



NORTH CAROLINA
DEPARTMENT OF STATE TREASURER

STATE AND LOCAL GOVERNMENT FINANCE DIVISION

GASB 87 Lease Templates Overview

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STATE TREASURER OF NORTH CAROLINA
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Agenda:

- GASB 87 Lease Templates – Overview.
- Things to do before using the templates.
- How to use the templates.
- Tips for using the templates.

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GASB 87 Lease Templates – Overview:

- Two Excel workbooks will be posted on our website.
- Lessor workbook and Lessee workbook
- The workbooks may assist with GASB 87 implementation and first year entries for FY 2022.
- The workbooks will NOT substitute for your reading and understanding GASB 87.
- We will update workbooks in FY 2023 for 2nd year entries.
- There will not be any additional changes to the workbooks after FY 2023 unless GASB revises guidance.
- Excel files complete GASB 87 lease calculations after the user completes a questionnaire relating to a specific lease.
- An Excel workbook is to be completed for each lease or agreement. One-to-one relationship.

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Things to do before using the template:

- Determine which of your unit's agreements meet the definition of a lease under GASB 87.
- Determine the lease term for GASB 87 reporting – include reasonably certain extensions, exclude reasonably certain termination options
- Determine the amount of the lease related payment – exclude maintenance, CAM, insurance, taxes, usage components, etc. See **Example 1** on the next slide.
- Determine the lease discount rate – interest rate stated in lease, internal rate of return, or incremental borrowing rate.
- For capital leases in place prior to the first year of GASB 87 implementation, have prior year reported figures related to the lease available – such as debt payable for capital lease, and capital lease fixed asset balances.

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Example 1 – Copier lease terms with usage charge included with monthly payment:

TERM AND PAYMENT INFORMATION		LI SEE BILLING OUTLINE A	LI SEE BILLING OUTLINE B
<u>63</u> Payments* of \$ <u>221.54</u>	If you are exempt from sales tax, attach your certificate.		*plus applicab.
The payment ("Payment") period is monthly unless otherwise indicated.			
Payment includes <u>1500</u> B&W pages per month	Overages billed monthly at \$ <u>.0165</u> per B&W page*		
Payment includes <u>200</u> Color pages per month	Overages billed monthly at \$ <u>.0935</u> per Color page*		
By Initialing here, you agree that maintenance and supplies are <u>not</u> included in this Agreement and Paragraph 13 shall not apply to this Agreement.			

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Example 1 – continued:

- **This illustration is provided for informational purposes only.** Your auditor will determine materiality and can assist you in deciding which agreements are material for your unit. We are NOT requiring individual copiers be reported under this guidance.
- From the previous slide, the monthly lease payment of \$221.54 includes 1500 black and white pages and 200 color pages. We estimated the amount of the monthly payment attributable to this usage.
- Overage charges apply when usage exceeds 1500 black and white pages at \$0.0165/page or 200 color pages at \$0.0935.
- Use these rates to estimate the usage charge included in the monthly payment. See next slide for calculation.

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Example 1 – Calculation of Lease Related Payments:

Monthly payment			221.54	C
Estimated monthly usage included in payment:				
B&W overage rate per sheet	0.0165			
Base B&W sheets included in payment	1,500			
B&W usage estimate	24.75	A		
Color overage rate per sheet	0.0935			
Base color sheets included in payment	200			
Color usage estimate	18.70	B		
Total usage estimate	43.45	A + B	43.45	D
Monthly equipment lease payment			178.09	C - D

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How to use the templates:

- Select the correct template, Lessee or Lessor, Depending on your organization's role in the lease.
- Answer all questions in the lease questionnaire located on the "Info" tab.
- Answer the questions in order as the questions are interactive. See Example 2 in the following slides.
- Complete the payment schedules on the "Lessee/Lessor Calculations" tab. See Examples 3 and 4 on the following tabs.
- Review the resulting journal entries.

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Example 2 – Lease Questionnaire for Copier Operating Lease:

Lease Questionnaire			
1	Lease Description (ie. "Office Lease", "Equipment Lease", etc.)	Savin/Ricoh C2500 Copier	<< Enter brief description of lease
2	What is your fiscal year end?	6/30/2022	<< Select from dropdown list
3	Beginning Lease Date	2/11/2021	<< Enter beginning lease date
4	Was the lease in place prior to the first year of GASB 87 implementation?	Y	<< Formula driven by prior responses
5	Prior fiscal year end for lease restatement under GASB 87	6/30/2021	<< Formula driven by prior responses
6	Ending Lease Date	5/10/2026	<< Enter ending lease date
7	First Lease Payment Due Date on/after 2/11/2021	3/10/2021	<< Enter the first lease payment due date after the date indicated
8	Last Lease Payment Due Date	5/10/2026	<< Enter the last lease payment due date in the lease term
9	What is the lease payment frequency (monthly, quarterly, annually)?	Monthly	<< Select from dropdown list
10	Are there any lease prepayments to be applied to future months?	N	<< Select from dropdown list
11	NA		<< Leave Blank
12	Are there additional delivery and installation costs associated with the leased asset?	N	<< Select from dropdown list
13	NA		<< Leave Blank
14	Was a lease incentive received at or before the commencement of the lease?	N	<< Select from dropdown list
15	NA		<< Leave Blank
16	What is the annual discount rate for the lease at 7/1/2021	46.2%	<< Use the annual discount rate stated in lease if available, otherwise use the internal rate of return for the lease. If the internal rate of return cannot be determined, use the organization's annual incremental borrowing rate (See GASB 62 paragraphs 183-184)
17	Prior to GASB 87, is this lease an operating or capital lease?	Operating	<< Select from dropdown list

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Example 2 – Lease Questionnaire, Continued:

Complete the prior FYE financial information for the lease (ENTER CREDIT AMOUNTS AS NEGATIVE AMOUNTS):			
18	NA	-	<< Leave Blank
19	NA	-	<< Leave Blank
20	NA	-	<< Leave Blank

Note that all of the questions in the second section of the questionnaire appear as "NA". Questions #18-20 above are "NA" in our example because they relate only to capital leases. Because there are typically no balances associated with operating leases, only rent expenditures/outflows, no prior year information is needed.

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Example 3 – Payment Schedule – Expected Payments:

Expected/Base Lease Payments and Lease Liability								
	Payment Date	INPUT Expected Scheduled Payment Amount net of any Lease Incentive (include asset component, do not include usage/other components)	Warnings	PV	Beg of Month Principal	Interest	Principal (Reduction)Inc ease	End of Month Principal
1	3/10/2021	178.09		171.48	4,196.21	161.62	(16.47)	4,179.74
2	4/10/2021	178.09		165.12	4,179.74	160.99	(17.10)	4,162.64
3	5/10/2021	178.09		159.00	4,162.64	160.33	(17.76)	4,144.88
4	6/10/2021	178.09		153.10	4,144.88	159.65	(18.44)	4,126.44
5	7/10/2021	178.09		147.43	4,126.44	158.94	(19.15)	4,107.28
6	8/10/2021	178.09		141.96	4,107.28	158.20	(19.89)	4,087.39

The payment dates automatically populate based upon answers provided in the questionnaire. The lease related payment is then entered in the adjacent column for all months of the lease (63 months for this lease). Be sure to input just the lease related payment. See Example 1. **Also, net any known lease incentives from the payment amount in this column.**

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Example 4 – Payment schedule – actual payments:

	Payment Date	INPUT Actual Scheduled Payment Amount net of Lease Incentive	Input Errors	Difference Between Actual and Expected Rent	INPUT Add'l Usage/ Insurance/Other Payments for Lease (those deemed not unreasonable) net of any Contingent and Variable Lease Incentives	Total Actual Payment	Adjustment to Lease Expense
1	3/10/2021	178.09		-	43.45	221.54	43.45
2	4/10/2021	178.09		-	43.45	221.54	43.45
3	5/10/2021	178.09		-	43.45	221.54	43.45
4	6/10/2021	178.09		-	43.45	221.54	43.45
5	7/10/2021	178.09		-	43.45	221.54	43.45

Input the actual scheduled lease payment, net of known lease incentives, in the first circled column and the actual usage payment in the second red highlighted column. If we had overage usage, property tax, insurance, a maintenance component, or contingent/variable lease incentives, these costs would also go in the second red column. See Example 1 for the calculation of the usage component.

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How to use the templates, continued:

- After the questionnaire and payment schedules are complete, then template provides:
 - a lease liability/receivable calculation and an amortization table;
 - a lease asset/deferred inflow calculation and amortization table; and
 - resulting journal entries.

- All calculations should be reviewed for reasonableness. Make sure you understand your work and related output.

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Helpful Tips:

- Select the correct template. The lessor and lessee templates look similar, but the output is very different.
- To avoid unnecessary work or journal entry calculation errors, complete the questionnaire in order. Answer question 1 first, then 2, then 3, etc.
- If you include prepayments in questions #10-11 or lease incentives in questions #14-15, do not also include them in the payment schedules on the calculation tab.
- Review the journal entries and adjust as necessary. The template does not factor in every circumstance, such as insurance payments covering multiple periods, missed lease payments, etc.

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Helpful tips, continued:

- Use your capital asset system to track capital asset transactions and related depreciation calculations.
- Depreciation schedules provided in the template are for illustrative purposes and are not an adequate substitute for the unit's capital asset system.
- If you are reporting multiple leases under GASB 87, you will be creating a separate template for each. Start each one from a blank template versus overwriting a completed one.
- Refer to GASB 87, GASB 87 Implementation Guide, and SLGFD lease memos, Part 1 and Part 2 when using the templates.

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CONTACT INFORMATION :

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