



What is GASB 87 and Why Should I Care? Lease Accounting for Non- Accountants

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Civix Airport Solutions



Airport Business & Revenue Manager

Helps manage and generate revenue by controlling lease activity, real property, and asset portfolios



Airport Land Manager

A web-based application used to map, visualize, and catalogue land records



Airport Project Manager

Helps plan, manage, and report on long-range capital projects



Airport Safety & Operations Compliance System

Empowers staff to manage assets, compliance, and airport operations



Aviation System Manager

Streamlines and simplifies the complexities of airport system management for state agencies



Gate Manager

A collaborative gate utilization planning solution that helps airports operate at peak efficiency



Safety Management System

Empowers airport staff to report and mitigate safety issues before they become costly



Safety Risk Manager

A collaborative assessment solution that engages stakeholders in understanding and controlling airfield project risks



Secure Credentials

Consolidates identity management into one streamlined view



Situational Awareness

Provides a powerful, secure, and cloud-based platform for airport event management and response

Governmental Accounting Standards Board (GASB) Statement # 87

Definition of a Lease:

A lease is defined as 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.**

Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

Financial Statement Impact (Lessor)

- **Balance Sheet** – Creates new asset for the discounted amount of future payments for the lease term. Also creates corresponding deferred inflow of resources liability.
- **Income Statement** – Moves some income from operating revenue section to non-operating revenue line for interest income. Income in the front half of the lease will be higher than the back half due to straight line amortization of operating income and interest income is higher at the start of the lease.

Financial Statement Impact (Lessee)

- **Balance Sheet** – Creates new liability for the discounted amount of future payments related to the lease term. Also creates corresponding right of use asset.
- **Income Statement** – Moves expense from operating expense section to non-operating expense lines for amortization and interest expenses. Expenses in the front half of the contract will be higher than the back half due to straight line amortization and interest expense.

Lease Term Includes

- **Noncancellable Period** – Starts when asset is placed in service (Date of Beneficial Occupancy). If no termination option, ends based on initial term.
- **Option to Extend** – Only when one party has the right to exercise, and it is reasonably certain to be exercised (75% - 80%)
- **Option to Terminate** – Only when one party has the right to terminate, and it is reasonably certain that they will not exercise that right.
- Periods for which both parties have an option to terminate without permission from the other party, or if both parties have to agree to extend are cancellable periods and are excluded from the lease term.
- Ability to terminate based on default is not considered a termination clause

Who determines reasonably certain?

Properties group is usually more familiar with negotiations and intent.

Develop method of communication between properties and finance groups.

Short-Term Exception

- A short-term Lease is a Lease that, at the commencement of the lease term (or at implementation date), has a maximum possible term under the contract of 12 months (or less), including any (single party) options to extend, regardless of their probability of being exercised.
- Periods for which both parties have an option to terminate without permission from the other party, or if both parties have to agree to extend are cancellable periods and are excluded from this evaluation.

Regulated Lease Exception

- A regulated lease is a lease for which external laws, regulations, or legal rulings establish all of the following requirements:
 - Lease rates cannot exceed a reasonable amount, with reasonableness being subject to determination by an external regulator
 - Lease rates should be similar for lessees that are similarly situated
 - The lessor cannot deny potential lessees the right to enter into leases if facilities are available, provided that the lessee's use of the facilities complies with generally applicable use restrictions
- Regulated leases are not subject to Balance Sheet or Income Statement reporting, but do require Financial Statement Note disclosures.

Lease Receivable/Payable

Include – Fixed payments, variable payments that depend on an index or a rate (CPI).
Termination fees or other fees reasonably certain to incur.

Exclude – Variable payments other than those that depend on an index or a rate, such as percent rent or rates based on annual budget. Termination fees or other fees not reasonably certain to incur.

Discount Rate – If an interest rate isn't stated or implied, use incremental borrowing rate

How to evaluate a lease

- Does the agreement grant exclusive rights to use an asset?
- Does the agreement have more than 12 months remaining in the term?
- Regulated vs Non-Regulated
- Lease term: Include or Exclude options periods
- Lease term: Include or Exclude termination clauses
- GASB 87 provisions vs Non-GASB 87 provisions
- Transactional provisions vs Financial Statement Note Only provisions

Important Dates

- Start of lease term – Defined or date of beneficial occupancy
- Initial period expiration date
- Notification dates
- Renewal/modification date



Example variable clause

- Each Fiscal and Lease Year following the first Lease Year, the Leased Premises described in paragraphs A and B may be reallocated based on Lessee's market share for the preceding year relative to the lessees similarly situated, as reported in their Monthly Statements of Gross Revenue under the Concession Lease.



Example variable clause

- If Concessionaire is in full compliance with the terms set forth herein, then Airport may proportionately reduce the Concessionaire's prorated monthly MAG payment provided for in the Article is the number of passengers deplaning on scheduled airline flights at the Airport during any three consecutive calendar months, is less than eighty-five percent of the greatest number of such deplaning passengers in each of the same three consecutive calendar months of the preceding year.



Lease Comparison – 5/5 vs 10

Monthly Payment of \$20,000.00

Total Payments = \$2,400,000.00

5 Year Term With 5 Year
Option

Present Value: 2,205,212.70

Interest Income: 194,787.30


Operating vs Non-Operating:
92%/8%

10 Year Term No Option

Present Value: 2,028,432.79

Interest Income: 371,567.21

Operating vs Non-Operating:
85%/15%



Lease Comparison – Escalator vs Flat

Total Payments = \$2,751,331.03

Initial Payment of 20,000.00
with 3% annual increase

Present Value: 2,305,654.69

Interest Income: 445,676.34

Operating vs Non-Operating:
84%/16%

Monthly Payments of
22,927.76

Present Value: 2,325,370.94

Interest Income: 425,960.26

Operating vs Non-Operating:
85%/15%

GASB 87 vs. GASB 96

	<u>GASB 87</u>	<u>GASB 96</u>
Title	Leases	Subscription-Based Information Technology Arrangements (SBITA)
Description	Physical Assets	Software
Applies To	Lessors & Lessees	Clients only (Lessees)
Effective Date	Fiscal years beginning after June 15, 2021	Fiscal years beginning after June 15, 2022

Note: Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets that meets the definition of a lease in Statement No. 87, Leases, in which the software component is insignificant when compared to the cost of the underlying tangible capital asset (for example, a computer with operating software or a smart copier that is connected to an IT system) fall under GASB 87 and are not subject to GASB 96.



Discussion & Questions

Thank You

FOR PRODUCT INFORMATION, PLEASE CONTACT:

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