

GASB 87 Leased Asset Worksheet

Questions for Determination:

Leased Item

1) Automatic Transfer of Ownership (Yes or No)

Does the title to the asset transfer to the government at the end of the lease?

- (Yes) Ownership transfers to the government at the end of the lease: Go to Conclusion A
- (No) Ownership does not transfer at the end of the lease: Go to Question 2

2) Is there an option for a bargain purchase at the end of the lease? (Yes or No)

Does the lease allow you to purchase the item at the end of the lease for a nominal amount (i.e. \$1.00) a bargain purchase or at the fair market value? Or must the government return the asset to the lessor.

- (Yes) The government can purchase the asset for a nominal amount (bargain purchase): Go to Conclusion A
- (No) The government can purchase the asset at the fair market value at the end of the lease or must return the asset: Go to Question 3

3) Is the lease cancelable by both parties without permission? (Yes or No)

Can the initial lease be canceled at any time by both parties without the permission of the other party?

- (Yes) The lease is cancelable by either party and simply a month to month lease: Go to Conclusion B
- (No) The lease is not cancelable in the initial term and is enforceable by the lessor (this does not include the hold over portion of the lease, meaning after the initial lease term the lease is now month to month): Go to Question 4

4) a) When did/does the lease start? (MM/DD/YYYY)

b) When does the lease end? (MM/DD/YYYY)

c) This is the initial lease term: (If using the excel version, it will calculate for you, paper version requires fingers and toes) (Number of Months)

The total lease term needs to be determined for short term lease determination: Go to Question 5

5) a) Is there the option to extend the lease under the original agreement as an enforceable non-cancelable lease? (This is asking if you can commit to another 60-month lease term, if the lease simply converts to a carry-over month to month lease it is not an enforceable extension under GASB 87 (Yes or No)

b) If there is an option to extend, how long is the extension (number of months)

c) What is the probability that you will exercise the option to extend: (Percentage)

Under GASB 87 short term leases are defined as leases that are less than 12 months including all enforceable extensions. You will need to consider the answers to both questions 4 and 5 when making the determination if your governments lease is short term.

- If the initial lease term determined in question 4 is less than 12 months and there are no extensions as determined in Questions 5 then: Go to Conclusion C
- If the initial lease term determined in question 4 is more than 12 months or the initial lease term in question 4 plus the enforceable extension in question 5 are greater than 12 months: Go to Question 6

6) It has been determined that you have a financial lease under the new GASB 87 leases standard and the following questions 7 through 10 will be used to determine the amount of the intangible right to use leased asset and the lease liability to be recorded.

a) How often do you pay the lease? (Monthly, Quarterly, Semi-Annually, Annually)

b) What is the payment? (Dollar Amount)

(Fixed payments: Enter the amount; Variable payments: Let's talk)

7) Does the contract have an implied interest rate stated in the agreement? If so, what is it? (Percentage)

If it doesn't state an implied rate reach out to the lessor and see if they tell you their implied rate, if not we will need to discuss your government's incremental borrowing rate.

8) Where there any initial direct costs to enter the lease? (Dollar Amount)

Did you need to pay any fees to enter the lease or place a deposit on the leased item. Did you pay any fees to get the asset in service like installation or delivery?

9) Is this lease for just one asset or a group of assets? (Single Item, Group of Items)

Is this lease for just one item or a grouping of items? Either is acceptable it just needs to be evaluated if one of the grouped items is returned, exchanged or the terms modified. It makes the math a bit more complicated.

10) Does the lease payment include maintenance costs? (Yes or No)

If Yes, does it say how much are allocated to those items? (Dollar Amount)

In the lease payment in question 6 does it include any maintenance costs or service agreements type costs? These costs are not part of the leases asset but are period costs to "use" the asset and should be backed out of the present value calculation that will need to take place.

Conclusions:

A) The lease is not subject to GASB 87 as the underlying substance is a financed purchase of an asset. Therefore, it should be treated as a purchase of an asset and a loan payable.

B) The lease is a cancelable lease and is not subject to GASB 87. It is a lease, but the government does not have an enforceable commitment and is not obligated to pay with future resources since they can cancel at any time.

C) The lease is not subject to GASB 87 as the lease term is under 12 months and is considered a short-term lease.

D) Wahoo! You have a nonfinancial lease under the new GASB 87 standard.