# I. Background

The provisions of a lease contract may be amended while the contract is in effect. According to Governmental Accounting Standards Board Statement No. (GASB) *87, Leases*, amendments modify the provisions of the lease contract (e.g., changing the contract price, lengthening or shortening the lease term, or adding or removing an underlying asset). An amendment must be considered a lease modification unless the lessee’s right to use the underlying asset decreases. Then the amendment must be considered a partial or full lease termination.

**A. Modifications**

Lessees must account for an amendment during the reporting period resulting in a modification to a lease contract as a separate lease if *new assets* are added and *reasonably priced*. Otherwise, remeasurement occurs.

Lessees must account for a lease modification by:

* Remeasuring the lease liability.
* Adjusting the lease asset by the difference between the remeasured liability and the liability immediately before the modification.

GASB 87 requires lessees to remeasure the lease liability and update the discount rate when one or more of the following changes have occurred and are expected to ***significantly*** affect the lease liability:

* There is a change in the lease term.
* There is a change in the interest rate the lessor charges the lessee.
* A contingency is resolved, resulting in variable payments meeting the criteria to be included in the measurement of the lease liability.

Remeasurement is ***NOT*** required solely for the following:

* Change in index or rate (must have something else going on).
* Change in incremental borrowing rate that would have impacted discount rate.

**B. Terminations**

Lessees must account for an amendment during the reporting period resulting in a decrease in the lessee’s right to use the underlying asset as a partial or full lease termination. For example, the lease term is shortened, or the number of underlying assets is reduced.

Lessees must account for the partial or full lease termination by reducing the carrying values of the lease asset and lease liability and recognizing a gain or loss for the difference.

**Refer to the GASB 87 Lease Remeasurement and Modification Guidance for guidance on when it is appropriate to modify lease contracts.**

The GASB 87 Lessee Modification Template is an Excel workbook developed by the SCO to provide departments with a tool that will help 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 Modification Template.

The original lease contract monthly payment information from the GASB 87 Lessee Template workbook is required to complete the GASB 87 Lessee Modification Template.

# II. Template Scope and Applicability

**Modified contract type:**

The template is limited to remeasurement or termination, in which the original contract is a lease without transferring ownership to the other party, and the original contract was entered into the GASB 87 Lessee Template Workbook. Only remeasure the lease liability if the changes are ***significant****.* A lease liability is ***not*** required to be remeasured solely for a change in an index or rate used to determine variable payments. Remeasurement is also ***not*** required solely for the change in the lessee’s incremental borrowing rate. Departments must retain copies of completed payment tables generated by the template, alongside the modified contracts, when they qualify as remeasurement or termination to serve as audit evidence. If selected for an audit, the California State Auditor (CSA) may request copies of the lessee modification template(s) and lease contract modifications.

**Example Worksheets**

Example 1 illustrates an existing option exercised to increase the term, which was previously determined to be not reasonably certain.

Example 2 illustrates a decrease in the lessee’s right to use the underlying asset (decrease in term).

Example 3 illustrates an early termination of a right-to-use leased asset.

You can find these examples on the SCO website: <https://sco.ca.gov/sard_gasb_87_reporting_instructions.html>.

# III. Template Worksheets

**A. Contract Worksheets**

For each modified contract, populate the following tabs:

**1. Modification (No.) Input tab**

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

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

1. **Modified Contract Information**

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

* **Asset description** — provide a description identifying the type of asset subject to the modified contract or the location of the asset if the asset is a building.
* **Annual interest rate** — Include the discount rate based on the revised interest rate the lessor charges since the last measurement of the lease liability. If the interest rate cannot be readily determined, use the “[GASB 87 Incremental Borrowing Rate](https://sco.ca.gov/Files-ARD/ACFR/GASB_87_Incremental_Borrowing_Rate.pdf)” for the applicable lease term published on the SCO website for the fiscal year the lease was modified. The annual change in incremental borrowing rate does NOT qualify (on its own) as a justification for remeasurement.

Note: If you enter 0.09, it will show 0.09%. If you enter .09, it will show 9%. Verify that the correct borrowing rate percentage is reflected.

* **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 receiving the contract payment is a governmental fund, internal service fund, or enterprise fund.
* **Is the payment at beginning or end of the month?** — select beginning for payments made in advance and end for payments made in arrears.
* **Is this an early termination?** — select “No” if this is NOT an early termination for this reporting fiscal year to write off the asset and liability. Then enter the information for the following:
	+ - **Obligation Balance at the End of the Month before Contract Modifications** — enter the obligation balance just before the contract modifications from the original contract input tab of the GASB 87 Lessee Workbook *(e.g., if the lease contract was modified on September 15, 2023, use the ending or beginning monthly obligation balance amount in August 2023 from the original contract monthly payment information).*
		- **Accumulated Amortization at the End of the Month before Contract Modifications** — enter the accumulated amortization balance just before the contract modifications from the original contract input tab of the GASB 87 Lessee Workbook *(e.g., if the lease contract was modified on September 15, 2023, use the accumulated amortization amount in August 2023 from the original contract monthly payment information).*
		- **RTU Asset Carrying Value at the End of the Month before Contract Modifications** — enter the right to use asset, carrying value balance just before the contract modifications from the original contract input tab of the GASB 87 Lessee Workbook. It would be the initial asset value less the accumulated amortization at the end of the month before the contract modifications *(e.g., if the lease contract was modified on September 15, 2023, use the right to use asset, carrying value at the end of the month amount in August 2023 from the original contract monthly payment information).*

Also enter the information in the box for “**Enter Current Year (CY) Totals before contract modifications from the original contract input tab of the GASB 87 Lessee Workbook, if any.**”

* + - **CY Interest Total** — enter the sum of the current year’s interest payments before contract modifications from the original contract input tab of the GASB 87 Lessee Workbook *(e.g., if the lease contract was modified on September 15, 2023, use the sum of the interest payments from July to August 2023 from the original contract monthly payment information).*
		- **CY Principal Total** — enter the sum of the current year’s principal payments before contract modification from the original contract input tab of the GASB 87 Lessee Workbook *(e.g., if the lease contract was modified on September 15, 2023, use the sum of the principal payments from July to August 2023 from the original contract monthly payment information).*
		- **CY RTU Asset Amortization Total** — enter the sum of the current year’s right to use asset monthly amortization amounts before contract modification from the original contract input tab of the GASB 87 Lessee Workbook *(e.g., if the lease contract was modified on September 15, 2023, use the sum of the right to use asset amortization from July to August 2023 from the original contract monthly payment information).*

*Note that if the contract was modified in the month of July, the CY Interest Total, CY Principal Total, and CY RTU Asset Amortization Total should be zero, as July is the start of the current fiscal year.*

In addition, enter the information in the box for “**First Year of Modification Only – Ending balances as of June 30th, prior to the modification.**”

* + - **Obligation Balance as of June of the Prior Year** — enter the obligation balance from the prior year as of June from the original contract input tab of the GASB 87 Lessee Workbook.
		- **Accumulated Amortization as of June of the Prior Year** — enter the accumulated amortization balance from the prior year as of June from the original contract input tab of the GASB 87 Lessee Workbook.
		- **RTU Asset Carrying Value as of June of the Prior Year —** enter the right-of-use asset, carrying value balance from the prior year as of June, from the original contract input tab of the GASB 87 Lessee Workbook.

*For example, if the lease contract was modified on September 15, 2023, use the amounts in June 2023 from the original contract monthly payment information for ending or beginning monthly obligation, accumulated amortization, and right to use asset, carrying value at the end of the month.*

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

**Early Terminations**

If this is an early termination for this reporting fiscal year, select “Yes” to the question, “**Is this an early termination?**” Also select the reporting fiscal year from the dropdown.

Enter the information for the following to generate the entry in the output tab:

* + - **Obligation Balance as of June of the Prior Year** — enter the obligation balance from the prior year as of June from the original contract input tab of the GASB 87 Lessee Workbook.
		- **Accumulated Amortization as of June of the Prior Year** — enter the accumulated amortization balance from the prior year as of June from the original contract input tab of the GASB 87 Lessee Workbook.
		- **RTU Asset Carrying Value as of June of the Prior Year —** enter the right-of-use asset, carrying value balance from the prior year as of June, from the original contract input tab of the GASB 87 Lessee Workbook.

*For example, if the lease contract was modified on September 15, 2023, use the amounts in June 2023 from the original contract monthly payment information for ending or beginning monthly obligation, accumulated amortization, and right to use asset, carrying value at the end of the month.*

Also enter the information in the box for **“****First Year of Modification Only – Ending balances as of June 30th, prior to the modification.”**

* + - **Obligation Balance as of June of the Prior Year** — enter the obligation balance from the prior year as of June from the original contract input tab of the GASB 87 Lessee Workbook.
		- **Accumulated Amortization as of June of the Prior Year** — enter the accumulated amortization balance from the prior year as of June from the original contract input tab of the GASB 87 Lessee Workbook.
		- **RTU Asset Carrying Value as of June of the Prior Year —** enter the right-of-use asset, carrying value balance from the prior year as of June, from the original contract input tab of the GASB 87 Lessee Workbook.

*For example, if the lease contract was modified on September 15, 2023, use the amounts in June 2023 from the original contract monthly payment information for ending or beginning monthly obligation, accumulated amortization, and right to use asset, carrying value at the end of the month.*

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

Do NOT enter any current year totals for interest, principal, and RTU asset amortization for early termination. Just leave the yellow fields blank in the CY Totals box next to the contract information.

1. **Contract Modification Monthly Payment Information (detailed instructions)**

Enter the payments for the noncancelable months of the modified contract only. Please review the [GASB 87 Overview Part I](https://sco.ca.gov/Files-ARD/ACFR/GASB_87_Leases_Implementation_PART_I_GASB_87_Overview.pdf) and [GASB 87 Business Process Part II](https://sco.ca.gov/Files-ARD/ACFR/GASB_87_Leases_Implementation_PART_II_BUSINESS_PROCESSES.pdf) documents available on the SCO website for the definition of noncancelable months. Enter zeros in the yellow cells where no payment is due during the lease term. Leave blank any yellow cells that are not within the lease term of the modified contract. Refer to the “[GASB 87 Lease Term Calculation](https://sco.ca.gov/Files-ARD/ACFR/GASB_87_Lease_Term_Calculation.pdf)” to calculate the lease term.

Include any lease incentives (reduce the amount in the period received) from the lessor if they are fixed or fixed in substance, whereas variable or contingent lease incentive payments are not included.

Note: Do not enter any monthly payment information for early terminations.

**2. Modification (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 modified lease included in your 20XX-20XX Annual Reporting Submission Workbook? —** this question is asking if the modified contract was reported to SCO (via the Annual Reporting Submission Workbook (ARSW) in the prior fiscal year. Select “N/A” if this is the first reporting year of the modification. Select “Yes” if the contract was modified in a prior year and was properly submitted to SCO via the ARSW. Select “No” if the modified contract did exist last year, but the modified contract was accidentally/erroneously excluded from the ARSW last year, or if your department did not submit the ARSW before the deadline last year.

The journal entries are automatically generated based on the selection made above. Review the journal entries and verify their correctness.

* Entry #0 will always populate, until the modified lease term ends.
* Entries #1, #2, and #3 are not applicable for lease modifications and will be hidden.
* Entries #4, #5, #6, and #7 will always populate, until the modified lease term ends.
* Entry #8 will only populate in the year that the lease term ends.
* Entry #9 will only populate if the modified lease decreases the lessee’s right to use the underlying asset as a partial or full lease termination.
* Entry #10 will only populate if the modified lease results in a remeasurement that increases the right-to-use the underlying asset (e.g., increase in payments, increase in assets, and increase in term).

**3. Modification (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 “Modification (No.) Input” tab according to the year selected by you in “Modification (No.) Output” tab.

**IMPORTANT NOTE:** This template has tabs for only Modification 1. However, your department may have more than one modified contract. These tabs have formulas linked to one another. To copy the tabs, you must first select all three tabs, which include: Modification (No.) Input, Modification (No.) Output, and Modification (No.) 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 Modification Lessee Template. Put a tick in the Create a copy box and click OK. Rename all the copied tabs as appropriate for example, Modification 2 Input, Modification 2 Output, and Modification 2 Note Disclosure.

# IV. Closing

Now that you have completed the GASB 87 Lessee Modification Template, you will use it in addition to any new leases reported in the Lessee Template to complete the Annual Reporting Submission Workbook. Additionally, retain copies of the lessee modification template(s) and modified lease contracts in case the CSA selects your department for audit.