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## *New Accounting Lease Requirements Q&A*

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### General Implementation

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1. To clarify, the inception of the lease is even prior to 21-22 - right?
  - [Correct.](#)
2. If the interest rate is cumbersome, can we just use a set interest rate and call it immaterial or not do interest at all?
  - [Take a look at criteria for finding interest rate. Can an implicit value be used? If not implied, published rates for a similar asset? Other lease arrangements for a similar asset.](#)
3. Will you please share the site you mentioned for the GASB87 flow chart.
  - [Lease Accounting Decision Tree for Lessees](#)
  - [Office of Financial Management – Lease \(GASB 87\)](#)
4. Why have we decided to adopt this GASB, when we can choose otherwise in the State of Washington (OCBOA)? Please share rationale for financial statement users in Washington with this new accounting?"
  - [This is a nationwide requirement, and we are no exception to this rule.](#)
5. Is it not possible to have a lease that is principle only?
  - [If cash basis, otherwise no.](#)
6. Where in the accounting manual is the information on lease accounting?
  - [Bulletin No. 056-21 SAFS](#)

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7. So, we have to do the accounting from the beginning of the lease even if we are in the last year of the lease?
  - Correct. You'll need to be able to book the principal versus the interest in FY21-22.
8. Total lease payment per lease - or aggregate? For example copier leases.
  - Aggregate is best practice.
9. Is SAO providing any guidance on materiality?
  - SAO guidance is as follows:
  - The specific threshold is a management decision. Since it is a management decision, SAO cannot make this choice for the district. However we do have a few recommendations we have been sharing with gov's when considering a lease threshold:
  - Consider the full inventory of all of the district's leases (including the small, clearly insignificant ones) before choosing a threshold.
  - The leases that are excluded by the threshold need to be immaterial individually AND in the aggregate.
  - Consider both the asset and liability sides of lease transaction. If either side is material, then both sides need to be recorded.
  - Keep track of the leases that get excluded due to the threshold. This should be done annually. This documents (and show to your auditor) the excluded leases are truly immaterial.
10. A comment was made that this applies to lease inception prior to 21-22. Do these requirements apply to new leases as well?
  - It does apply to new leases as well.
11. This is for leases as of 9/1/21 or 8/31/22... I have some leases which will end this school year
  - Correct and any new leases starting in 21-22 that would fall under the GASB 87.
12. If we have a fund policy when would you suggest we change that policy? Now?
  - The sooner the better - prior to closing your year for sure.
13. Does this apply to all funds, or only General Fund leases?
  - All funds

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14. Isn't the whole purpose of this requirement to have the lease recorded as a liability on the balance sheet?
- The idea of a lease liability and a leased asset only applies to full GAAP on their district-wide statements. For those under modified accrual, the usefulness is the acknowledgement of the total cost over time (time value of money) of leases and disclosure of these leases on the Schedule of Long-Term Liabilities.
15. 5% of the budget? So if our budget is \$40 million then we don't have to use these rules if our total lease payments are under \$2 million?
- No. This is not an appropriate materiality threshold/capitalization threshold for leases.
16. If due to the 5% of expenditure materiality threshold, can i ignore these rules?
- No. This is not an appropriate materiality threshold/capitalization threshold for leases.
17. Does WSSDA have sample policies regarding GASB 87?
- Accounting rules are typically not Board Level Policy.
18. Can you discuss the Office of Financial Management (OFM) level of materiality?
- OFM sets two separate levels of materiality. One is for capital asset purchases and is \$5,000 per unit. This is similar to most districts. The second is \$500,000 for the current value of the entire lease term. Keep in mind, that this is for the State of Washington which has a \$89 billion budget for a biennium. A single school district would need to consider a much lower threshold.
19. If the lease is deemed immaterial for the new accounting rules, is it still listed on the SLTD?
- No.
20. We already have an adverse opinion on our financial statements - so what would change if we didn't adopt the new accounting?
- It would be an audit issue.

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21. My district is considering using the formal competitive bid requirement dollar amount identified in district policy as a basis for determining if the lease is material. If we must go through formal bidding, then the lease is material. Anything less would not be a material lease. Does this seem like a reasonable basis? Additionally, could this basis be used as lessor and lessee?
  - [Caution against using the bid threshold. The district should establish a threshold for leases which are not significant either individually or in the aggregate.](#)
  
22. Can I just use the LOCAL financing rate?
  - [You may use the LOCAL financing rate only if you are unable to get a rate from the lessor. Document your attempts to get the rate from the lessor.](#)
  
23. Won't this inflate our per pupil expense? Or will the entries to 956 be deducted when reporting total expenses to NCES for reporting at the federal level?
  - [Yes. This will inflate your per-pupil expenditures.](#)
  
24. Will SAO, WASBO or OSPI have some sample policies/procedures available for lease capitalization for GASB 87 reporting purposes?
  - [WASBO has on-demand learning available and OSPI will have complete instructions in the accounting manual. District may wish to create their own procedures.](#)
  
25. Will you always have an 8038-G if an issue is tax-exempt?
  - [IRS requires form 8038-G for leases of \\$100,000 or more.](#)
  
26. I have an 8038-gc which doesn't list the interest rate. Is there a way to figure that out with this form?
  - [IRS requires form 8038-GC for leases less than \\$100,000. The 8038-GC does not state an interest rate. If districts can contact the person at the leasing company that is responsible for issuing the 8038-G or 8038GC, they may have better luck getting an interest rate.](#)
  
27. If we have a lease that ended in FY21-22, do we need to include it on the 8/31/22 Schedule of Long-term Liabilities?
  - [Yes, it should be included with a zero-ending balance.](#)

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### Lessee Accounting

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1. What if your copier company did not require a lease document be signed? They have an active KCDA contract and state that the terms being followed are according to the RFP they responded to. Our RFP stated a five-year term and them taking the copiers away at the end of that term.
  - You would review the contract terms in the KCDA contract. If you are RFP state 5 years, that is your term if the vendor accepted. You may want to reach out to the company to get a copy of the KCDA contract or you can access from the KCDA website.
2. What about a copier service agreement? Would this be a lease if the district is paying per copy cost? There's not an option for acquisition after the termination. It is only services.
  - If you own the copiers and are paying for service, it is not a lease because you own the asset. If you do not own the asset, you will need to read your agreement carefully to see if it may be subject to GASB 87.
3. If we are in the last year of the lease, do we still need to record it?
  - Yes, you will be required to report if 21-22 even if it is the last year of the lease.
4. Our copier lease is calculated by multiplying 600,000 copies x .0071. There's no interest here.
  - It may not note an interest rate because it is likely incorporated into the per copy rate. Reach out to the company you are leasing the copiers from.
5. What if we find we assume an interest rate to the best of our abilities, but the vendor a year later gives us a different rate. Would that affect anything, or would we have to go back and fix it?
  - Yes, revalue your assets since it is a modification of the contract.
6. We don't own the equipment and pay cost per copy only (and fees if we don't meet a certain # of copies each year)
  - If you do not own, then you are leasing an asset. Read the contract carefully and look to see if it falls under GASB 87.
7. Why do you use the term 'Underlying Asset'? Is this simply referring to the asset in general that may qualify as reportable?
  - Yes, the underlying asset could be the item you are leasing, the land you are using to lease a cell tower, or a building you have that you are leasing.

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8. For the private company, what if they do an annual "kickback" rather than a monthly payback
  - The same rule would apply if it is annual or monthly.
  
9. Do you recommend that the interest rate be defined in the lease agreement?
  - Yes! It will make it easier to determine if the interest rate is in the agreement. You may have an interest rate of zero, but do not accept this as the rate. Documentation is key to analyzing your leases.
  
10. Has anyone evaluated their internet service contracts? We have "leased lit fiber" and "point to point" internet connections. My IT Director said that we're paying someone for use of their internet cable for these connections.
  - Need to evaluate the contract agreement for paying for the use of the cable.
  
11. How does software subscriptions relate to leases?
  - Subscriptions will be covered shortly. Once reviewed, please let us know if you have further questions.
  
12. Could the whole interest calculation just be considered immaterial?
  - The immaterial or insignificance question is based on the current value of the entire lease term. The total payments under the lease should be considered. Once that determination is made, the interest is always material as there is always a time value of money.
  
13. I have a building lease that we entered into a little of a year ago. I would have to have to do a budget extension for \$5M-\$7M dollars to cover expenditures that we did not expend this year. Wouldn't it be better to use GL620 - Leases payable rather than an expenditure account??
  - That does not follow the new standards of GASB87. You need to record the expenditure and other financing sources at the inception of the lease. If that lease were entered into prior to 9/1/2021, the entry to increase expenditures would not be required. However, the district would need to make the calculations so the long-term liability could be recognized on the Schedule of Long-Term Liabilities.
  
14. We're 3 years into a 7 year copier lease. Are we supposed to calculate the PV of the remainder of the lease, or of the lease from the beginning of it - when determining the materiality threshold?
  - Calculate it from the beginning of the lease. Use actual payments before you apply present value to determine materiality.

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15. What if the lessor doesn't want to charge interest?
- The lessor is not specifically charging interest. It is always implied as part of the payment rate. It's a recognition of the changing valuing of money over time.
16. How does leasehold tax play into it?
- It is not included in the PV calculations.
17. I called our Apple vendor and asked specifically for the interest rate for the agreement. They tried to tell me that there is no interest. I explained i understand that, but I needed this for REPORTONG for GASB 87
- Contact Gina Victor, ePublic Finance, at [Gina.Victor@ePublicFinance.com](mailto:Gina.Victor@ePublicFinance.com)
18. What if a lease increases by the CPI?
- The GASB Board determined that the current index or rate could be assumed to stay in effect when initially measuring the future payments. (B37)
19. If the final payment for the lease occurred during 21-22 does this lease need to be recorded and reported in the year-end financial notes?
- No. It does not need to be in the notes to the financials after the lease is paid off.
20. Do we need the note commitments under leases for 20-21 financials?
- Yes. Non-cancellable operating leases and Capital leases were required note disclosure in FY20-21. Leases of district assets are also required note disclosure.

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### Lessor Accounting

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1. We have a contract with an outside organization to provide an after school program. My understanding from Operations is this contract doesn't have an end date. They pay a monthly fee for the use of the schools. Is this considered a lease? They are invoiced per month based on use.
  - Review the contract. It isn't customary to not have a term but definitely possible. You may want to include a term in future contracts.
2. Would naming rights to a High School Stadium be reported?
  - No, it isn't a tangible asset.
3. After school care where the company pays us rent to be in our building, is it a lease?
  - Yes, if they are paying rent for a building, this is considered a lease.
4. Are there any asset impairment considerations?
  - Yes. GASB 87 references GASB 42 regarding impaired leased assets. This primarily impacts full GAAP accounting.
5. We are the Lessor on a surplus building. The lease is only 12 months but we have issued a new lease for the past several years. Whether or not we will continue to do so is always "to be determined". Does this fall under a short term lease and therefore not applicable?
  - This may qualify as a short term lease if the lease is for 12 months and then ends (and a separate new lease is entered into the following year) with no options to extend, cancellation clauses, etc.
6. We have real estate that we are leasing to a farmer. The annual lease increases based on the irrigation assessment, but we don't know how much that will be. Do we take this into account for present value purposes?
  - For leases that contain both a lease component (such as the right to use the land) and a nonlease component (such as irrigation assessment), the district should account for the lease and nonlease components as separate contracts. Use only the lease component in calculating present value.

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7. If a lessor, what would the prior period adjustment be?
  - There will be a prior year adjustment between your G/L 345 Lease Receivable and your G/L 755 Deferred Inflows from previous years' entries. G/L 345 is reduced by principal payments while G/L 755 is reduced using straightline.
  
8. As a lessor how do you calculate interest income on monthly rental fees?
  - Use compounded interest at the tenants/lessee's implicit rate. If you can't find the lessee's rate, you can use your own investment rate.
  
9. If we record future year rental income as an asset, will it artificially inflate fund balance?
  - No. The initial entry is to record the receivable (asset/debit balance) and the Deferred Inflows (credit balance account). They will offset and have no effect to fund balance.
  
10. What about a lessor situation where no money is exchanged (between two governments)?
  - If no money is exchanged, it usually does not qualify as a lease.
  
11. We are a lessor, when the building needs repair the lessee pays for the repair. We allow them not to pay rent until the repair is paid back. How would you account for this?
  - Repairs and maintenance are typically non-lease components and not included in lease receivable and deferred inflows. Just based on the information provided, the district might need to remeasure the lease if the terms change when payments are deferred
  
12. If we are the lessor but we don't have an interest rate listed, what is the best way to determine that?
  - Use the district's investment rate at the county in effect at the time of inception. Document your efforts to obtain one from the lessee.
  
13. If a parent group rents the library twice a week for an hour each time and has a multiple year agreement with the district for this, is this a lease? What if we do not have a multi-year agreement?
  - The criteria is that 1) there is a market rate exchange for the space; and 2) there is a multi-year agreement. This is likely a lease, the district is renting a tangible asset for a specified period of time.

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14. The district has a lease agreement for \$0 + the cost of utilities for multiple years. Only reimbursement for utility costs is received no income. Is this a reportable lease?
- This is not a lease. Receipts are revenues as received.
15. What if you allow building use in kind with services provides?
- This would typically not be a lease, but a service contract. Be sure to read the agreement to verify.

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## *New Accounting Lease Requirements Q&A*

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### Accounting Entries

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1. Regarding double expenditures: The credit is to a revenue account - is that correct? This is the initial entry.
  - Correct, if you are a Lessee and modified-accrual. You will debit 530 and credit 965 to record the acquisition of equipment with a lease.
2. Are these entries regardless of "fund" General or Capital Projects as well?
  - All funds
3. For modified accrual districts, when making monthly payments which include sales tax, when recording the payment, which object code do we attribute the sales tax to?
  - Object Code 744X, Rentals
4. Do we have to do any kind of prior period adjustment?
  - No as lessee, yes as Lessor.
5. So essentially all expenditures for leases are recorded to GL 530 twice? Is that not overstating expenditures for districts?
  - Correct.
6. Why does the modified accrual example shows the present value with an amount lower than the total payments?
  - The present value is usually less than the future value because money has interest earning potential, a characteristic referred to as the time value of money.
7. Will entries to 965 be deducted when reporting total expenses to NCES?
  - No.
8. In OSPI Bulletin 056-21, Revisions to the 21-22 Accounting Manual, there is mention of using GL 620- Leases Payable, but I don't see the GL 620 in any of the sample accounting entries. Can you explain?
  - G/L 620 is Lease Payable - Current. It is intended for accruing any lease payments due at the end of the fiscal year.

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9. When is NCES code 7442 applicable? When AP is processed each pay period, an invoice for a copier lease would have code 7831 for principal, 7835 for interest, possibly 7431 for copy charges, and a 4th code for sales tax?
- That is correct. Some districts may choose to have accounts payable use one code when making monthly payments and making the corrections at year end.