



Dale R. Folwell, CPA

STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

SHARON EDMUNDSON
DEPUTY TREASURER

Memorandum # 2022-09

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 3

DATE: March 21, 2022

In June 2021, the North Carolina State and Local Government Finance Division (SLGFD) issued Memorandum #2021-09 and two related GASB 87 Excel Templates, one for lessors and one for lessees. That memorandum provided a walkthrough of the Excel templates to make all of the necessary lease calculations and related general ledger entries in accordance with Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*.

This memorandum provides a walkthrough of the changes in a government's Annual Comprehensive Financial Statements resulting from the implementation of GASB 87. This walkthrough is performed in the Illustrative Financial Statements for the City of Dogwood for the year ending June 30, 2022. The walkthrough assumes that all GASB 87 lease calculations have been completed and that the resulting journal entries were recorded in the City's general ledger.

Note that the City of Dogwood previously reported two leases as capital leases. Under the new lease guidance, leases are no longer reported as capital leases. As a result, all capital lease-related balances and activity for have been removed from the City's 2022 illustrative financial statements. These changes will not be addressed in this memo as the use of capital leases by our member units has become uncommon. However, if your unit previously reported capital leases, we recommend that you complete the GASB 87 Excel Templates as instructed in Memorandum # 2021-09 to assist in generating the necessary entries to remove your capital lease balances in 2022 by posting a prior period adjustment to beginning balances..

Trial Balance Crosswalk from GASB 87 Excel Templates – Lessor Lease

The City of Dogwood is a lessor in a lease as defined by GASB 87. Details of the lease are:

In April 2022, the City entered into a lease with a coffee vendor. Under the lease, the coffee vendor pays the City \$1,000 per month for sixty months in exchange for operating in the lobby of the City Hall building. In months where the lessee's gross revenue from the space exceeds \$10,000, the lessee makes an additional variable payment equal to five percent of the excess revenue. The lease receivable is measured as the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 3%, which is the stated rate in the agreement.

These details will appear again in the Note Disclosure Changes Resulting from Lessor Lease section of this memo.

Below is the trial balance crosswalk for this lessor lease using the [GASB 87 Excel Template for Lessors](#) and the instructions found in [Memorandum #2021-09](#).

Illustration # 1 – Trial Balance Crosswalk for Lessor Lease

	6/30/2021			6/30/2022
	Before	1st Year	1st Year	Ending
	Restatement	Debits	Credits	Balance
Assets/Liabilities				
Cash		3,351.00	-	3,351.00
Lease Receivable	-	55,791.49	2,728.20	53,063.29
Note Receivable - Capital Lease	-	-	-	-
Accrued Interest Receivable	-	126.48	-	126.48
Fixed Asset	-	-	-	-
Accumulated Depreciation	-	-	-	-
Deferred Inflow of Resources	-	2,789.57	55,791.49	(53,001.91)
Cumulative Effect PPA	-	-	-	-
Inflows/Outflows(Revenues/Expenses)				
Lease Revenue-87	-	-	2,789.57	(2,789.57)
Variable Rental Revenue-87	-	-	351.00	(351.00)
Interest Revenue - 87	-	-	398.28	(398.28)
Depreciation Expense	-	-	-	-

The current portion of the Lease Receivable must be segregated from the non-current portion. This calculation is done by summing the principal portion of the payments due in the next 12 months from the “Lessor Calculations” tab of the GASB 87 Excel Template for Lessors.

Illustration # 2 – Breaking out the Current Portion of the Lease Receivable for Statement Presentation

Payment Date	usage/other components)	Warnings	PV	Month Principal	Interest	(Reduction) Increase	Month Principal	Unpaid interest at End of Month	Lease Incentive	Input Errors	Expected Rent
4/1/2022	1,000.00		1,000.00	55,791.49	-	(1,000.00)	54,791.49	132.41	1,000.00		-
5/1/2022	1,000.00		997.51	54,791.49	136.98	(863.02)	53,928.47	130.47	1,000.00		-
6/1/2022	1,000.00		995.02	53,928.47	134.82	(865.18)	53,063.29	128.24	1,000.00		-
7/1/2022	1,000.00		992.54	53,063.29	132.66	(867.34)	52,195.95	126.28			
8/1/2022	1,000.00		990.06	52,195.95	130.49	(869.51)	51,326.44	124.18			
9/1/2022	1,000.00		987.59	51,326.44	128.32	(871.68)	50,454.75	121.93			
10/1/2022	1,000.00		985.13	50,454.75	126.14	(873.86)	49,580.89	119.95			
11/1/2022	1,000.00		982.67	49,580.89	123.95	(876.05)	48,704.84	117.70			
12/1/2022	1,000.00		980.22	48,704.84	121.76	(878.24)	47,826.60	115.71			
1/1/2023	1,000.00		977.78	47,826.60	119.57	(880.43)	46,946.17	113.58			
2/1/2023	1,000.00		975.34	46,946.17	117.37	(882.63)	46,063.54	111.05			
3/1/2023	1,000.00		972.91	46,063.54	115.16	(884.84)	45,178.69	109.30			
4/1/2023	1,000.00		970.48	45,178.69	112.95	(887.05)	44,291.64	107.04			
5/1/2023	1,000.00		968.06	44,291.64	110.73	(889.27)	43,402.37	105.01			
6/1/2023	1,000.00		965.65	43,402.37	108.51	(891.49)	42,510.88	102.73			
7/1/2023	1,000.00		963.24	42,510.88	106.28	(893.72)	41,617.15	100.69			
8/1/2023	1,000.00		960.84	41,617.15	104.04	(895.96)	40,721.20	98.52			
9/1/2023	1,000.00		958.44	40,721.20	101.80	(898.20)	39,823.00	96.24			
10/1/2023	1,000.00		956.05	39,823.00	99.56	(900.44)	38,922.56	94.17			
11/1/2023	1,000.00		953.67	38,922.56	97.31	(902.69)	38,019.86	91.88			
12/1/2023	1,000.00		951.29	38,019.86	95.05	(904.95)	37,114.91	89.79			
1/1/2024	1,000.00		948.92	37,114.91	92.79	(907.21)	36,207.70	87.60			
2/1/2024	1,000.00		946.55	36,207.70	90.52	(909.48)	35,298.22	85.20			
3/1/2024	1,000.00		944.19	35,298.22	88.25	(911.75)	34,386.47	83.19			

Lessors 1st Year AJEs | Trial Balance Crosswalk | + | Average: (879.37) Count: 12 | Sum: (10,552.41)

For our Statement of Net Position, the current portion of our Lease Receivable will be \$10,552, and the non-current portion will be \$42,511 (total of \$53,063.29 in Illustration #1 less the \$10,552 current portion calculated above).

Statement of Net Position Changes Resulting from Lessor Lease

There are three new accounts in Exhibit 1 – Statement of Net Position resulting from the lessor lease: Lease Receivable, Lease Receivable – non-current, and Deferred Inflow of Resources – Leases.

Illustration # 3 – Lease Receivable Current and Non-Current in the Statement of Net Position

Exhibit 1

City of Dogwood, North Carolina
 Statement of Net Position
 June 30, 2022

	Primary Government			City of Dogwood ABC Board
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 539,411	\$ 140,540	\$ 679,951	\$ 77,038
Taxes receivables (net)	63,235	-	63,235	-
Accrued interest receivable on taxes	12,949	-	12,949	-
Accrued interest receivable on leases	127	-	127	-
Accounts receivable (net)	9,959	314,979	324,938	-
Lease receivable	10,552		10,552	
Due from other governments	97,300	-	97,300	-
Due from component units	3,700	-	3,700	-
Internal balances	30,100	(30,100)	-	-
Inventories	3,945	205,659	209,604	89,692
Prepaid items	-	7,195	7,195	3,361
Restricted cash and cash equivalents	57,996	1,731,160	1,789,156	-
Total current assets	829,274	2,369,433	3,198,707	170,091
Non-current assets:				
Lease receivable, non-current	42,511		42,511	-
Right to use leased assets, net of amortization	28,231		28,231	-
Capital assets (Note 4):				
Land, non-depreciable improvements, and construction in progress	869,770	3,067,949	3,937,719	-
Other capital assets, net of depreciation	3,479,544	10,489,728	13,969,272	87,375
Total capital assets	4,349,314	13,557,677	17,906,991	87,375
Total non-current assets	4,420,056	13,557,677	17,977,733	87,375
Total assets	5,249,330	15,927,110	21,176,440	257,466

Illustration # 4 – Deferred Inflows of Resources from Leases in the Statement of Net Position

DEFERRED INFLOWS OF RESOURCES				
Prepaid taxes	15,502	-	15,502	-
Leases	53,002		53,002	-
Pension deferrals	12,455	5,415	17,870	2,889
OPEB deferrals	3,668	2,395	6,063	-
Total deferred inflows of resources	84,627	7,810	92,437	2,889
NET POSITION				
Net investment in capital assets	4,092,481	10,675,265	14,767,746	87,375

Statement of Activities Changes Resulting from Lessor Lease

All lease revenue, including variable lease revenue, meets the criteria for program revenues/charges for services under GASB 34, and because this particular lease is within the General Government function, all lease revenue from the lease is included in Charges For Services – General Government in the Statement of Activities. Total lease revenue of \$3,141 is included in the highlighted figure below.

Illustration # 5 – Lease Revenue in the Statement of Activities

Exhibit 2

City of Dogwood, North Carolina
 Statement of Activities
 For the Year Ended June 30, 2022

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			City of Dogwood ABC Board
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental Activities:								
General government	\$ 634,038	\$ 36,692	\$ -	\$ -	\$ (597,346)	\$ -	\$ (597,346)	\$ -
Public safety	1,361,254	13,160	917,878	-	(430,216)	-	(430,216)	-
Transportation	515,880	-	132,457	-	(383,423)	-	(383,423)	-
Economic and physical development	117,218	-	88,402	26,598	(2,218)	-	(2,218)	-
Environmental protection	280,111	-	3,000	-	(277,111)	-	(277,111)	-
Cultural and recreation	78,989	26,843	412	205,000	153,266	-	153,266	-

Interest revenue of \$398 on the lease receivable does not meet the definition of program revenues under GASB 34, so it is included in the General Revenues section at the bottom of the Statement of Activities. Because of its immateriality, it is included within Miscellaneous.

Illustration # 6 – Interest Revenue from Leases in the Statement of Activities

General revenues:

Taxes:	
Property taxes, levied for general purpose	828,259
Other taxes	24,127
Grants and contributions not restricted to specific programs	918,908
Unrestricted investment earnings	24,656
Miscellaneous	73,836
Extraordinary Item: Gain on insurance recovery	-
Total general revenues not including transfers	1,869,786
Transfers	(86,587)
Total general revenues and transfers	1,783,199
Change in net position	238,619
Net position, beginning	3,396,232
Net position, ending	\$ 3,634,851

Balance Sheet – Governmental Funds Changes Resulting from Lessor Lease

There are two primary presentation differences for the lessor lease between the Statement of Net Position and the Balance Sheet for Governmental Funds. The Lease Receivable is shown in the aggregate in the assets section of the Governmental Funds Balance Sheet, versus split between current and non-current in the Statement of Net Position. The difference between the Lease Receivable and the Deferred Inflows of Resources for leases is shown as a nonspendable fund balance. There are no changes to the reconciliation section of the Statement of Net Position due to the lessor lease.

Illustration # 7 – Balance Sheet – Governmental Funds Presentation of Lessor Lease Amounts

Balance Sheet
 Governmental Funds
 June 30, 2022

	Major Funds			Total Non-Major Funds	Total Governmental Funds
	General	Emergency Telephone System	Parking and Recreation		
ASSETS					
Cash and cash equivalents	\$ 459,886	\$ 8,000	\$ 23,400	\$ 25,251	\$ 516,537
Restricted cash and cash equivalents	57,996	-	-	-	57,996
Receivables, net:					
Taxes	63,235	-	-	-	63,235
Accounts	874	4,415	-	4,670	9,959
Interest	127	-	-	-	127
Due from other governments	82,300	10,000	-	5,000	97,300
Due from other funds	3,000	-	-	-	3,000
Advance to other funds	27,000	-	-	-	27,000
Due from component unit	3,700	-	-	-	3,700
Lease Receivable	53,063	-	-	-	53,063
Inventories	1,245	-	-	-	1,245
Total assets	752,426	22,415	23,400	34,921	833,162
LIABILITIES					
Accounts payable and accrued liabilities	104,010	17,000	-	5,000	126,010
Due to other funds	2,200	-	-	-	2,200
Due to other governments	6,055	-	-	-	6,055
Total liabilities	112,265	17,000	-	5,000	134,265
DEFERRED INFLOWS OF RESOURCES					
Property taxes receivable	57,180	-	-	-	57,180
Leases	53,002	-	-	-	53,002
Prepaid taxes	15,502	-	-	-	15,502
Total deferred inflows of resources	125,684	-	-	-	125,684
FUND BALANCES					
Non Spendable					
Inventories	1,245	-	-	-	1,245
Leases	61	-	-	-	61
Perpetual maintenance	-	-	-	25,056	25,056
Restricted					
Stabilization by State Statute	133,379	-	-	-	133,379

Statement of Revenues Expenditure & Changes in Fund Balance – Governmental Funds Changes Resulting from Lessor Lease

Similar to the Statement of Activities, all lease revenue is included within Sales and Services and interest revenue from the lease is included in Miscellaneous. There are no changes to the reconciliation to the Statement of Activities resulting from the lessor lease.

Illustration # 8 – Lessor changes to Statement of Revenues, Expenditures, and Changes in Fund Balance

Exhibit 4

City of Dogwood
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Governmental Funds
 June 30, 2022

	Major Funds			Total Non-Major Funds	Total Governmental Funds
	General Fund	Emergency Telephone System	Parking and Recreation		
REVENUES					
Ad valorem taxes	\$ 829,577	\$ -	\$ -	\$ -	\$ 829,577
Other taxes and licenses	24,127	-	-	-	24,127
Unrestricted intergovernmental	918,908	-	-	-	918,908
Restricted intergovernmental	266,334	785,000	200,000	115,000	1,366,334
Permits and fees	42,347	-	-	-	42,347
Sales and services	25,147	-	-	8,771	33,918
Investment earnings	23,956	-	5,000	412	29,368
Miscellaneous	581	-	-	-	581
Total revenues	2,130,977	785,000	205,000	124,183	3,245,160

Note Disclosure Changes Resulting from Lessor Lease

In note I.E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity, a section is added for the lease receivable that describes the accounting treatment of the lease receivable and the deferred inflows of resources associated with the lease receivable:

“6. Lease Receivable

The City’s lease receivable is measured at the present value of lease payments expected to be received during the lease term. Under the lease agreement, the City may receive variable lease payments that are dependent upon the lessee’s revenue. The variable payments are recorded as an inflow of resources in the period the payment is received.

A deferred inflow of resources is recorded for the lease. The deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.”

In the same note I.E, in the Deferred outflows/inflows of resources section of the note, “leases” is added to the list of deferred inflows:

“10. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The City has three items that meet this criterion, pension deferrals and OPEB deferrals for the 2021 fiscal year and an unamortized loss on a bond defeasance for Water and Sewer refunding bonds. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has several items that meet the criterion for this category - prepaid taxes, property taxes receivable, leases, and pension and OPEB deferrals.”

In the same note I.E, in the Net Position/Fund Balances section of the note, a subsection for the nonspendable fund balance related to leases is added:

“Leases – portion of fund balance that is not an available resource because it represents the year-end balance of the lease receivable in excess of the deferred inflow of resources for the lease receivable, which is not a spendable resource.”

In note III. Detailed Notes on All Funds, added a detailed description of the lease in accordance with GASB 87:

“4. Lease Receivable

In April 2022, the City entered into a lease with a coffee vendor. Under the lease, the coffee vendor pays the City \$1,000 per month for sixty months in exchange for operating its business within a 100 square foot section in the lobby of the City Hall building. In months where the lessee’s gross revenue from the space exceeds \$10,000, the lessee makes an additional variable payment equal to five percent of the excess revenue. The lease receivable is measured as the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 3%, which is the stated rate in the agreement.

In fiscal year 2022, the City recognized \$2,790 of lease revenue and \$398 of interest revenue under the lease. In addition, the City recognized \$351 in variable lease revenue equal to five percent of the lessee’s reported excess revenue during the year.”

In the same note III, in the section for Deferred Inflows and Outflows of resources, a line for leases is added to the deferred inflow chart:

Illustration # 10 – Lessor Changes to Schedule of Deferred Inflows of Resources in Note III

	Statement of Net Position	General Fund Balance Sheet
Prepaid taxes (General Fund)	\$ 15,502	\$ 15,502
Taxes Receivable, less penalties (General Fund)	-	57,180
Lease Receivable (General Fund)	53,002	53,002
Changes in assumptions	10,223	-
Differences between expected and actual experience	3,390	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	10,320	-
Total	\$ 92,437	\$ 125,684

Combined Trial Balance Crosswalk from GASB 87 Excel Templates – Lessee Leases

The City of Dogwood is also a lessee for two leases as defined by GASB 87. We have combined the trial balance crosswalks for the lessee leases into one crosswalk for purposes of this memo. The trial balance crosswalks were generated from the GASB 87 Excel Template for Lessees.

Illustration # 11 – Combined Trial Balance Crosswalk for 2 lessee leases

<u>Assets/Liabilities</u>	Adjustment Debits	Adjustment Credits	6/30/2022 Total Adjustment
Cash	-	7,422.00	(7,422.00)
Lease Receivable			-
Lease Asset	34,840.17		34,840.17
Lease Asset - Accumulated Amortization		6,609.74	(6,609.74)
Asset under Capital Lease			-
Accumulated Depreciation - Asset under Capital Lease			-
Lease Liability	6,168.68	34,840.17	(28,671.50)
Accrued Interest		135.88	(135.88)
Debt Payable under Capital Lease			-
Deferred Inflow of Resources			-
 <u>Inflows/Outflows(Revenues/Expenses)</u>			
Lease Amortization Expense	6,609.74		6,609.74
Interest Expense-87	1,389.20		1,389.20
Variable Rental expense - 87	-		-

The current portion of the Lease Liability must be segregated from the non-current portion. This is done by summing the principal portion of the payments due in the next 12 months from the “Lessee Calculations” tab of the GASB 87 Excel Template for Lessees. This current/non-current split is performed in the same manner as it is for the Lease Receivable in an earlier section of this memo. See Illustration # 2.

For our Statement of Net Position, the current portion of our Lease Liability is \$8,380, and the non-current portion is \$20,291 (total of \$28,671 in Illustration #11, less \$8,380 current portion).

Also, the Right to use leased asset, net of accumulated amortization, is shown as one line item in the Statement of Net Position. The net Lease Asset is \$28,231 (\$34,840 less \$6,609).

Statement of Net Position Changes Resulting from Lessee Leases

For the City of Dogwood, there is one new account in Exhibit 1 – Statement of Net Position resulting from the lessee leases, Lease Asset net of Amortization. Additionally, the current and non-current portion of the lease liabilities are included in Current portion of long-term liabilities and Long-term liabilities due in more than one year, respectively.

Illustration # 12 – Right to use Leased Assets in the Statement of Net Position

City of Dogwood, North Carolina Statement of Net Position June 30, 2022				Exhibit 1
	Primary Government			City of Dogwood ABC Board
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 539,411	\$ 140,540	\$ 679,951	\$ 77,038
Taxes receivables (net)	63,235	-	63,235	-
Accrued interest receivable on taxes	12,949	-	12,949	-
Accounts receivable (net)	9,959	314,979	324,938	-
Lease receivable	10,552	-	10,552	-
Due from other governments	97,300	-	97,300	-
Due from component units	3,700	-	3,700	-
Internal balances	30,100	(30,100)	-	-
Inventories	3,945	205,659	209,604	89,692
Prepaid items	-	7,195	7,195	3,361
Restricted cash and cash equivalents	57,996	1,731,160	1,789,156	-
Total current assets	829,147	2,369,433	3,198,580	170,091
Non-current assets:				
Lease receivable, non-current	42,638	-	42,638	-
Right to use leased assets, net of amortization	28,231	-	28,231	-
Capital assets (Note 4):				
Land, non-depreciable improvements, and construction in progress	869,770	3,067,949	3,937,719	-
Other capital assets, net of depreciation	3,479,544	10,489,728	13,969,272	87,375
Total capital assets	4,349,314	13,557,677	17,906,991	87,375
Total non-current assets	4,420,183	13,557,677	17,977,860	87,375
Total assets	5,249,330	15,927,110	21,176,440	257,466

Illustration # 13 – Current and Non-Current Lease Liabilities in the Statement of Net Position

LIABILITIES				
Current liabilities:				
Accounts payable	128,774	264,967	393,741	42,720
Accrued interest payable	2,269	-	2,269	-
Due to primary government	-	-	-	3,700
Due to other governments	6,625	-	6,625	18,251
Current portion of long-term liabilities	66,129	1,179,361	1,245,490	4,560
Payable from restricted assets	-	188,592	188,592	-
Total current liabilities	203,797	1,632,920	1,836,717	69,231
Long-term liabilities:				
Due in more than one year	1,732,057	4,181,852	5,913,909	5,071
Total liabilities	1,935,854	5,814,772	7,750,626	74,302

Statement of Activities Changes Resulting from Lessee Leases

Lease Asset amortization expense is included as an expense in the functional area of the lease. Both of the leases are within the General government functional area. The interest expense on the lease liability is included within Interest on long-term debt:

Illustration # 14 – Lease Asset Amortization and Interest Expense on Leases in the Statement of Activities

Exhibit 2

City of Dogwood, North Carolina
 Statement of Activities
 For the Year Ended June 30, 2022

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			City of Dogwood ABC Board
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental Activities:								
General government	\$ 634,038	\$ 36,692	\$ -	\$ -	\$ (597,346)	\$ -	\$ (597,346)	\$ -
Public safety	1,361,254	13,160	917,878	-	(430,216)	-	(430,216)	-
Transportation	515,880	-	132,457	-	(383,423)	-	(383,423)	-
Economic and physical development	117,218	-	88,402	26,598	(2,218)	-	(2,218)	-
Environmental protection	280,111	-	3,000	-	(277,111)	-	(277,111)	-
Cultural and recreation	78,989	26,843	412	205,000	153,266	-	153,266	-
Interest on long-term debt	7,532	-	-	-	(7,532)	-	(7,532)	-
Total governmental activities (See Note 1)	2,995,022	76,695	1,142,149	231,598	(1,544,580)	-	(1,544,580)	-
Business-type activities:								
Water and sewer	1,255,812	1,543,654	630	127,948	-	416,420	416,420	-
Electric	2,844,649	2,821,645	11,524	-	-	(11,480)	(11,480)	-
Total business-type activities	4,100,461	4,365,299	12,154	127,948	-	404,940	404,940	-
Total primary government	\$ 7,095,483	\$ 4,441,994	\$ 1,154,303	\$ 359,546	(1,544,580)	404,940	(1,139,640)	-

Balance Sheet – Governmental Funds Changes Resulting from Lessee Leases

The account balances that are added to the Statement of Net Position for the lessee leases (Right to use lease assets, net of amortization, and both current and long-term lease liabilities) are NOT included in the modified accrual basis Balance Sheet for Governmental Funds. Therefore, there are no changes to the Balance Sheet – Governmental Funds resulting from the lessee leases. However, because the account balances are included in the Statement of Net Position, there are two primary changes to the reconciliation of fund balance in the Balance Sheet – Governmental Funds to the Net Position. First, the historical cost of the right to use assets and related accumulated amortization are included as reconciling items after the capital asset reconciling items (see Illustration # 15 below). Second, the lease liability amounts are included in the long-term liability reconciling items (see Illustration # 16 below).

Illustration # 15 – Right to Use Leased Assets in the Reconciliation of Governmental Fund Balance to Net Position

City of Dogwood Balance Sheet Governmental Funds June 30, 2022	Exhibit 3 (cont)
Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:	
Total Fund Balance, Governmental Funds	\$ 572,643
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Gross capital assets at historical cost	\$ 7,817,894
Accumulated depreciation	(3,468,580)
Less Internal Service Fund's beginning net capital assets included as net position below (include the addition to accumulated depreciation less capital outlays during the year)	(24,670)
	4,324,644
Right to use leased assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Right to use assets at historical cost	\$ 34,840
Accumulated amortization	(6,610)
	28,230
Deferred outflows of resources related to pensions are	

Illustration # 16 – Lease Liabilities in the Reconciliation of Governmental Fund Balance to Net Position

Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds	
Gross long-term debt less Internal Service Funds beginning	\$ (192,858)
Long-term debt included as net position below (includes the addition of long-term debt and principal payments during the year.)	(263,034)
Net pension liability	(396,133)
Total pension liability	(219,382)
OPEB liability	(724,379)
	(1,795,787)
Deferred inflows of resources related to pensions are not reported in the	

Statement of Revenues, Expenditure & Changes in Fund Balance – Governmental Funds changes resulting from lessee leases

There are three changes to the modified accrual basis Statement of Revenues, Expenditures & Changes in Fund Balance resulting from the lessee leases. The first change is the capital outlay for the right to use assets is classified as an expenditure in the proper fund and functional area. The amount of the outlay is the same as the amount capitalized as a right to use lease asset in the Statement of Net Position. Dogwood’s leases are within the general government function of the General Fund; therefore we have included the capital outlay of \$34,840 in the highlighted figure in Illustration # 17 below. The second change is that the principal and interest portions of the lease payments are included within Debt service – Principal and Debt service – Interest, respectively, also highlighted below. The third change is that the addition of lease liabilities during the year, \$34,840, is included as an other financing source.

Note that the City of Dogwood previously reported two leases as capital leases. Under the new lease guidance, leases are no longer reported as capital leases. As a result, all capital lease-related balances and activity have been removed from the City’s 2022 illustrative financial statements.

Illustration # 17 – Lessee Changes to Statement of Revenues, Expenditures, and Changes in Fund Balance

Exhibit 4

**City of Dogwood
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Governmental Funds
 June 30, 2022**

	Major Funds			Total Non-Major Funds	Total Governmental Funds
	General Fund	Emergency Telephone System	Parking and Recreation		
REVENUES					
Ad valorem taxes	\$ 829,577	\$ -	\$ -	\$ -	\$ 829,577
Other taxes and licenses	24,127	-	-	-	24,127
Unrestricted intergovernmental	918,908	-	-	-	918,908
Restricted intergovernmental	266,334	785,000	200,000	115,000	1,366,334
Permits and fees	42,347	-	-	-	42,347
Sales and services	25,147	-	-	8,771	33,918
Investment earnings	23,956	-	5,000	412	29,368
Miscellaneous	581	-	-	-	581
Total revenues	2,130,977	785,000	205,000	124,183	3,245,160
EXPENDITURES					
Current:					
General government	987,303	-	-	2,095	989,398
Public safety	565,716	785,038	-	-	1,350,754
Transportation	392,840	-	-	-	392,840
Economic and physical development	-	-	-	115,000	115,000
Environmental protection	257,918	-	-	-	257,918
Culture and recreation	91,260	-	-	-	91,260
Debt service:					
Principal	16,169	-	-	-	16,169
Interest and other charges	6,890	-	-	-	6,890
Capital outlay	-	-	590,000	-	590,000
Total expenditures	2,318,096	785,038	590,000	117,095	3,810,229
Excess (deficiency) of revenues over expenditures	(187,119)	(38)	(385,000)	7,088	(565,069)
OTHER FINANCING SOURCES (USES)					
Transfers from other funds	10,813	-	208,400	-	219,213
Transfers to other funds	(305,800)	-	-	-	(305,800)
Sales of capital assets	5,000	-	-	-	5,000
Insurance recovery	325,000	-	-	-	325,000
Installment purchase obligations issued	-	-	200,000	-	200,000
Lease liabilities issued	34,840	-	-	-	34,840
Total other financing sources (uses)	69,853	-	408,400	-	478,253

There are also three changes to the reconciliation of changes in government-wide net position to changes in governmental fund balance. 1) Capital outlay expenditures for right-to-use lease assets that were capitalized in the government-wide financials net of current year amortization expense, 2) lease liability other financing sources which were an increase in debt in the government-wide financials, and 3) principal debt service payments which were a decrease in debt in the government-wide financials. New reconciling lines are included for the right-to-use assets and amortization whereas lease liabilities issued and debt payments are included in the long-term debt items.

Illustration # 18 – Lessee Changes to the Reconciliation Between Changes in Fund Balance and Changes in Net Position

depreciation in the current period		
Capital outlay expenditures which were capitalized	\$ 1,095,939	
Depreciation expense for governmental assets	(236,743)	
Asset impairment loss	<u>(268,745)</u>	590,451
Right to used leased asset capital outlay expenditures which were capitalized	34,840	
Amortization expense for intangible assets	<u>(6,609)</u>	28,231
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		91,900
Benefit payments paid and administrative expense for the LEOSSA are not included on the Statement of Activities		17,024
OPEB benefit payments and administrative costs made in the current fiscal year are not included on the Statement of Activities		26,715
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Amount of donated assets	12,000	
Change in unavailable revenue for tax revenues	<u>(1,318)</u>	10,682
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
New long-term debt issued	(234,840)	
Principal payments on long-term debt	16,169	
Increase in accrued interest payable	<u>(642)</u>	(219,313)
Some expenses reported in the statement of activities do		

Note Disclosure Changes Resulting from Lessee Lease

In note I.E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity, a section is added for the right to use lease assets that describes the accounting treatment of the lease assets, including a description of initial measurement and subsequent amortization:

9. Right to use assets

The City has recorded right to use lease assets as a result of implementing GASB 87. The right to use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right to use assets are amortized on a straight-line basis over the life of the related lease.

In note III. Detailed Notes on All Funds, added a detailed description of the right to use leased assets in accordance with GASB 87, along with a chart showing the individual lease asset balances and accumulated amortization:

6. Right to Use Leased Assets

The City has recorded two right to use leased assets. The assets are right to use assets for leased equipment and leased vehicles. The related leases are discussed in the Leases subsection of the Liabilities section of this note. The right to use lease assets are amortized on a straight-line basis over the terms of the related leases.

Right to use asset activity for the Primary Government for the year ended June 30, 2022, was as follows:

Illustration # 19 – Right to Use Lease Asset Activity Chart for Note Disclosure

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Right to use assets				
Leased vehicles	\$ -	\$ 13,396	\$ -	\$ 13,396
Leased equipment	-	21,444	-	21,444
Total right to use assets	-	34,840	-	34,840
Less accumulated amortization for:				
Leased vehicles	-	4,465	-	4,465
Leased equipment	-	2,144	-	2,144
Total accumulated amortization	-	6,609	-	6,609
Right to use assets, net	<u>\$ -</u>	<u>\$ 28,231</u>	<u>\$ -</u>	<u>\$ 28,231</u>

In the same note III, in the section for Long-Term Obligations, subsection a. is added for leases that includes a detailed description of each of the lessee leases resulting in a lease liability:

6. Long-Term Obligations

a. Leases

The City has entered into agreements to lease certain equipment. The lease agreements qualify as other than short-term leases under GASB 87 and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The first agreement was executed on July 1, 2021, to lease maintenance vehicles and requires 36 monthly payments of \$417. There are no variable payment components of the lease. The lease liability is measured at a discount rate of 8%, which is the stated rate in the lease agreement. As a result of the lease, the City has recorded a right to use asset with a net book value of \$8,931 at June 30, 2022. The right to use asset is discussed in more detail in the Intangible Asset section A.6. of this note.

The second agreement was executed on January 1, 2022, to lease a copy machine and requires 60 monthly payments of \$403. There are no variable payment components of the lease. The lease liability is measured at a discount rate of 5%, which is the stated rate in the lease agreement. As a result of the lease, the City has recorded a right to use asset with a net book value of \$19,300 on June 30, 2022. The right to use asset is discussed in more detail in the Intangible Asset section A.6. of this note.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2022, were as follows:

Illustration # 20 – Future Minimum Payment Schedule for Note Disclosure

Year Ending June 30	Principal Payments	Interest Payments	Total
2023	\$ 8,379	\$ 1,461	\$ 9,840
2024	8,949	891	9,840
2025	4,368	468	4,836
2026	4,592	244	4,836
2027	2,383	35	2,418
	<u>\$ 28,671</u>	<u>\$ 3,099</u>	<u>\$ 31,770</u>

In the same Long-Term Obligation section, the rollforward schedule in subsection f. is modified to include a line for lease liabilities:

Illustration # 21 – Long-Term Liability Rollforward Schedule for Note Disclosure

Governmental activities:	Beginning Balance, as restated	Increases	Decreases	Ending Balance	Current Portion of Balance
Direct Placement					
Installment purchase	\$ -	\$ 200,000	\$ -	\$ 200,000	\$ 10,000
General obligation bonds	70,000	-	10,000	60,000	10,000
Lease liabilities	-	34,840	6,169	28,671	8,379
Compensated absences	122,860	85,224	38,461	169,623	37,750
Total OPEB liability	719,849	4,530	-	724,379	-
Net pension liability (LGERS)	209,812	186,320	-	396,132	-
Total pension liability (LEO)	215,657	3,725	-	219,382	-
Governmental activity long-term liabilities	\$ 1,338,178	\$ 514,639	\$ 54,630	\$ 1,798,187	\$ 66,129

While not discussed in this memo, please be sure to include the the implementation of GASB 87 in the budget to actual statements as well.

In conclusion, this memorandum along with Memorandum #2021-05, 2021-09 and the GASB 87 Excel templates should provide complete guidance on implementing GASB 87. If you have further questions on this memorandum or any of the guidance provided by the Division, please contact a staff member of the State and Local Government Finance Division staff at 919-814-4300.