Lease Spreadsheet and Creating a Simple Lessor Spreadsheet



Step Three: Make the required Journal Entries for fiscal year 21-22

Using the spreadsheet(s) created for the lease(s):

- 1. Correct 21-22 lease payments by splitting interest and principal.

 Does not apply to cash basis school districts.
- 2. Leases with inception during 21-22, record the value of the entire lease using:

Present value for modified and full accrual districts.

Current value for cash basis districts.

Resource: WASBO New Accounting for Lease Requirements; On-Demand Learning: Mid-Year Implementation of Lessee Accounting and Mid-Year Implementation of Lessor Accounting

Step Four: Complete the Schedule of Long-Term Liabilities

Using the spreadsheet(s) created for the lease(s):

- 1. Enter the new beginning balance of the lease as of 9/1/21.
- 2. Recognize new leases entered into in FY21-22 in the Amount Issued Column.
- 3. Recognize principal payments in the Amount Redeemed Column.



Step Five: Notes to the Financials

Recognize the accounting principal change in your Notes to the Financial Statements for Fiscal Year 21-22.

SAO and OSPI are working on a new Lease Note Template for disclosure requirements.



Creating Your List of Leases

- Locate all your lease agreements.
- Work with your Purchasing Department.
- Work with any administrator that has authority to sign contracts.
- Work with your accounts payable staff to identify regularly paid vendors. Could this be a lease?
- Work with your facilities department to identify district property or equipment leased to outside parties.



List of things you need to know

- Lease description (who and what)
- Lease Terms
 - Inception date and initial length of lease
- Options to Extend
- Options to Terminate
- Cancellation Clauses
- Lease Payment Amounts



Create Your List of Leases – Decision Matrix

Columns to include:

- School district as the lessee or lessor
- Name of lessee or lessor (the outside party)
- Description (copiers, building, cell tower site, etc.)
- Payment amount
- Right to use the asset for a specified period of time: Yes or No
- Lease terms: Inception date and number of months



Create Your List of Leases – Decision Matrix

Columns continued:

- Option to extend by lessee or lessor or both? Yes or No
- Option to terminate by lessee or lessor but NOT both: Yes or No
- Option to terminate by both: Yes or No
- District lease capitalization threshold: Yes or No
- Payments significantly lower than market rate: Yes or No
- Decision Columns: Include or Exclude



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Definitions

Lessee:

 The school district acquires the right to use another entity's nonfinancial asset(s) (i.e., tenant)

Examples:

- The school district leases parking space from the county for its bus fleet.
- The school district leases copiers from a vendor.



Definitions

Lessor:

• The district conveys the right to use its nonfinancial assets to another entity (i.e., landlord).

Examples:

- The school district leases a surplused elementary school to a university.
- The district leases surplus land rights to a communication service provider for a cell tower.



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Definitions

A Lease:

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



Definitions

Right to Use:

- The right to obtain the present service capacity from use of the underlying asset and the right to determine the nature and manner of its use.
- Right to use an asset for a specified period of time.
- The right to use does not mean uninterrupted access.
 - One lessee may have a multi-year, facility use agreement for a room 3 days a week; while another lessee uses the same room one day a week.

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Definitions

Lease Term:

- The period during which a lessee has a non-cancelable right to use an underlying asset.
 - Plus periods of time the lessee or lessor has (or both have) the option to extend the lease without consent from other party.
 - Plus periods of time the lessee or lessor has (but both do not have) the option to terminate the lease.
- Fiscal funding/cancelation/extension clauses are ignored unless reasonably certain to be exercised.



Lease Term Summary

Periods after an Optional periods Optional renewal optional periods if lessee is Noncancelable to extend termination date if Lease Period reasonable controlled by the lessee is reasonable certain certain to exercise lessor not to terminate

Exclude periods where *both* the lessee and lessor have an option to terminate without permission from the other party. However, **include** where *either* have the option.

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Lease Capitalization Threshold

- Districts must set their own lease capitalization threshold.
- Based on the size of their district.
- Example: A large district might set their threshold at \$100,000
- Group like leases together.
- Calculate current value of the group.
- Example: Copier leases are \$7,000 per month for 60 months = \$420,000 is over the district threshold and should be included.

Document Your Lease Capitalization Threshold

Procedures or guidelines (not board policy level)

Example wording:

- The district's capitalization policy is as follows:
 - Lease assets with total payments over the lease term of \$______ or greater.
 - All other capital assets with a unit cost of \$5,000 or greater.



School District as Lessor or				Right to Use the asset for a specified period of	.	Option to Extend Lessee or lessor or	Option to Terminate by Lessee or Lessor but	r Option to Terminate by	School District	Exclude if lease payments significantly lower than the "market			
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Short-Term Leases

Short-term leases are determined by the length of the maximum possible noncancellable lease term.

- Short-term is generally defined as 12 months or less.
- A lease term of less than 12 months is not automatically a short-term lease.
- All future options to extend are considered, regardless of probability.
 - Ref: (GASB87, Par. 16) (Implementation Guide 2019-3;
 4.18)



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Sic Control of the Co	aseball League aseball League occer League ort District YZ Copier Inc YZ Copier Inc	Ground for storage containers Rental of building & site YZ Copier Inc Copiers YZ Copier Inc Copiers	Ground for storage containers \$35 per year x 8 units Rental of building & \$4,750 per month YZ Copier Inc Copiers \$7,383 per month YZ Copier Inc Copiers \$65.00 per month YZ Copier Inc Copiers \$55 per month YZ Copier Inc Copiers \$260 per month YZ Copier Inc Copiers \$260 per month YZ Copier Inc Copiers \$142 per month	Ground for storage containers \$35 per year x 8 units YES Rental of building & \$4,750 per month Yes YZ Copier Inc Copiers \$400 per month Yes YZ Copier Inc Copiers \$7,383 per month Yes YZ Copier Inc Copiers \$65.00 per month Yes YZ Copier Inc Copiers \$55 per month Yes YZ Copier Inc Copiers \$55 per month Yes YZ Copier Inc Copiers \$260 per month Yes YZ Copier Inc Copiers \$260 per month Yes YZ Copier Inc Copiers \$142 per month Yes	Terms: 2018 aseball League Field \$30,000 per year YES 2020 aseball League Easement \$1000 per month Yes 5 years Ground for storage containers \$35 per year x 8 units YES 9/30/24 Rental of building & 6/1/2019- ort District site \$4,750 per month Yes 5/31/2024 YZ Copier Inc Copiers \$400 per month Yes months YZ Copier Inc Copiers \$7,383 per month Yes 60 months YZ Copier Inc Copiers \$65.00 per month Yes 60 months YZ Copier Inc Copiers \$55 per month Yes months YZ Copier Inc Copiers \$55 per month Yes 60 months YZ Copier Inc Copiers \$55 per month Yes 60 months YZ Copier Inc Copiers \$55 per month Yes 60 months YZ Copier Inc Copiers \$142 per month Yes 60 months 9/27/2019, 60 months	Terms: 2018- (through 2027) Terms: 2018- (through 2027) 2020 2027)	Terms: 2018- (through aseball League Field \$30,000 per year YES 2020 2027	Terms: 2018 Terms: 2018	Terms: 2018- (through asseball League Field \$30,000 per year YES 2020 2027	Terms: 2018- (through asseball League Field \$30,000 per year YES 2020 2027 Above	Terms: 2018- (through Above X Above Above X Above Abov	Terms: 2018- (through Above X

Exclusions

- Exclude leases if payments are significantly below fair market value.
- Examples:
 - District leases a room to a parent group at \$1 per year.
- Exclude perpetual leases.
 - There needs to be a specified period of time in order to meet the definition of a lease.



Other Exclusions

- Certain activities are excluded from lease guidelines under GASB 87.
 - Intangible Assets Such as Patents and Software
 - There are Exceptions to the Exclusions
 - Biological Assets Such as Timber
 - Service Concession Arrangements
 - Supply Contracts
 - Subscription-Based Information Technology Arrangements
 - (SBITAs) GASB 96 Coming Soon



				Right to Use	,					Exclude if lease			
				the asset	•	Ontion to	Option to			payments			
School				for a		Extend	Terminate		School	significantly			
District as				specified		Lessee or	by Lessee o	r Option to	District	lower than			
Lessor or				period of		lessor or	Lessor but	Terminate by		the "market			
Lessee	Lessee/Lessor	Description	Payment	time	Lease Term		not both	both	\$100k	rate"		Exclude	Comments
						Optional			7				
						Terms 4,							
					Initial	4yr							
					Terms: 2018								
Lessor	Baseball League	Field	\$30,000 per year	YES	2020	2027)			Above		x		
	_					·		Yes (¶2.2					
								with 90 day					
Lessor	Baseball League	Easement	\$1000 per month	Yes	5 years			notice)				X	Short Term
						2 years							
					3 yrs	10/2/2024-							
		Ground for storage			10/1/2021-	09/30/202							
Lessor	Soccer League	containers	\$35 per year x 8 units	YES	9/30/24	6				X		X	Below market rat
		Rental of building &			6/1/2019-								
Lessee	Port District	site	\$4,750 per month	Yes	5/31/2024						X		
					10/15/2018								
					for 60								
Lessee	XYZ Copier Inc	Copiers	\$400 per month	Yes	months	No	No	No	\$ 24,000		X		Group
					9/12/2018,								
Lessee	XYZ Copier Inc	Copiers	\$7,383 per month	Yes	60 months	No	No	No	\$ 442,980		X		Group
					9/12/2018,								
Lessee	XYZ Copier Inc	Copiers	\$65.00 per month	Yes	60 months	No	No	No	\$ 3,900		X		Group
					3/3/2020, 60								
Lessee	XYZ Copier Inc	Copiers	\$55 per month	Yes	months	No	No	No	\$ 3,300		X		Group
					7/31/2019,								
Lessee	XYZ Copier Inc	Copiers	\$260 per month	Yes	60 months	No	No	No	\$ 15,600		X		Group
					9/27/2019,								
Lessee	XYZ Copier Inc	Copiers	\$142 per month	Yes	60 months	No	No	No	\$ 8,520		X		Group
					11/16/19, 60								
Lessee	XYZ Copier Inc	Copiers	\$238 per month	Yes	months	No	No	No	\$ 14,280		X		Group

Lease List/Decision Matrix

 Recall the ultimate goal is to determine if the lease needs to be included or excluded under new Lease Accounting Requirements.

• This list documents your decisions – keep for audit purposes.



Next Steps

For those leases determined to be INCLUDED:

Step 2: Create spreadsheets for PV and balances

Step 3: Make the required journal entries for fiscal year 21-22

Step 4: Complete the Schedule of Long-Term Liabilities

Step 5: Prepare your note disclosure



Resources

- School District Accounting Manual, Chapter 3
- WASBO New Accounting for Lease Requirements
- WASBO Lease Q & A
- WASBO On-demand Learning:
 - Setting up a simple Lease Spreadsheet
 - Setting up a simple Lessor Spreadsheet
 - Mid-Year Implementation of Lessee Accounting
 - Mid-Year Implementation of Lessor Accounting
- WASBO Resources/Forums/New Lease Requirements



Questions??

