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 leased 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. For a lease that is cancelable by either the lessee or the lessor, the maximum possible term is the noncancelable period.

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 not contain termination options.

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

Since there are specific criteria under GASB 87 that must first be evaluated before a contract’s information is entered into the workbook, the 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 Implementation Part I and Part II” documents published on the SCO website: [https://sco.ca.gov/ard_reporting.html](https://sco.ca.gov/ard_reporting.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
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Contract type:
The template’s use and application is limited to the following contract categories and cases described above: #2 financed purchases and #3 RTU leases. Departments are strongly encouraged to retain a copy of completed payment tables generated by the template alongside the contracts, when they qualify as financed purchases or RTU leases.

Threshold:
Departments should complete templates for contracts that exceed $100,000 or more in total payments for RTU leases. Financed purchases will retain the current capitalization threshold of $5,000 per unit.

III. Template Worksheets

A. 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.

B. Contract Worksheets

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 are 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/ard_reporting.html.

• Does your department use FI$Cal?—If yes, select FI$Cal. If no, select non-FI$Cal.
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• **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 is an enterprise or internal service fund.

• **Is the payment at the beginning or the end of the month?**—select the appropriate answer.

• **Direct payments at lease inception**—enter any other payments that are paid to the lessor at the beginning of the lease to obtain the right to use the asset.

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

• **Will the contract transfer ownership to your department without termination options?**—select "Yes" if the contract indicates that the asset will be owned by your department.

All contracts entered into this spreadsheet should reflect payments that will be incurred on or after July 1, 2021 only. For contracts that begin prior to July 1, 2021, input the monthly payments from July 1, 2021 and henceforth only.

b. **Contract Monthly Payment Information**

Enter the payments for the noncancelable months of the contract only. Please review the GASB 87 Overview and Business Processes word documents available on the SCO's website (see address above). The lease term is further defined in the Other Significant Provisions section and included in the general steps under the Business Solutions and Processes section.

2. **Contract (No.) Output tab**

• **Fiscal Reporting Year**—select the fiscal year you intend to report for.

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.

3. **Contract (No.) Note Disclosure tab**

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

Enter dollar amounts as needed.
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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.) 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.

4. Fund Journal Entries tab

Complete and submit a copy of the Fund Journal Entries tab for each fund with reportable activity to the SCO as part of the GAAP year-end agency request.

The journal entries within the tab must be manually completed for each fund that reports leases by summing the journal entries found in each contract's "Contract (No.) Output" tab.

The journal entries with green headings are to be filled in with journal entries for leases, whereas the journal entries with purple headings are to be filled in with journal entries for financed purchases.

5. Department Note Disclosure tab

Complete this worksheet and submit as one form for the department to the SCO annually, together with the Fund Journal Entries.

The "Contract (No.) Note Disclosure" tabs' information for all leases within a department must be combined together in order to complete the "Department Note Disclosure" tab.

Complete each yellow highlighted field for your note disclosures. Complete all fields manually since the worksheet does not perform any automated calculations.

*To illustrate, the "Ex Department Note Disclosure" tab contains the sums of note disclosure information from "Example 1", "Example 2", and "Example 3" worksheets.*