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CPAs & Advisors

**GASB 87:
Breaking Down
Implementation for
Municipalities**

March 5, 2020

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Presenters



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Agenda



GASB 87 overview & its impact on municipalities & related entities



Common municipality & related entity lease scenario



Other frequently asked questions



Four-phase implementation solution with BKD LeaseVision

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What Is GASB 87, Leases?

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GASB Statement No. 87, Leases

Effective for reporting periods beginning after December 15, 2019

A contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction

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Definition of a Lease – Key Terms

› Contract

- Legal enforceability
- May not be written

Contracts that transfer ownership should be reported as a financed purchase/sale of the underlying asset. Those contracts are not leases – asset versus right to use the asset

› Control of the right to use

- Not the asset itself
- Not all benefits & burdens of ownership are transferred

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Definition of a Lease – Key Terms

› Nonfinancial asset

- Exclude items that might meet definition, not intended to be covered by standard

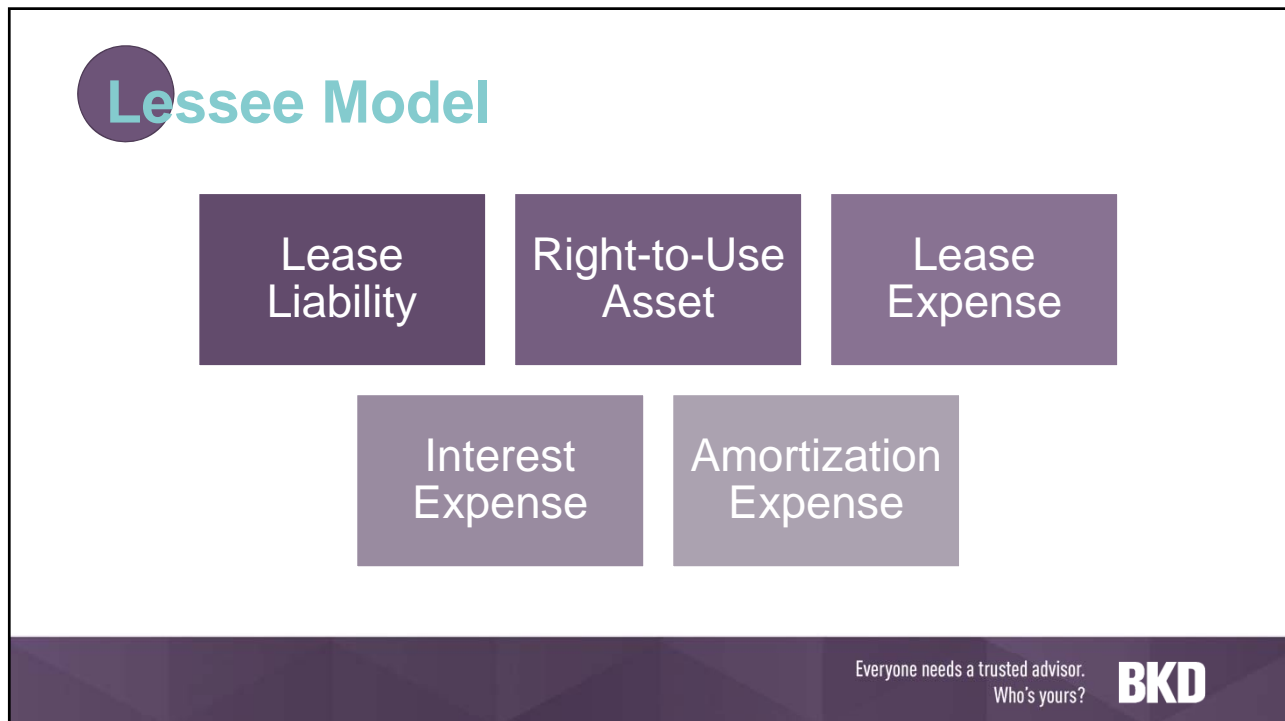
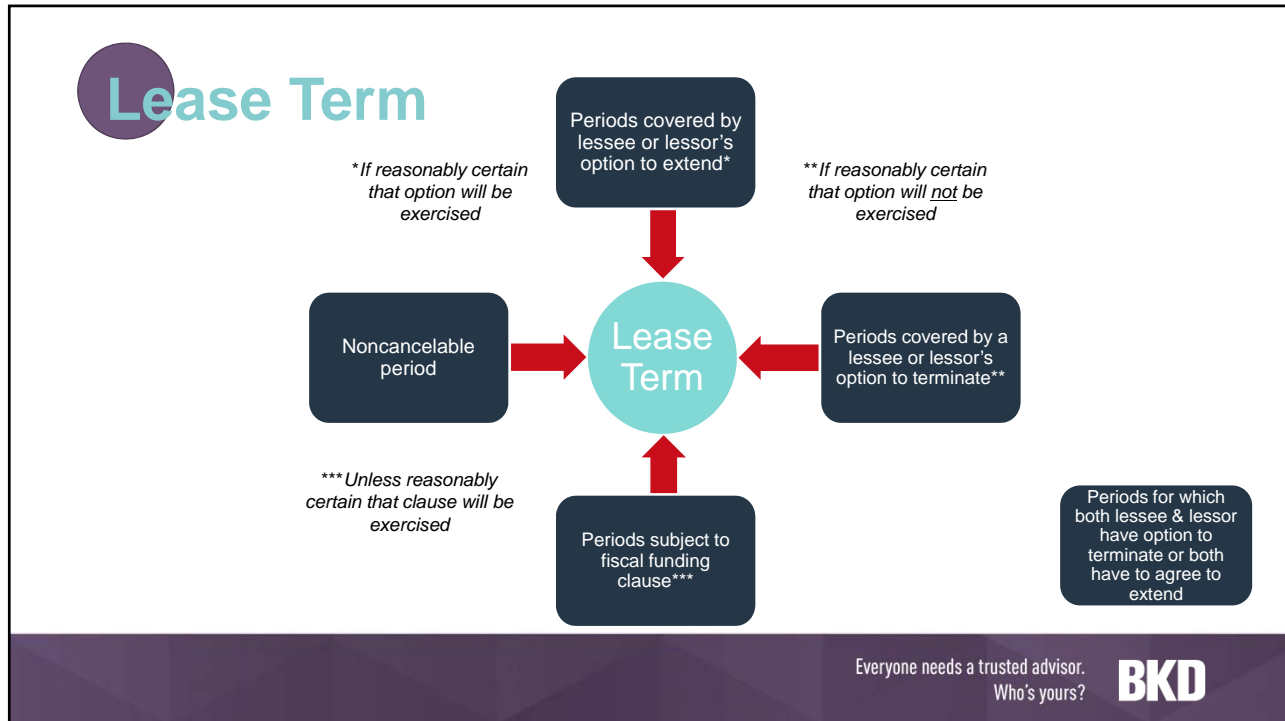
› Specified in the contract

› Exchange or exchange-like

- Equal or almost equal value exchanged
- Excludes contracts with nominal rent payments

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Lessor Model

Lease
Receivable

Deferred Inflow
of Resources

Lease Revenue

Interest
Revenue

No
Derecognition of
Underlying Asset

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What Does This Mean for Municipalities?

- › Additional liabilities &/or assets will be put on the books
- › New accounts may need to be added to your chart of accounts
- › Departments may have been entering into leasing transactions & not even know it
- › Materiality & reasonable certainty will need to be operationalized

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Common Municipality & Related Entity Lease Scenarios

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Lessee

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Equipment Lease

A city leases an asphalt recycler for 36 months. The lease requires quarterly payments & there is no interest rate stated in the lease. There is a bargain purchase option & it was a capital lease under the old guidance



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Warehouse Lease

The City leases a warehouse for one year. At the end of each year, the City enters into a new lease agreement for one year. The agreements don't have any extensions, but the City has historically entered into the one-year lease & expects to do so for several years

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Golf Cart Lease

A city leases a fleet of golf carts for its municipal golf course. The city will own the golf carts at the end of the five-year lease term unless it exercises its option to terminate the lease, which it may do at any time



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Copier Leases



A large metropolitan city has 20 separate two-year leases for copiers throughout the city. The total value of each lease is \$12,500. The city's capitalization threshold for capital assets is \$5,000

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Lessor

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Building Rental

The City rents out a wing of its convention center to a local business. The term is for five years with two separate five-year renewal options for the local business. At the time the lease was entered into it was reasonably certain the business was going to exercise one of the five-year options. Two years into the lease, the local business was no longer reasonably certain to exercise that option



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Nonprofit Community Organization Space

The City rents out a building to a local nonprofit for \$10 a month as a way to encourage community development within its City. The lease is for 10 years & there are no termination options for either side. The nonprofit has promised to use the space to promote the City's mission & is going to provide quarterly performance reports to the City



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Office Space Lease

A city leases office space to various entities to boost economic development for the city. The leases are at market value of \$5,500 a month. The lease terms are for five years & either party can cancel after six months with 30-days notice



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Airport Terminal Food & Beverage Lease

The airport leases terminal space to Big Food Inc. for a food & beverage concessions operation. The term of the agreement is five years. The lessor makes a \$50,000 payment to the lessee to relieve the lessee's existing obligation to another lessor. The lease includes a rent of \$10,000/month or 10% of gross sales, whichever is greater



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Other Frequently Asked Questions

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How Do We Know We've Found All of Our Leases?

- › Consult all departments who can enter into leases
- › Use big data analytics to search GL
- › Get purchasing & legal involved
- › Search for embedded leases



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How Does This Impact Our Bottom Line?

- › On the lessor side, you will have both rental revenue & interest income
- › On the lessee side, lease expense & interest expense will be broken up for lease payments
- › On the lessee side, there will be amortization expense related to the leased asset



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Covenant Considerations

- › Are there covenant considerations to be aware of?
- › What will be included & excluded from the calculation?
- › Do debt agreements need to be modified?



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What Do We Need to Know Related to Our Airports & Other Component Units?

- › Airports are one of the industries largely impacted by this standard, especially on the lessor side. In addition, they have the additional complexity of determining regulated & nonregulated leases. These agreements also have a variety of fixed & variable payment terms & are not usually standardized
- › You also want to check on your component units now to help make sure they are taking the necessary steps to implement GASB 87. If you get to your first audit where GASB 87 is effective before checking on your component units, you likely will be too late



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BKD LeaseVision – Four Phases of Implementation

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Phase 1

- › Education
- › Project governance
- › Determine scope
- › Review system requirements

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Phase 2

- › Find leases
- › Review, categorize & analyze in-scope leases

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Phase 3

- › Develop new policies & internal controls
- › Document final analyses & conclusions
- › Re-evaluate IT system capabilities/test systems

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Phase 4

- › Generate journal entries
- › Finalize new disclosures
- › Draft financial statement presentation
- › Communicate expected changes to interested parties

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LeaseVision Demo

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Demo

- › Kira output of example lease contract
- › Quick overview of Excel tool (lessee side)

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Questions?

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