GASB 87 Is Here, Now What?

American Public Power Association
Accounting & Finance Spring Roundtable
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Today’s Presenters

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## Overview

1. **What is a lease?** - Scope, Terms, and Overview of the Standard
2. **Lease Terms**
3. **Reporting by lessee vs. reporting by lessor**
4. **Case studies**
5. **Best Practices for Implementation**
6. **Questions & Answers**
Applicable Guidance

Statement No. 87

Implementation Guide 2019-3

Exposure Draft- Postponement of the Effective Dates of Certain Authoritative Guidance
What is 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.
  - Contract – legal enforceability
  - Control of the right – more on next slide
  - Period of time – not perpetual (could be long contract term)
  - Exchange or exchange-like transaction – give/receive equal value

- Implementation Guide:
  - Uninterrupted control not required to be a lease (Q4.2)
  - Easements may meet the definition if all parts met (Q4.5)
Control of the Right

Control requires both of the following:
• (1) the right to obtain the present service capacity from use of the underlying asset as specified in the contract, and
• (2) the right to determine the nature and manner of use of the underlying asset as specified in the contract

Where is the line between being a lease and not being a lease?
Use judgment & document your methodology
Control of the Right (continued)

- **Implementation Guide:**
  - Access to part of power generation facility and its output -
    - Does convey control, it is a lease (Q4.6)
  - Solar farm contract for design/build & use
    - Control criteria is not met for solar farm, but could be met for land (Q4.7)
  - Cell phone tower & antenna placement agreements -
    - Does it convey control to use land or connection point? (Q4.8)

- **Proposed Implementation Guide Update - 2020:**
  - Right of substitution – pole attachment (Q4.8)
### Scoped Out of the Standard

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible assets</td>
<td>Rights to exploit natural resources – oil, gas, minerals; patents; software; copyrights</td>
</tr>
<tr>
<td>Biological assets</td>
<td>Including timber, living plants, and living animals</td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
</tr>
<tr>
<td>Service concession arrangements (Statement 60)</td>
<td></td>
</tr>
<tr>
<td>Arrangements associated with conduit debt</td>
<td></td>
</tr>
<tr>
<td>Supply contracts</td>
<td>Power purchase agreements that do not convey control of the right to use the underlying generating facility</td>
</tr>
</tbody>
</table>
Scoped Out of the Standard (continued)

- **IT Software vs. Hardware**
  - Computer software licenses are excluded
  - IT hardware leases are included
  - *Subscription-Based Information Technology Arrangements* project - Proposed effective date for years beginning after 6/15/21

- **SCA vs. PPP**
  - Service concession arrangements (SCA) are excluded
  - Other public-private partnerships (PPP) may be included
  - *Public Private Partnerships and Availability Payment Arrangements* project - Proposed effective date for years beginning after 6/15/21
Lease Term

- For reporting purposes, what is the lease start and end?
  - Start with the **noncancelable period**

- **Add** periods covered by options to:
  - Extend lease, if reasonably certain of being exercised
  - Terminate lease, if reasonably certain of *not* being exercised

- **Exclude** cancelable periods
  - Periods for which lessee and lessor both have option to extend or terminate
    (such as rolling month-to-month leases)

- **Reasonably certain** not defined

- Fiscal funding and cancellation clauses are ignored
Factors to consider in initial probability assessment

- Significant economic incentive (e.g. favorable rent rate – IG Q4.14)
- Significant economic disincentive (e.g. cancellation penalties IG Q4.15, relocation costs)
- History of exercising options
- Extent to which asset is essential to provision of services

Reassessment of lease term

- Option exercised when initially determined reasonably certain it would not be
- Option not exercised when initially determined reasonably certain it would be
- Event specified in contract occurs requiring extension or termination
# Short-Term Leases

<table>
<thead>
<tr>
<th>Definition</th>
<th>At beginning of lease, <em>maximum possible term</em> under the contract is 12 months or less</th>
</tr>
</thead>
</table>
| Maximum possible term | • Includes any lessee-only options to extend  
  • Includes any lessor-only options to extend  
    ▪ Regardless of probability  
  • If contract has cancelable periods, use noncancelable period, including any notice periods |
| Cancelable periods | • Periods for which lessee and lessor both have option to extend or terminate |
Short-Term Leases (continued)

- **Implementation Guide:**
  - Maximum possible term when only lessee has option to cancel?
    - Include all optional periods (Q4.19)
  - Similar 12-months long contracts being negotiated at the same time for subsequent periods?
    - Possibly contract combination, not a short term lease (Q4.20)

- **Proposed Implementation Guidance Update:**
  - Three-year lease but either party can cancel with 60 days notice (Q4.11)
  - History of entering into a new 12-month lease every year (Q4.13)
## Short-Term Leases (continued)

| Lessee accounting | • Recognize expenses based on the terms of the contract  
|                   | • Do not recognize assets or liabilities associated with the right to use the underlying asset |
| Lessor accounting | • Recognize lease payments as revenue based on the payment provisions of the contract  
|                   | • Do not recognize receivables or deferred inflows |
| Disclosures       | • None |
Accounting and Reporting
## Initial Measurement and Reporting

<table>
<thead>
<tr>
<th>Lessee Accounting</th>
<th>Assets</th>
<th>Liability</th>
<th>Deferred Inflow</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Intangible lease asset (right to use underlying asset)—equals to lease liability, plus any prepayments, plus initial direct costs necessary to place asset in use; reduce by amount of any incentives received from the lessor</td>
<td>Present value of future lease payments for the lease term</td>
<td>NA</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Lessor Accounting</th>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Lease receivable (present value of future payments)</td>
</tr>
<tr>
<td></td>
<td>• Continue reporting the leased asset, record depreciation, unless required to be returned in original condition</td>
</tr>
<tr>
<td></td>
<td>Equal to lease receivable, plus any cash received up front that relates to a future period, less any incentives paid</td>
</tr>
</tbody>
</table>
# Initial Measurement - Lease Payment Types

<table>
<thead>
<tr>
<th>Payment Type</th>
<th>Lessee Liability</th>
<th>Lessor Receivable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed payments</td>
<td>Include</td>
<td>Include</td>
</tr>
<tr>
<td>Variable – index or rate</td>
<td>Include using rate at commencement</td>
<td>Include using rate at commencement</td>
</tr>
<tr>
<td>Variable – performance or usage</td>
<td>Exclude</td>
<td>Exclude</td>
</tr>
<tr>
<td>Variable – fixed in substance</td>
<td>Include</td>
<td>Include</td>
</tr>
<tr>
<td>Lease incentives</td>
<td>Include amounts receivable from lessor</td>
<td>Include amounts payable to lessee</td>
</tr>
</tbody>
</table>
Initial Measurement - Discount Rate

- **Lessee**
  - Rate lessor charges the lessee
    - May be interest rate implicit in the lease
  - If not readily determinable, use lessee’s incremental borrowing rate

- **Lessor**
  - Rate lessor charges the lessee
    - May be interest rate implicit in the lease
  - Proposed Implementation Guidance Update Q4.17
    - Stated rate
    - Estimate implicit rate - lessee’s incremental borrowing rate or published market rates
    - If those not practicable, lessor’s own incremental borrowing rate may be used
# Subsequent Measurement and Reporting

<table>
<thead>
<tr>
<th>Lessee Accounting</th>
<th>Assets</th>
<th>Liability</th>
<th>Deferred Inflow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortize the intangible lease asset over shorter of useful life or lease term</td>
<td>Reduce by lease payments (less amount for interest expense)</td>
<td>NA</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Lessor Accounting</th>
<th>Assets</th>
<th>Liability</th>
<th>Deferred Inflow</th>
</tr>
</thead>
</table>
| • Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition)  
• Reduce receivable by lease payments (less amount needed to cover accrued interest) | NA | Recognize revenue over the lease term in a systematic and rational manner |
Subsequent Recognition

- **Lessee:**
  - Lease liability reduced for actual payments less amortization of discount (interest expense)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Expense</td>
<td>$4,000</td>
</tr>
<tr>
<td>Lease Liability</td>
<td>$18,000</td>
</tr>
<tr>
<td>Cash (or accounts payable)</td>
<td>$22,000</td>
</tr>
</tbody>
</table>

- Lease asset amortized

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortization Expense</td>
<td>$15,000</td>
</tr>
<tr>
<td>Lease Asset</td>
<td>$15,000</td>
</tr>
</tbody>
</table>
Subsequent Recognition (continued)

Lessor:

- Lease receivable reduced for actual payments less amortization of discount (interest revenue)

<table>
<thead>
<tr>
<th>Cash (or accounts receivable)</th>
<th>$22,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease Receivable</td>
<td>$18,000</td>
</tr>
<tr>
<td>Interest Revenue</td>
<td>$4,000</td>
</tr>
</tbody>
</table>

- Lease revenue recognized from deferred inflow

<table>
<thead>
<tr>
<th>Deferred Inflow of Resources</th>
<th>$15,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease Revenue</td>
<td>$15,000</td>
</tr>
</tbody>
</table>
Lease Modifications & Terminations

- Result from *amendments* to lease contract, not from exercising options in that contract

- Amendment is lease modification, unless lessee’s right to use underlying asset decreases
  - Partial or full termination if lessee’s right to use underlying asset decreases

- Report as *new lease* by both lessor and lessee *if*
  - New assets are added, and
  - Not unreasonably priced

- Otherwise, *remeasure*
Remeasurement

- Remeasure lease liability or receivable (if expected to have significant impact)

<table>
<thead>
<tr>
<th>Event</th>
<th>Lessee</th>
<th>Lessor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in lease term</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Change in likelihood of residual value guarantee</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Change in likelihood of purchase option</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Change in estimated amounts for payments already included</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Change in interest rate lessor charges</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Contingency resolved for variable payments</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
Lease Modifications for LESSEES

- Remeasure the lease liability on the effective date of modification
  - Assess the need for an updated discount rate

- Adjust the right-of-use asset by the difference between the modified liability and the liability immediately before the modification
  - If asset reduced to $0, any additional reduction is reported as a gain
Lease Modifications for LESSORS

- Remeasure the lease receivable on the effective date of modification
  - Assess the need for an updated discount rate

- Adjust the deferred inflow of resources by the difference between the modified receivable and the receivable immediately before the modification
  - However, to the extent any change relates to payments for the current period, recognize in current period flows statement (for example, revenue)
Lease Terminations for LESSEES

- For partial/full lease terminations (other than purchases), lessees reduce/remove the lease asset and obligation.
- Recognize the difference as a gain or loss.
- If the lessee purchases the underlying asset, reclassify to the appropriate asset class.
  - Adjust lease liability to reflect the payments yet to be made; reflect adjustment in cost of the purchased asset.
Lease Terminations for LESSORS

- For partial/full lease terminations (other than sales), lessors reduce/remove the lease receivable and related deferred inflow of resources

- Recognize the difference as a gain or loss

- If the lessor sells the underlying asset, derecognize underlying asset
  - Include in the calculation of any gain or loss
LESSEE Disclosures

- A general description of leasing arrangements, including
  - Basis, terms, and conditions, on which variable lease payments are determined
  - Existence, terms, and conditions, of residual value guarantees provided by the lessee

- Total amount of assets recorded under leases, and the related accumulated amortization, disclosed separately from other capital assets

- Lease assets disaggregated by major classes of underlying assets, disclosed separately from other capital assets

- Variable lease payments recognized during the period but not previously included in the lease liability
LESSEE Disclosures (continued)

- Other payments recognized during the period but not previously included in the lease liability (such as residual value guarantees or penalties)

- A maturity analysis of all future lease payments
  - Payments for each of the first five years
  - Payments in five-year increments thereafter
  - Show principal and interest separately

- Lease commitments, other than short-term leases, for which the lease term has not yet begun

- Components of any net impairment loss (gross impairment loss less change in lease liability)
LESSOR Disclosures

- General description of leasing arrangements
- Total amount of inflows recognized in the reporting period related to leases
- Lease inflows related to payments not previously included in the lease receivable
- Lessee termination options, if lease payments secure debt
- If principal ongoing operations are leasing, schedule of expected future minimum payments
Intra-Entity Leases

- Leases with/between blended component units
  - Eliminations for internal leasing activity take place before the financial statements are aggregated
  - Report leases as normal in standalone financial statements (Implementation Guide Q4.75)

- Leases with/between discretely-presented component units
  - Treat like normal leases, but
    - Present receivables and payables separately
Leases between Related Parties

- Recognize substance of the transaction, when substance is significantly different from legal form
  - For example, a short-term lease is long-term if parties have an understanding that lease will be extended several years

- Use equity method for leases with equity method investees

- Disclose the nature and extent of related-party leases
Case Studies– Pop Quiz!
On December 31, Public Utility District (PUD) of Short County entered into a 6 month non-cancellable lease with an option to renew the lease for another 12 months, cancellable at any time by the PUD. The lessor does not have the option to cancel the lease. The PUD does not know whether they will extend the lease.

How should the PUD account for this lease?
Question 1 – Possible Answers

A) Expense the lease payments for six months and then expense them month-to-month until the 18 months are complete or until the lease is cancelled by the PUD.

B) Record the lease asset and liability and amortize the asset over 18 months.

C) Record a lease asset and liability and amortize the asset over 6 months.
Question 1 – Correct Answer

A) Expense the lease payments for six months and then expense them month-to-month until the 18 months are complete or until the lease is cancelled by the PUD

B) Record the lease asset and liability and amortize the asset over 18 months

C) Record a lease asset and liability and amortize the asset over 6 months
Paragraph 16: a **maximum** possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability…

**But WAIT…this is cancellable?!?**

- Cancellable periods are excluded if and only if both parties can cancel
Power Town Utility District (District) leases equipment for a term of 8 years with annual payments. The useful life of the equipment is 16 years. The total payment amount for the right to use the equipment over the lease term is $950,000. The fair value of the equipment at the commencement of the lease is $1.6 million. The District has an incremental borrowing rate of 4%.

What should the District use as its discount rate in calculating the lease liability?
Question 2 – Possible Answers

A) The incremental borrowing rate of 4%

B) The derived interest rate that equates to $150,000 of interest paid over the lease life

C) The discount rate explicit in the last equipment lease
A) The incremental borrowing rate of 4%

B) The derived interest rate that equates to $150,000 of interest paid over the lease life

C) The discount rate explicit in the last equipment lease
Discount Rate Not Explicit?

No worries!

- Implicit rate should be determined
- Lease terms might help calculate the rate
- Consider the facts and circumstances of the entity
- Lessee’s incremental borrowing rate is the last resort
Uncertain Municipal Utility District leases five trucks from TrucksRock, Inc. The lease contract has a purchase option at the end of the lease term (6 years). The District recorded lease assets and is amortizing their assets because they were not reasonably certain the assets will be purchased. Halfway through the lease, they made the decision to purchase all five trucks (i.e. exercise the purchase option).

How should the District account for its decision to exercise the purchase option?
Question 3 – Possible Answers

A) Re-measure the remaining lease liability, and possibly adjust the lease asset amount, taking into consideration the purchase option and amortize the leased asset over the useful life of the asset

B) Re-measure the lease asset to the initial amount before amortization and re-measure the remaining lease liability taking into consideration the purchase option

C) Nothing. Continue accounting for the lease like the first three years
Question 3 – Correct Answer

A) Re-measure the remaining lease liability, and possibly adjust the lease asset amount, taking into consideration the purchase option and amortize the leased asset over the useful life of the asset

B) Re-measure the lease asset to the initial amount before amortization and re-measure the remaining lease liability taking into consideration the purchase option

C) Nothing. Continue accounting for the lease like the first three years
When Facts Change Around Purchase Option

Re-Measurement

- Re-measure the liability with purchase option (and the asset)
- Continue amortizing (if depreciable) the asset over the useful life not the lease term
Zootopia Municipal Power leases equipment from Night Howlers Inc. The equipment will not function until properly installed. Zootopia selected Night Howlers to install the equipment for an additional $15,000. Gazelle Installation had the next highest bid to install the equipment for $16,000. The lease contract requires Zootopia to pay the lessor for the installation in year 3 of the lease term.

How should Zootopia record the installation costs?
Question 4 – Possible Answers

A) Add the costs to the lease asset and increase the lease liability

B) Add the costs to the lease asset and increase trade AP

C) Expense the costs and increase the lease liability

D) Expense the costs and increase AP
Question 4 – Correct Answer

A) Add the costs to the lease asset and increase the lease liability

B) Add the costs to the lease asset and increase trade AP

C) Expense the costs and increase the lease liability

D) Expense the costs and increase AP
Installation Costs

- Initial direct costs are not included in the lease liability per paragraph 21
- Installation costs are generally considered a nonlease component
- Installation costs are necessary ancillary charges = increase lease asset (paragraph 30c)
City’s Electric Fund enters into a joint use agreement for the purpose of sharing the use of its poles with the local telephone company. The agreement is month to month and the utility has no intention of terminating the agreement. Both parties to the agreement have the ability to cancel the lease at any time. The control criterion in paragraph 4 of Statement 87 is met as the local telephone company has control over the connection point to which their equipment is attached.

How should City’s Electric Fund account for this arrangement?
Question 5 – Possible Answers

A) The agreement meets the definition of a lease per GASB 87, and a lease asset and related lease liability should be recorded and accounted for in accordance with the standard.

B) Record as a short-term lease, and record revenues based on the payment provisions of the agreement

C) The agreement doesn’t meet the definition of a lease per GASB 87 and shouldn’t be recorded as such
A) The agreement meets the definition of a lease per GASB 87, and a lease asset and related lease liability should be recorded and accounted for in accordance with the standard.

B) Record as a short-term lease, and record revenues based on the payment provisions of the agreement

C) The agreement doesn’t meet the definition of a lease per GASB 87 and shouldn’t be recorded as such
Lease Term

- Per paragraph 12, periods for which both the lessee and the lessor have an option to terminate the lease without permission from the other party are cancelable periods.

- Cancelable periods are excluded from the lease term
EZ Electric is granted temporary easements from various property owners for the purpose of accessing the land to complete a specific construction project. The easements permit EZ Electric to access the land during the 24 month non-cancellable period and control the use of the land during that period for purposes of construction.

How should the easements be recorded?
Question 6 – Possible Answers

A) Easements are scoped out of the provisions of GASB 87.

B) Easements do not meet the definition of a lease. An intangible asset should be recorded and amortized over the 24 month period.

C) The temporary easements meet the definition of a lease under GASB 87 and a lease asset and related lease liability should be recorded.
A) Easements are scoped out of the provisions of GASB 87.

B) Easements do not meet the definition of a lease. An intangible asset should be recorded and amortized over the 24 month period.

C) The temporary easements meet the definition of a lease under GASB 87 and a lease asset and related lease liability should be recorded.
Control Criteria

- Per paragraph 4, a lease is defined as a contract that **conveys control** of the right to use another entity's nonfinancial asset for a period of time in an exchange transaction.

- Control determinations:
  - The right to obtain the present service capacity of the asset
  - The right to determine the manner of use of the asset

- Application to easements:
  - Temporary easements meet the control criteria above
  - Permanent easements are not leases as they do not meet the time criteria above.
Wind City Power District enters into an agreement with Renewables, Inc. where Renewables, Inc. will construct wind turbines on the District’s property. Although the wind turbine assets are located on the District’s property, Renewables, Inc. will retain ownership of the assets and will control the nature and manner of the use of those assets. Under the agreement, the District will also purchase 100% of the power generated from the wind turbines.

Should the District record the transactions resulting from the agreement as a lease in accordance with GASB 87?
A) No, power supply contracts are scoped out of GASB 87 per paragraph 8f.

B) No, the District is not able to control the manner and use of the assets, and therefore does not meet the control criteria in paragraph 4.

C) Yes, the District has rights to the present service capacity of the asset, and therefore meets the control criteria in paragraph 4.
A) No, power supply contracts are scoped out of GASB 87 per paragraph 8f.

B) No, the District is not able to control the manner and use of the assets, and therefore does not meet the control criteria in paragraph 4.

C) Yes, the District has rights to the present service capacity of the asset, and therefore meets the control criteria in paragraph 4.
Control Criteria

- Both criterion below must be met to be considered a lease
- Control determinations:
  - The right to obtain the present service capacity of the asset
  - The right to determine the manner of use of the asset
Wind City Power District enters into an agreement with Green County where the District will construct wind turbines on the County’s property. The District will have access to direct the nature and use of the assets and will receive 100% of the power produced by the turbines. Per the lease contract, the District is required to restore the land to its original condition at the end of the lease term.

How should the costs related to land restoration contract provision be accounted for?
A) The retirement costs should be incorporated with the lease liability at the beginning of the lease term.

B) The retirement costs should be recorded as an asset retirement obligation in accordance with GASB 83.

C) The District intends to exercise the option to extend the lease another 15 years, so no asset retirement costs will be incurred during the initial lease term. Therefore, the District is not required to record anything until the lease is officially extended.
A) The retirement costs should be incorporated with the lease liability at the beginning of the lease term.

B) The retirement costs should be recorded as an asset retirement obligation in accordance with GASB 83.

C) The District intends to exercise the option to extend the lease another 15 years, so no asset retirement costs will be incurred during the initial lease term. Therefore, the District is not required to record anything until the lease is officially extended.
Lease Liability

- Per paragraph 21h, the lease liability should include any payments that are reasonably certain of being required.

However……

- This requirement does not include payments that are required to be made to parties other than the lessor
Question 9

Intra-City Utility has both an electric system and a water system that are segmented in the Utility’s general ledger and on its annual financial statement report. The Utility recently constructed a new operations facility that was paid for with funds entirely from the electric system. The facility is utilized to support both electric and water system operations, and therefore the Utility has established an intra-entity lease agreement between the electric system and water system, wherein the electric system charges the water system rent for its use of the facility.

How should the Utility reflect these transactions in the annual financial statements?
A) Even though the electric and water system are segmented, the Utility also presents a consolidated system column in its annual financial report, which would eliminate all this activity. Given the lack of impact on a consolidated level, nothing needs to be recorded.

B) The electric system (lessor) and water system (lessee) would record the transaction as a lease in accordance with GASB 87 in their respective columns in the financial report. Eliminations would be made to remove the impact of this on a combined system level.

C) Intra-entity leases are scoped out of GASB 87.
A) Even though the electric and water system are segmented, the Utility also presents a consolidated system column in its annual financial report, which would eliminate all this activity. Given the lack of impact on a consolidated level, nothing needs to be recorded.

B) The electric system (lessor) and water system (lessee) would record the transaction as a lease in accordance with GASB 87 in their respective columns in the financial report. Eliminations would be made to remove the impact of this on a combined system level.

C) Intra-entity leases are scoped out of GASB 87.
Intra-Entity Leases

- If a Utility has multiple “systems” or “funds” that are displayed on a stand-alone basis within an annual financial report, the impact on each system should be treated in the same manner as any other lease under the provisions of GASB 87 (see paragraph 89).

- In the example shown, if the two systems are blended together and only reported on a combined level in the annual report, then the lease activity would be fully eliminated and not shown (see paragraph 88).
Due to the new operations facility Intra-City Utility is utilizing, it has been able to transfer a significant number of employees to the new building, thus leaving an entire floor empty at its old building. The Utility decides to lease a portion of the building to a third party. The third party falls on hard times and has to re-negotiate a new rental payment with the Utility. The amendment is signed, thus impacting the present value of lease payments expected from $300,000 to $225,000.

How should the Utility account for the impact of this amendment?
A) The amendment is not considered a new lease and therefore the lease receivable and the deferred inflow should be reduced by $75,000.

B) Reduce the lease receivable by $75,000 and simultaneously record a $75,000 expense. The deferred inflow should remain at $300,000 and be amortized according to the original agreement.

C) Record the transaction as a new lease and follow the guidance under GASB 87 to record the initial lease receivable and related deferred inflow.
A) The amendment is not considered a new lease and therefore the lease receivable and the deferred inflow should be reduced by $75,000.

B) Reduce the lease receivable by $75,000 and simultaneously record a $75,000 expense. The deferred inflow should remain at $300,000 and be amortized according to the original agreement.

C) Record the transaction as a new lease and follow the guidance under GASB 87 to record the initial lease receivable and related deferred inflow.
Effective Date

- Reporting periods* beginning after December 15, 2019
  - Earlier application encouraged
- * Change to “fiscal years” in Omnibus 2019
  - Allows governments that do interim GAAP reports to wait until first full fiscal year to implement

- **Exposure Draft issued on April 14, 2020 - Postponement of the Effective Dates of Certain Authoritative Guidance (comments due on April 30, 2020)**
  - New standard is expected to be issued in May 2020
Best Practices for Implementation

- Ensure proper setup and monitoring of user access to modules/spreadsheets utilized for tracking leases
- Establish clear roles for preparation and approval of lease determinations, calculations and journal entries
- Identify and consider potential changes in types of revenue (operating versus non-operating) that would impact financial covenants and calculate the ratios based on implementation of GASB 87 – are you still in compliance?
- Consider whether other changes to internal control policies and procedures are necessary
- Consider the advantages of IT – save lease documents as searchable pdf files and bookmark key lease provisions
- Require that all lease documents be scanned and indexed in one central repository
- Utilize any existing debt management software to automatically generate amortization schedules and create journal entries
Best Practices - Internal Controls

- Communication – When does accounting/finance learn about a new lease or a term revision?
- Evaluation of who can negotiate terms on behalf of the entity
- New policies / amendments to existing policies
- Segregation of duties
- Monitoring
  - Review of entries to record asset/liability
  - Review of amortization schedules
- IT risks associated with automatic journal entries, automated controls or reports
Materiality Consideration

- GASB 87 contains the following box:

  The provisions of this Statement need not be applied to immaterial items.

- Subject to professional judgment
- Capitalization thresholds – Implementation Guide Q4.23
  - Consider quantitative and qualitative factors
  - Individually and in the aggregate
  - Assets and liabilities
Questions?
Today’s Presenters

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