

STATE TREASURER OF NORTH CAROLINA DALE R. FOLWELL, CPA

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STATE AND LOCAL GOVERNMENT FINANCE DIVISION AND THE LOCAL GOVERNMENT COMMISSION

SHARON EDMUNDSON DEPUTY TREASURER

Memorandum # 2021-09

TO: Local Government Finance Officials and Their Independent Auditors

- FROM: Susan McCullen, Director, Fiscal Management Section, State and Local Government Finance Division
- SUBJECT: GASB Statement No. 87, Leases, Part 2
- DATE: June 15, 2021

In December 2020, the North Carolina State and Local Government Finance Division (SLGFD) issued <u>Memorandum #2021-05 – GASB Statement No. 87</u>, *Leases*, Part 1</u>. This new memorandum builds on the information provided in Memorandum #2021-05, which focused primarily on various policy and planning aspects associated with the lease guidance provided by Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. This memorandum focuses on the implementation of GASB 87, both from a lessee and lessor perspective. To assist NC local governments with implementing GASB 87, the SLGFD has developed some tools that will help local governments post various transactions in the general ledger. The tool assumes that all the up-front work of decisioning a contract or agreement have been completed, and you have identified the population of agreements that meet the definition of a lease in GASB 87. With those decisions made, then local governments are ready to begin using these reporting tools.

Decisioning a Contract or Agreement

As discussed in <u>Memorandum #2021-05 – GASB Statement No. 87, Leases, Part 1</u>, local governments will need to gather the entire population of agreements, contracts and existing leases and review them for the lease criteria in GASB 87. The local government and their auditors will need to answer some of the following questions although this is not an exhaustive list.

What is the lease term of the document, per the GASB 87 lease term guidance?

Is this agreement an exchange or exchange-like transaction?

Do any of the lease exceptions in GASB 87 apply to this agreement?

What is the discount rate for this agreement?

What variable and non-lease costs are included in this agreement that are not part of the lease expense?

GASB 87 - Excel Templates

There are two GASB 87 Excel templates – one for lessees and one for lessors. The template is intended to be used in a one-to-one relationship with each agreement. That is, a local governmental unit with five lease agreements will need to download and complete five different workbooks, one for each of the agreements. Together, all the agreements will provide the entries that are needed for the GASB 87 lease journal entries in the initial year of implementation.

The templates are designed such that the user completes a questionnaire on the "Questionnaire" tab and payment schedules on the "Calculations" tab. After completion, the templates provide suggested journal entries for year one of implementation. The user and his or her auditor should review all entries provided by the templates and adjust them as needed to accommodate the specific circumstances of each of the lease agreements. For example, the templates charge all variable and non-lease lease related payments for excess use or for insurance or repairs and maintenance to an expense or revenue account in the month of the payment – the user may deem it necessary to charge the payment to an asset or liability account and amortize over a period of time greater than one month.

Following are brief walk-throughs of both the lessee and lessor GASB 87 Excel templates.

Lessee GASB 87 Excel Template Walkthrough

One GASB 87 Excel template should be completed for each agreement that meets the requirements reported under GASB 87.

<u>Step 1</u> - Complete the Initial Section of the Lease Questionnaire tab.

Illustration # 1

	Lease Ques	tionnaire		
1	Lease Description (ie. "Office Lease", "Equipment Lease",	tc.)	Savin/Ricoh C2500 Copier	<< Enter brief description of lease
2	What is your fiscal year end?		6/30/2022	2 << Select from dropdown list
3	Beginning Lease Date		2/11/2021	1 << Enter beginning lease date
4	Was the lease in place prior to the first year of GASB 87 in	plementation?	Y	Control Con
5	Prior fiscal year end for lease restatement under GASB 87		6/30/2021	1 << Formula driven by prior responses
6	Ending Lease Date		5/10/2026	5 << Enter ending lease date
7	First Lease Payment Due Date on/afte 7/1/2021		7/10/2021	1 << Enter the first lease payment due date after the date indicated
8	Last Lease Payment Due Date		5/10/2026	5 << Enter the last lease payment due date in the lease term
9	What is the lease payment frequency (monthly, quarterly, a	nually)?	Monthly	y << Select from dropdown list
10	Are there any lease prepayments to be applied to future m	nths?	N	4 << Select from dropdown list
11	NA			KK Leave Blank
12	Are there additional delivery and installation costs associa	ed with the leased asset?	N	4 << Select from dropdown list
13	NA			<< Leave Blank
14	Was a lease incentive received at or before the commencer	ent of the lease?	N	K Select from dropdown list
15	NA			<< Leave Blank
				<< Use the annual discount rate stated in lease if available, otherwise
				use the internal rate of return for the lease. If the internal rate of retur
				cannot be determined, use the organization's annual incremental
16	What is the annual discount rate for the lease at 7/1/20	21	46.2%	borrowing rate (See GASB 62 paragraphs 183-184)
17	Prior to GASB 87, is this lease an operating or capital leas	:?	Operating	a << Select from dropdown list

- 1. <u>Lease Description</u> Enter a description of the leased asset. This information is not required to be completed for the template to function, but completion is recommended for the user's documentation purposes. Units might consider using chart of account codes or document numbers here that correspond to information in the financial system to help you reconcile the Excel templates to system reports.
- 2. <u>Fiscal Year End</u> Select the organization's fiscal year end from the dropdown list provided in the cell. The choices provided are 6/30/2022, 9/30/2022, 12/31/2022, and 3/31/2023.
- 3. <u>Beginning Lease Date</u> enter the beginning lease date in MM/DD/YYYY format. Consult GASB 87 as needed. For example, rent holidays at the beginning of the lease term should be excluded from the lease term per GASB 87.

- 4. <u>Was the lease in place prior to the first year of GASB 87 implementation?</u> Item is formula driven based on beginning lease date. No user participation needed.
- 5. <u>Prior fiscal year end for lease restatement under GASB 87</u> Item is formula driven based on beginning lease date. No user participation needed.
- Ending Lease Date Enter the ending lease date in MM/DD/YYYY format, using GASB 87 guidance as needed. For example, an optional lease extension period should be included in the lease term if the extension is reasonably certain to be exercised.
- 7. <u>First Lease Payment</u> Enter the first lease payment due date that occurs after the date indicated in the Excel tool. The implementation date of the lease is 7/1/2021 in the example provided.
- 8. <u>Last Lease Payment</u> Enter the last lease payment due date in the lease term.
- 9. <u>Lease Payment Frequency</u> Select "Monthly", "Quarterly", or "Annually" from the dropdown list.
- 10. <u>Prepayments</u> If a prepayment was made for a future month, then select "Y" from the dropdown, otherwise select "N". This would include deposits that are not returned.
- 11. <u>Prepayment Amount</u> This line displays as "NA" unless "Y" is selected in #10 above. If there are prepayments or deposits, enter the amount.
- 12. <u>Delivery and Installation Costs</u> If there are delivery and installation costs associated with the leased asset, then select "Y" from the dropdown list, otherwise select "N".
- 13. <u>Delivery and Installation Amount</u> This line displays as "NA" unless "Y" is selected in #12 above. If there are delivery and installation costs, enter the amount.
- 14. <u>Lease Incentive</u> If a lease incentive was received at or prior to lease commencement, then select "Y" from the dropdown list, otherwise select "N". Incentives during the lease term, such as rent holidays, would not be included.
- 15. <u>Lease Incentive Amount</u> This line displays as "NA" unless "Y" is selected in #14 above. If lease incentives were received, enter the amount.
- 16. <u>Discount Rate</u> Enter the discount rate stated in the lease agreement, if applicable. Many lease agreements will not state a discount rate. If there is not a discount rate provided in the lease, then determine the internal rate of return for the lease and enter that rate. If there is not enough information provided to determine the internal rate of return, then enter the organization's incremental borrowing rate. Refer to GASB 62 paragraphs 183-184 as needed to guide you in determining the rate to use. Market interest rates for loans for similar assets, the organization's bond rates, or the organization's bank borrowing rates may be used as a baseline discount rate. Adjustments may be needed for the length of the lease term, the type of asset, etc. Units might need to discuss some of these calculations with their auditors.
- 17. <u>Operating vs. Capital</u> This line is "NA" if the beginning lease date occurs after the beginning of the first year of GASB 87 implementation. If the lease start date is prior to GASB 87 implementation, then select "Operating" or "Capital" from the dropdown list.

<u>Step 2</u> – Complete the second Section of the Lease Questionnaire (Questions #18-20) if the lease is a capital lease and also begins in a prior year (The answer in Question #4 is "Y"). Otherwise, this section will all default to "NA". Fill in the data for the dates indicated for the fields shown. See illustrations below:

Illustration #2 – No restatement is needed because beginning lease date is during the current fiscal year that GASB 87 is implemented. Answer to Question #4 is "N". All fields are "NA".

1	Lease Description (ie. "Office Lease", "Equipme	ant Lease", etc.)	C2500 Copier	
2	What is your fiscal year end?		6/30/2022	<< Select from dro
- 3	Beginning Lease Date		2/11/2022	K Enter leginning
4	Was the lease in place prior to the first year of	GASB 87 implementation?	N	<< Formula driven
5	Prior fiscal year end for lease restatement under	GASB 87	6/30/2021	<< Formula driven
6	Ending Lease Date		5/10/2026	K Enter ending le
7	First Lease Payment Due Date on/afte 2/11/202	2	7/10/2021	<< Enter the first I
8	Last Lease Payment Due Date		5/10/2026	KK Enter the last located in the last locat
9	What is the lease payment frequency (monthly, o	quarterly, annually)?	Monthly	<< Select from dro
10	Are there any lease prepayments to be applied	to future months?	Ň	<< Select from dro
11	NA			<< Leave Blank
12	Are there additional delivery and installation co	sts associated with the leased asset?	N	<< Select from dro
13	NA			<< Leave Blank
14	Was a lease incentive received at or before the	commencement of the lease?	N	<< Select from dro
15	NA			<< Leave Blank
				< Use the annual
				use the internal rate
				cannot be determin
16	What is the annual discount rate for the lease at	7/1/2021	46.2%	borrowing rate (Se
17	NA		Operating	<< Leave Blank
-	NO restatement in PT, below questions are INA			
18	NA		-	<< Leave Blank
19	NA		-	<< Leave Blank
20	NA			<< Leave Blank

Illustration #3 – A restatement is provided for a capital lease reported in the prior year. Questions #18-20 prior year balances related to the capital lease will be needed to complete the restatement information.

		SavinrHicon	<< Enter brief description of lease
- 1	Losse Description (in "Office Losse", "Equipment Losse", etc.)	C2500 Copier	—
2	What is your fiscal year end?	6/30/2022	C Select from dropdown list
3	Beginning Lease Date	2/11/2019	< Enter beginning lease date
4	Was the lease in place prior to the first year of GASB 87 implementation?	Y	Formula driven by prior response
5	Prior fiscal year end for lease restatement under GASB 81	6/30/2021	K Formula driven by prior response
6	Ending Lease Date	5/10/2026	<< Enter ending lease date
7	First Lease Payment Due Date on/afte 7/1/2021	7/10/2021	<< Enter the first lease payment due
8	Last Lease Payment Due Date	5/10/2026	<< Enter the last lease payment due
9	What is the lease payment frequency (monthly, quarterly, annually)?	Monthly	<< Select from dropdown list
10	Are there any lease prepayments to be applied to future months?	N	<< Select from dropdown list
11	NA		<< Leave Blank
12	Are there additional delivery and installation costs associated with the leased asset?	N	<< Select from dropdown list
13	NA		<< Leave Blank
14	Was a lease incentive received at or before the commencement of the lease?	N	<< Select from dropdown list
15	NA		<< Leave Blank
			<< Use the annual discount rate state
			use the internal rate of return for the l
			cannot be determined, use the organi
16	What is the annual discourt rate for the lance at 7/1/2021	46.05	borrowing rate (See GASB 62 parag
17	Dring to CASE 27 is this large as exercising as expited large?	eo.za Casital	22 Salast from dron down list
	Phor to GASD or, is this lease an operating of capital lease:	Capitar	et enece from dropdown inse
18	Asset under canital lease at 6/30/2021		C Enter Amount
19	Accumulated depreciation for accet under capital loace at 6/30/2021		CENTRE Amount AS A NEGATIVE
20	Debt psychia depredation for object and el capital lease at 6/30/2021		CENTRE Amount AS A NEGATIVE
20	Deby payable for capital rease at 010012021	-	Citer Amount As A REGATITE

Illustration #4 – An example of a real-life operating lease for a copier is included in Addendum 1 with the completed lease questionnaire. The lease used in this illustration was effective prior to GASB 87 implementation. See Addendum 1 – Copier Lease that is included with this memorandum. It is redacted as needed to protect proprietary vendor information.



The lease in the addendum does not contain several key information points that were needed to complete the above questions.

The lease does not have a stated discount interest rate; therefore, we attempted to determine an internal rate of return to impute the lessor's implied lending rate. To determine the internal rate of return, we obtained a market value quote for the equipment. We also determined the amount of the monthly lease payment that is attributable to the equipment by estimating the amount of the monthly payment attributable to usage and deducting that amount from the total. Much of this information will have to be obtained from the lessor or other parties if it is not available in the lease.

The steps used to calculate the monthly payment attributable to usage is below. For your information, we included quote screenshots for equipment purchases and an excerpt of the lease terms from the lease agreement.



Since we know the market value of the equipment (We used \$4,196 from the two quotes provided, which are materially the same.) and the amount of the monthly lease payment attributable to the equipment (\$178.09), we can schedule out the cash flows for the 63 monthly payments. Use the Excel IRR function to determine a monthly discount rate of 3.85%, which equates to an annual discount rate of 46.22%. *This is a very high discount rate. We would not expect discount rates to be this high, but we are showing this particular lease as an example to emphasize to lessees the need to examine lease terms and resulting implied discount rates prior to entering into a lease.* (Note: The Excel XIRR function may also be used to impute the lender's implied lending rate. The rates imputed using the IRR and XIRR functions will be similar, but not identical.)

	• : × ·	f _x =IRR	(B4:B67,0.1	12)
А	В	С	D	Е
	monthly rate	annual rate		
	3.85%	46.22%		
	(4,196.00)	value of equipm	nent	
1	178.09	63 monthly payr	ments	
2	178.09			
3	178.09			
4	178.09			
5	178.09			
6	178.09			
7	178.09			
8	178.09			
9	178.09			
10	178.09			
11	178.09			
10	170.00			

If we had been unable to develop an internal rate of return, we would have needed to determine our incremental borrowing rate to use as the discount rate. To determine an incremental borrowing rate, units might contact their primary banker to determine what terms would be offered for the similar circumstance (For example, an equipment loan that is payable over 5 years) or they may use interest rates from other similar financings.

In addition, the first and last lease payment dates, as well as the beginning and ending lease dates are not provided in the agreement; however, we know these dates based on our interactions with the lessor and the invoices we have paid thus far for the copier lease. Although the operating lease in this example began prior to the GASB 87 implementation, we do not need to provide any prior year information as there are typically no balances associated with operating leases, just rent expenditures/outflows.

<u>Step 3</u> – With all the required information entered into the lease questionnaire, then move to complete the Lessee Calculations information on the Lessee Calculations tab. Fill in the estimated payment amounts in the red-highlighted column "INPUT Expected Scheduled Payment Amount net of any Lease Incentive". The amounts entered in this column should only include the amount attributable to the asset being leased (not the usage or non-lease components)! In the copier example, that is the \$178.09 calculated in this memorandum. The Monthly Payment Dates will automatically populate based on questionnaire responses. There should be a payment amount provided for each date. If on a particular date, the payment is \$0, then enter "0" for that amount and disregard the warning message. *Do not include prepayments that were included in questions 10 and 11 of the questionnaire*. The amounts input should be what is known at the later of lease inception or lease restatement date. See GASB 87 paragraph 21 for more information.

Illustration #5 – Illustration below is before Step 3 completion, with warning messages.

_								
Discount rate		46.22%						
Beginning measurem	nent date	7/1/2021			PV Calc as of			
Implementation FYE		6/30/2022			7/1/2021			
Ending lease date		5/10/2026			-	= Beginning Lease I	.iability	
First Payment in mea	surement period	7/10/2021			-	Prepayments, installation	on and delivery c	osts net of lea
Last Payment		5/10/2026			-	= Beginning Lease I	Asset	
			Expected/Ba	se Lease Pau	ments and Lear	se Liabilitu		
		INPUT		T	1			
		Expected						
		Scheduled						
		Payment						
		Amount net of						
		any Lease						
		Incentive						
		(include asset						
		component, do						
		not include			Begof		Principal	End of
		usagelother			Month		(Reduction)In	Month
	Payment Date	components)	Warnings	PV .	Principal	Interest	crease	Principal
0	7/10/2021		"warning – no	-	-	-	-	-
1	8/10/2021		"warning – no	-	-	-	-	-
2	9/10/2021		"warning – no	-	-	-	-	-
3	10/10/2021		"warning – no	-	-	-	-	-
4	11/10/2021		"warning – no	-	-	-	-	-

Illustration #6 - After the successful completion of Step 3, with lease liability and asset calculations presented. Notice that the warning messages have been remedied.

Discount	rate		46.22%						
Beginning	g measurem	ient date	7/1/2021			PV Calc as of			
Implemen	itation FYE		6/30/2022			7/1/2021			
Ending le-	ase date		5/10/2026			4,285.37	= Beginning Lease L	iability	
First Payn	nent in meas	surement period	7/10/2021			-	Prepayments, installatio	n and delivery c	osts net of leas
Last Payr	nent		5/10/2026			4,285.37	= Beginning Lease A	sset	
				Expected/Ba	se Lease Paur	nents and Lear	se Liabilitu		
			INPUT		 	1			
			Expected						
			Scheduled						
			Payment						
			Amount net of						
			any Lease						
			Incentive						
			(include asset						
			component, do						
			not include			Begof		Principal	End of
			usagelother			Month		(Reduction)In	Month
		Payment Date	components)	Warnings	PV	Principal	Interest	crease	Principal
	0	7/10/2021	178.09		178.09	4,285.37	-	(178.09)	4,107.28
	1	8/10/2021	178.09		171.48	4,107.28	158.20	(19.89)	4,087.39
	2	9/10/2021	178.09		165.12	4,087.39	157.43	(20.66)	4,066.74
	3	10/10/2021	178.09		159.00	4,066.74	156.64	(21.45)	4,045.28
	4	11/10/2021	178.09		153.10	4,045.28	155.81	(22.28)	4,023.00

Step 4 – Also on the Lessee Calculations tab, fill in the actual payment amounts in the red-highlighted column "INPUT Actual Scheduled Payment Amount net of Lease Incentives". These are actual amounts, so only amounts through the end of the current fiscal year will be populated. Generally, these amounts will be the same as those entered in Step 3. If the expected scheduled amount entered in Step 3 includes an expected increase based upon a future index rate, then an index rate change may cause a difference between the amounts entered in Step 3 and Step 4. There should be no warning messages in the adjacent column to the right when complete.

<u>Step 5</u> – Continuing on the Lessee Calculations tab, enter any additional payments that were made that were related to the lease during the year. Such payments could be for the base usage component, overage usage payments, insurance, property tax, etc. Contingent and variable lease incentives would also be included in this column. In the provided example, the base usage component of the monthly payment of \$43.45 (\$24.75 for B&W sheet + \$18.70 color sheet) was provided in Illustration #4. See GASB 87, paragraph 22 for more information.

Illustration #7 – After Step 4 and Step 5 are completed, the actual payment information through the end of the current year; the resulting adjustment to lease expense; and lease asset amortization are displayed as presented below in Illustration #7.

							figure of amore	acion periodo -			_
		Actual Lease Pay	ments and Ad	justments to Amor	tization Expense			Lease Asset A	mortization		
				Add'l Usage/							
				Insurance/Ot							
				her Payments							
				for Lease							
				(those							
	INPUT			deemed not							
	Actual			unreasonable							
	Scheduled		Difference] net of any							
	Payment		Between	Contingent							
	Amount net		Actual and	and Variable				Beginning			
	of Lease		Expected	Lease	Total Actual	Adjustment to		Lease Asset		Ending Lease	
Payment Date	Incentive	Input Errors	Rent	Incentives	Payment	Lease Expense	Period	Balance	Amortization	Asset Balance	
7/10/2021	178.09		-	43.45	221.54	43.45	7/10/2021	4,285.37	72.63	4,212.74	
8/10/2021	178.09		-	43.45	221.54	43.45	8/10/2021	4,212.74	72.63	4,140.11	
3/10/2021	178.03		-	43.45	221.54	43.45	9/10/2021	4,140.11	72.63	4,067.47	
10/10/2021	178.09		-	43.45	221.54	43.45	10/10/2021	4,067.47	72.63	3,994.84	
11/10/2021	178.09		-	43.45	221.54	43.45	11/10/2021	3,994.84	72.63	3,922.21	
12/10/2021	178.09		-	43.45	221.54	43.45	12/10/2021	3,922.21	72.63	3,849.57	
1/10/2022	178.09		-	43.45	221.54	43.45	1/10/2022	3,849.57	72.63	3,776.94	
2/10/2022	178.09		-	43.45	221.54	43.45	2/10/2022	3,776.94	72.63	3,704.31	
3/10/2022	178.09		-	43.45	221.54	43.45	3/10/2022	3,704.31	72.63	3,631.67	
4/10/2022	178.09		-	43.45	221.54	43.45	4/10/2022	3,631.67	72.63	3,559.04	
5/10/2022	178.09		-	43.45	221.54	43.45	5/10/2022	3,559.04	72.63	3,486.41	
6/10/2022	178.09		-	43.45	221.54	43.45	6/10/2022	3,486.41	72.63	3,413.77	

<u>Step 6</u> - Review the resulting journal entries on the Lessee 1st Year Adjusting Journal Entries (AJEs) tab. Make modifications to the resulting entries as necessary.

Illustration #8 – Lessee 1st Year AJEs tab details Year 1 entries in Illustration #8.

		cieneral Fund			Con	version to Governmental	Activities	
Month-End for JE			DR	CR			DR	CR
7/31/2021	Capital Outlau		4,285.37		Lease Asset		4,285.37	
		Other Financing Source		4,285.37	Other Financing Source		4,285.37	
		Cumulative Effect PPA		-		Lease Liability		4,285.37
						Capital Outlay		4,285.37
	To record inception lease was entered as inception of lea	n of lease and deposit payment - if into in a prior period, this JE is NPA se is recorded in the PPA JE in the prior fiscal year.			To record inception of lea lease was entered into in a j inception of lease is record fisco	ase and deposit payment - if micr period, this JE is NVA as led in the PPA JE in the prior al year.		
7/31/2021	Debt Service Exper	diture - Principal	178.09		Lease Liability		178.09	
	Debt Service Exper	diture - Interest	-		Interest Expense		-	
		Cash		178.09		Debt Service Expenditure -	Principal	178.09
						Debt Service Expenditure -	nterest	-
	Record lease payn	nent			Record lease payment			
7/31/2021					Amortization Expense Leas	e Asset	72.63	
		No Entry				Accumulated amortization	- lease asset	72.63
					Record lease asset amortia	ration		
7/31/2021	Rental Expenditure	Expense	43.45			No Estru		
		Cash		43.45		NO Entry		
	Record variable re-	nt expense						

Activities			Governmental Activities		
DR	CR			DR	CR
4,285.37		Lease Asset		4,285.37	
4,285.37			Lease Liability		4,285.37
	4,285.37		Cash		-
	4,285.37				
		To record incepti entered into in a pri recorded	ion of lease and deposit payment - if lease was or period, this JE is N/A as inception of lease is In the PPA JE in the prior fiscal year.		
178.09		Lease Liability		178.09	
-		Interest Expense-87		-	
Principal	178.09		Cash		178.09
Interest					
		Record lease paymer	o/		
72.63		Lease Amortization E	xpense	72.63	
- lease asset	72.63		Accumulated amortization - lease asset		72.63
		Record lease asset a	mortization		
		Variable Rental expen	se - 87	43.45	
			Cash		43.45
		Record variable rent	elipense		

<u>Step 7</u> – Review the Trial Balance Crosswalk tab ending balances for appropriateness. Lease Asset less Accumulated Amortization, and Lease Liability mounts should tie back to the amortization schedules on the Lessee/Lessor Calculations tab. The Cash credit amount represents all lease payments made during the year.

Illustration #9 – Trial Balance Crosswalk tab showing lease-related balances prior to Year 1, Year 1 entry totals by account and after Year 1.

	6/30/2021			6/30/2022	
	Before	1stYear	1stYear	Ending	
	Restatement	Debits	Credits	Balance	
Assets/Liabilities					
Cash		-	2,658.48	(2,658.48)	
Lease Asset	-	4,285.37	-	4,285.37	
Accumulated amortization - lease asset	-	-	871.60	(871.60)	
Asset under Capital Lease	-	-	-	-	
Accumulated Depreciation - Asset under Capital Leas	-	-	-	-	
Lease Liability	-	444.29	4,285.37	(3,841.08)	
Debt Payable under Capital Lease	-	-	-	-	
Cumulative Effect PPA	-	-	-	-	
Inflows/Outflows(Revenues/Expenses)					
Lease Amortization Expense		871.60	-	871.60	
Interest Expense-87		1,692.79	-	1,692.79	
Variable Rental expense - 87		521.40	-	521.40	
		7,815.46	7,815.46		

Recommendation – In order to gain comfort with your understanding of the Excel template process, you can enter the information from this copier example into a blank template (complete the Questionnaire tab and payment columns on the Calculations tab), then compare the resulting TB Crosswalk to the above.

Lessor GASB 87 Excel Template Walkthrough

With only a few exceptions, the lessor template is identical to the lessee template and the above steps are also applicable to the lessor template. The resulting journal entries are different for lessors than for lessees and these differences are reflected in the journal entry tabs.

There are additional questions in the Lease Questionnaire related to capital assets on the lessor template. The fixed asset questions are only applicable for capital leases in place before GASB 87 implementation. With the implementation of GASB 87, the lessor will no longer remove leased assets from the balance sheet. Instead, the lessor will continue to amortize the capital asset being leased. There is also a capital asset depreciation schedule included on the Lessor Calculations tab. *The template is not intended to serve as a replacement for the organization's capital asset system.* The capital asset information is included in the template to demonstrate to lessors that the underlying capital asset should continue to be included in their financial statements.

Multiple Component Leases, Lease Modifications, Terminations and Remeasurements

If a lease involves multiple underlying assets, lessees and lessors may need to account for each underlying asset as a separate lease contract (see GASB 87 paragraphs 63-68). In this circumstance, a separate lease template should be prepared for each lease component.

If, after the initial recording of a lease under GASB 87, the lease is modified, terminated or partially terminated (see GASB 87 paragraphs 71-79 for qualifying modifications), the lessee and lessor will need to remeasure the lease liability and lease asset (lease receivable and deferred inflow of resources for lessors) during the accounting period of modification/termination/partial termination. In some cases, the discount rate also will be modified. A separate lease template should be used to perform the remeasurement. The existing lease balances should then be adjusted to the new modified balances, with any difference being posted to a gain or loss account.

In conclusion, you can use the GASB 87 Excel tools when performing your GASB 87 calculations. Prior to using the tools, you should have identified all leases which are in-scope for GASB 87 reporting and you should be familiar with the reporting requirements of GASB 87. This memo is provided as a guide to the GASB 87 Excel tools. If you have further questions in this memorandum, please contact a staff member of the State and Local Government Finance Division staff at 919-814-4300.

Addendum #1

The screenshot below is a redacted version of a lease agreement for a Ricoh/Savin copier that is used as an example on page 5 of this memorandum. Note: This example includes a calculated annual discount rate that we would not expect to see.

	APPLICAT	ON NO. AGE	REEMENT NO.
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			Station and a second
The words "Lessee," 'you" and 'your' refer to Customer. The words "Lessor," "	we," "us" and "our" refer to		and a second second
CUSTOMER INFORMATION			
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CITY			
			_
BILLING NA			
CITY			
EQUIPMENT			
EQUIPMENT DESCRIPTION			
			NOT FINANCED
MAKEWODELACORESONES	SERIAL NO.	STARTING METER	UNDER THIS AGREEMENT
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	A state of the sta		
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	Ci for ellected Blics Schedule		
TERM AND PAYMENT INFORMATION	C see musing config adjudge		
(23 Payments' of \$ 22), 5 ^{rt} If you are even	npt from sales lax, effech your certificate.	'plus es	oplicable texes
The payment ("Payment") period is monthly unless otherwise indicated.			
Payment includes B-&W pages per month	Overages billed monthly at \$	0165 per B&W	page"
Payment includes Color pages per month	Overages billed monthly at \$	0935 per Color	bsge,
By initialing here, you agree that maintenance and supplies are not included	d in this Agreement and Paragraph 13	shall not apply to this Agrees	ment.
END OF TERM OPTIONS You may choose one of the failured a pailants which way may even is a it the end of the term punch	and that no event of default under this de	reament has occurred and is	continuing. If on her is
checked and initiated, Fair Market Value will be your and of term option. Fair Market Value means the	value of the Equipment in continued use		Contraction for the second
Purchase at of the Equipment for \$1.00. At the and of the larm, tide to the Equipment will automatically that	nalar io you, AS IS, WHERE IS, with no way	anfes of any kird.	Customer's Initials
Upon acceptance of the Equipment, THIS AGREEMENT IS NONCA	NCELABLE, IRREVOCABLE AM	ID CANNOT BE TERMIN	ATED.
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			02-11-2021
			DATED
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THIS AGREEMENT ON THIS PAGE AND ON PAGE 2 ATTACHED HERETO.	TT THAT TOO PATE RETRIBUTED AND	DO MARLE TO MEE TENING	/ /
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