

Instructions for Completing the GASB 87 Lessee Template Workbook

I. Background

Under Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, a lessee is required to recognize a lease liability and an intangible asset representing the lessee's right to use the underlying asset.

GASB 87 requires a different accounting treatment for each of the following three categories of contracts:

1. Short-term leases:

Defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. The following may change the assumption of a short-term lease:

- For a lease that is cancelable by either the lessee or the lessor, the maximum possible term is the noncancelable period (where neither the lessor nor the state can cancel the lease for any reason).
- If both the lessor and the state have an option to terminate without permission from the other party (or if both parties must agree to extend, those periods are cancelable).
- If beyond the noncancelable period, the state is in a 'holdover period' operating under the lease but in a month-to-month or year-to-year, the maximum possible term is the noncancelable period including any notice period (either a month or a year).

If your department has a short-term lease but has modified the lease to extend beyond 12 months, it is not a short-term lease.

EXAMPLE: A state department engages a landlord for office space for 12 months due to a remodeling of the department's headquarters. Two months into construction, the contractor notifies the department that the remodeling will take 36 months due to unforeseen issues. The department notifies the landlord that the office space is needed for 36 months in total. The landlord agrees to the contract modification. This lease would no longer be short-term and would need to be assessed from the beginning of the original contract term. See "leases" in #3 below.

2. Contracts that transfer ownership (referred to as "financed purchases" hereinafter):

Defined as a contract that transfers ownership of the underlying asset to the purchaser by the end of the contract and does not contain termination options.

Note that the mere inclusion of a bargain purchase option does not qualify as a transfer of ownership— the ownership transfer must transfer ownership of the asset to the lessee at the end of the term.

3. Leases other than short-term leases and contracts that transfer ownership (referred to as "leases" hereinafter):

- All other leases that do not meet the definition of short-term leases or contracts that transfer ownership. GASB 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction.

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Since there are specific criteria under GASB 87 that must first be evaluated before a contract's information is entered into the workbook, the State Controller's Office (SCO) strongly encourages departments to gain an understanding of the GASB 87 accounting and reporting requirements for leases.

For further guidance, we strongly encourage departments to use the "GASB 87 Leases Implementation Part I GASB 87 Overview" and "GASB 87 Leases Implementation Part II Business Process" documents published on the SCO website: https://sco.ca.gov/sard_gasb_87_reporting_instructions.html before completing this template.

The GASB 87 Lessee Template is an Excel workbook developed by the SCO to provide departments with a tool that will help them generate the information for the journal entries and note disclosures required under GASB 87. This document outlines the steps a department will need to take and information it will need to consider in order to complete the GASB 87 Lessee Template.

II. Template Scope and Applicability

Contract type:

The template's use and application is limited to **#3 leases** described above. Departments must retain copies of completed payment tables generated by the template, alongside the contracts, when they qualify as leases to serve as audit evidence. If selected for an audit, the California State Auditor will request copies of the lessee templates and lease contracts.

Threshold:

Departments should complete templates for contracts that exceed \$100,000 or more in total future payments from July 01, 2021 (date of GASB 87 adoption), through the end of the lease term.

III. Template Worksheets

Example Worksheets:

The yellow-tabbed worksheets in this file are example contracts to use as references while completing the "Contract" worksheets of this workbook. The examples make certain assumptions such as a 4% annual interest rate which may not apply to your contracts.

Contract Worksheets

The "GASB 87_Lessee_Template" Excel workbook should only be used for new lessee contracts or existing lessee contracts without modifications (changes in payment, payment term, or terminations). For existing lessee contracts with modifications, refer to the "GASB 87_Lessee_Modification_Template" Excel workbook and the associated instructions.

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For each contract, populate the following tabs:

1. Contract (No.) Input tab

This tab serves as the input worksheet to capture all relevant information on the contract that is needed for the calculation of the amortization of contract payments.

Red font with yellow highlighting in the “Contract Input” worksheet indicates cells where information is entered to yield results from the template. After entering information in the “Contract Input” worksheet, you may elect to include a printout of the completed “Contract Input” worksheet stored with the contract.

Please do not attempt to make any changes to the cells that are not highlighted in yellow. These fields are automatically populated based on the information entered in the yellow highlighted cells.

a. Contract Information

Enter the following information related to the contract, using its related contract information:

- **Asset description**—provide a description identifying the type of asset subject to the contract or the location of the asset if the asset is a building.
- **Annual interest rate**—if the implicit interest rate on the lease is unknown (not provided by the lessor or not explicitly stated in the lease contract), use the “GASB 87 Incremental Borrowing Rate” for the applicable lease term published in the SCO website:
https://sco.ca.gov/sard_gasb_87_reporting_instructions.html.
- **Business Unit Name**—enter your department's name.
- **Business Unit (Organization Code)**—enter your department's UCM organization code.
- **Fund paying contract**—enter the fund number paying the contract. If multiple funds pay for the contract, write all the funds.
- **Is this a proprietary fund?**—select “Yes” if the fund paying the contract payment is a proprietary fund (internal service fund or enterprise fund). Select “No” if the fund paying the contract payment is a governmental fund.
- **Fund Type**—from the dropdown menu, select if the fund paying the contract payment is a governmental fund, internal service fund, or enterprise fund.
- **Commencement Date (Informative Only)**—enter the commencement date of the lease. For this cell, enter the true commencement date, even if it before the GASB 87 adoption date of July 1, 2021. This cell is to assist in your tracking of the lease.
- **Is the payment at the beginning or the end of the month?**—select beginning for payments made in advance and end for payments made in arrears.
- **Direct payments at lease inception**—enter any other payments that are paid to the lessor prior to or at the commencement of the contract to obtain the right to use the asset or to place the lease asset into service.

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- **Asset class**—select the appropriate answer.

All contracts entered into this spreadsheet should reflect payments that will be incurred on or after July 1, 2021 (GASB 87 adoption date), only. For contracts that began prior to July 1, 2021, input the monthly payments from July 1, 2021, and forward only.

b. Contract Monthly Payment Information

Enter the payments for the noncancelable months of the contract only. Please review the GASB 87 Overview Part I and GASB 87 Business Process Part II documents available on the SCO's website for the definition of noncancelable months. Leave the yellow cells blank for periods not within the contract term and enter zeros in the yellow cells within the contract term but without a payment due.

2. Contract (No.) Output tab

Enter the following information related to the contract, using its related contract information:

- **Fiscal Reporting Year**—select the fiscal year for which you intend to report.
- **Was this lease included in your 20XX-20XX Annual Reporting Submission Workbook?**—this question is asking if the contract was reported to SCO (via the Annual Reporting Submission Workbook ["ARSW"]) in the prior fiscal year. Select "N/A" if this is a new contract which did not exist in the prior year. Select "Yes" if the contract did exist last year and was properly submitted to SCO via the ARSW. Select "No" if the contract did exist last year, but the contract was accidentally/erroneously excluded from the ARSW last year, or if your department did not submit the ARSW before the deadline last year.

Function Expense code is automatically added based on agency's GAAP function. The journal entries are automatically generated based on the selection made above. Review the journal entries in blue and verify their correctness.

- Entry #0 will only populate if the lease existed in the prior fiscal year.
- Entries #1, #2, and #3 will only populate if the lease is new in the current fiscal year.
- Entries #4, #5, #6, and #7 will always populate, until the lease term ends.
- Entry #8 will only populate in the year that the lease term ends.

3. Contract (No.) Note Disclosure tab

Select "yes" or "no" for each question as appropriate.

Enter dollar amounts as needed.

The schedule of future interest and principal payments will populate in the worksheet with information calculated from the "Contract (No.) Input" tab according to the year selected by you in "Contract (No.) Output" tab. It is not populated when the contract transfers ownership.

IMPORTANT NOTE: This template has tabs for only Contract 1, and Contract 2. However, your department may have more than two contracts. These tabs have formulas linked to one another. To copy the tabs, you must first select all three tabs which include: Contract (No.) Input, Contract (No.) Output, and Contract (No.)

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Note Disclosure. Right click on the mouse and select Move or Copy from the context menu. This will open the Move or Copy dialog box. Keep the copy in the same workbook, GASB 87 Lessee Template. Put a tick in the Create a copy box and click OK. Rename all the copied tabs as appropriate; for example, Contract 3 Input, Contract 3 Output, and Contract 3 Note Disclosure.

IV. Closing

Now that you've completed the GASB 87 Lessee Template, you will use it to complete the Annual Reporting Submission Workbook, so keep the template handy. Additionally, retain copies of the template and lease contract in case your department is selected for audit by the California State Auditor.