# 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**

Lessors 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.

Lessors must account for a lease modification by:

* Remeasuring the lease receivable given new facts and circumstances.
* Adjust the deferred inflow of resources balance by the same amount as the lease receivable.

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

* 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 receivable.

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**

Lessors 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.

Lessors must account for the partial or full lease termination by:

* Reducing the lease receivable and deferred inflow of resources.
* Recognizing a gain or loss for the difference between the receivable and deferred inflow of resources.

If a termination is due to the purchase of the underlying asset:

* Derecognize the capital asset.
* Include in the calculation of any gain or loss.

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

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

# II. Template Scope and Applicability

**Modified contract type:**

The template is limited to modification 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 Lessor Template Workbook. Only remeasure the lease receivable if the changes are ***significant.*** A lease receivable 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 lessor’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 lessor 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 the lese contract.

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 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** — 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 and fiscal year when the lease was modified as published in the SCO website. 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 receiving contract payments** — enter the fund number receiving the contract payments. If multiple funds receive contract payments, write all the funds.
* **Is this a proprietary fund?** — select “Yes” if the fund receiving the contract payment is a proprietary fund (internal service fund or enterprise fund). Select “No” if the fund receiving 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 receipt at beginning or end of the month?** — select beginning for payments received in advance and end for payments received 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 lease receivable and deferred inflow. Then enter the following information:
  + - **Lease Receivable Balance at the End of the Month before Contract Modifications** — enter the lease receivable balance at the end of the month just before the contract modifications from the original contract input tab of the GASB 87 Lessor Workbook*(e.g., if the lease contract was modified on September 15, 2023, use the ending or beginning monthly receivable amount in August 2023 from the original contract monthly receipt information).*
    - **Accumulated Amortization of Deferred Inflow at the End of the Month before Contract Modifications** — enter the accumulated amortization of deferred inflow/lease revenue recognition balance at the end of the month just before the contract modifications from the original contract input tab of the GASB 87 Lessor Workbook *(e.g., if the lease contract was modified on September 15, 2023, use the accumulated amortization of deferred inflow/lease recognition amount in August 2023 from the original contract monthly receipt information).*
    - **Deferred Inflow Carrying Value at the End of the Month before Contract Modifications** — enter the deferred inflow, carrying value at the end of the month balance just before the contract modifications from the original contract input tab of the GASB 87 Lessor Workbook *(e.g., if the lease contract was modified on September 15, 2023, use the deferred inflow, carrying value at the end of the month amount in August 2023 from the original contract monthly receipt 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 Lessor Workbook, if any.**”

* + - **CY Interest Total**—enter the sum of the current year’s interest receipts before contract modifications from the original contract input tab of the GASB 87 Lessor Workbook *(e.g., if the lease contract was modified on September 15, 2023, use the sum of the interest receipts from July to August 2023 from the original contract monthly receipt information).*
    - **CY Principal Total**—enter the sum of the current year’s principal receipts before contract modifications from the original contract input tab of the GASB 87 Lessor Workbook *(e.g., if the lease contract was modified on September 15, 2023, use the sum of the principal receipts from July to August 2023 from the original contract monthly receipt information).*
    - **CY Deferred Inflow of Resources Amort. Total**—enter the sum of the current year’s deferred inflow of resources monthly amortization before contract modification from the original contract input tab of the GASB 87 Lessor Workbook *(e.g., if the lease contract was modified on September 15, 2023, use the sum of the deferred inflow of resources monthly amortization from July to August 2023 from the original contract monthly receipt information).*

*Note that if the contract was modified in July, the CY Interest Total, CY Principal Total, and CY Deferred Inflow of Resources Amort. 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.”**

* + - **Lease Receivable Balance as of June of the Prior Year**—enter the receivable balance in June of the prior year from the original contract input tab of the GASB 87 Lessor Workbook.
    - **Accumulated Amortization of Deferred Inflow as of June of the Prior Year**—enter the accumulated amortization of deferred inflow/lease revenue recognition balance in June of the prior year from the original contract input tab of the GASB 87 Lessor Workbook.
    - **Deferred Inflow Carrying Value as of June of the Prior Year—**enter the deferred Inflow, carrying value at the end of the month balance in June of the prior year from the original contract input tab of the GASB 87 Lessor Workbook.

*For example, if a lease contract was modified on September 15, 2023, use the amounts in June 2023 from the original contract monthly receipt information for the ending or beginning monthly receivable balance, accumulated amortization of deferred inflow/lease revenue recognition, and deferred inflow, 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:

* + - **Lease Receivable Balance as of June of the Prior Year**—enter the receivable balance in June of the prior year from the original contract input tab of the GASB 87 Lessor Workbook.
    - **Accumulated Amortization of Deferred Inflow as of June of the Prior Year**—enter the accumulated amortization of deferred inflow/lease revenue recognition balance in June of the prior year from the original contract input tab of the GASB 87 Lessor Workbook.
    - **Deferred Inflow Carrying Value as of June of the Prior Year—**enter the deferred Inflow, carrying value at the end of the month balance in June of the prior year from the original contract input tab of the GASB 87 Lessor Workbook.

*For example, if a lease contract was modified on September 15, 2023, use the amounts in June 2023 from the original contract monthly receipt information for the ending or beginning monthly receivable balance, accumulated amortization of deferred inflow/lease revenue recognition, and deferred inflow, 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.”**

* + - **Lease Receivable Balance as of June of the Prior Year**—enter the receivable balance in June of the prior year from the original contract input tab of the GASB 87 Lessor Workbook.
    - **Accumulated Amortization of Deferred Inflow as of June of the Prior Year**—enter the accumulated amortization of deferred inflow/lease revenue recognition balance in June of the prior year from the original contract input tab of the GASB 87 Lessor Workbook.
    - **Deferred Inflow Carrying Value as of June of the Prior Year—**enter the deferred Inflow, carrying value at the end of the month balance in June of the prior year from the original contract input tab of the GASB 87 Lessor Workbook.

*For example, if a lease contract was modified on September 15, 2023, use the amounts in June 2023 from the original contract monthly receipt information for the ending or beginning monthly receivable balance, accumulated amortization of deferred inflow/lease revenue recognition, and deferred inflow, 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 deferred inflow of resources/lease revenue recognition for early termination. Just leave the yellow fields blank in the CY Totals box next to the contract information.

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

Enter the receipts 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’s website for the definition of noncancelable months. Enter zeros in the yellow cells where no receipt 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 granted (reduce the amount in the period the incentives were granted) to the lessee if they are fixed or fixed in substance, whereas variable or contingent lease incentives are not included.

Note: Do not enter any monthly receipt 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 a modified contract which did not exist in the prior year. Select “Yes” if the modified contract did exist last 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.
* Entry #1 is not applicable for lease modifications and will be hidden.
* Entries #2, #3, and #4 will always populate, until the modified lease term ends.
* Entry #5 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 #6 will only populate if the modified lease results in a remeasurement that increases the lease receivable (e.g., increase in payments, increase in assets, and increase in term).

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

Select “yes” or “no” for question 1.

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 Lessor Modification 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 Lessor Modification Template, you will compile the Lessor Modification Templates and Lessor Templates to complete the Annual Reporting Submission Workbook. Additionally, retain copies of the lease modification template(s) and modified lease contracts in case the CSA selects your department for audit.