



Exposure Draft

February 19, 2019

Comments Due: April 30, 2019

Proposed Implementation Guide
of the Governmental Accounting Standards Board

Leases

This Exposure Draft of a proposed Implementation Guide is cleared by
the Board for public comment.
Written comments should be addressed to:

Director of Research and Technical Activities
Project No. 3-24

Governmental Accounting Standards Board

IMPLEMENTATION GUIDANCE ON LEASES

WRITTEN COMMENTS

Deadline for submitting written comments: April 30, 2019

Written comments. We invite your comments on the implementation guidance in this proposed Implementation Guide.

Because this proposed Implementation Guide may be modified before it is cleared as a final Implementation Guide, it is important that you comment on any aspects with which you agree as well as any with which you disagree. To facilitate our analysis of comment letters, it would be helpful if you explain the reasons for your views, including alternatives that you believe the GASB should consider.

Comments should be addressed to the Director of Research and Technical Activities, Project No. 3-24, and emailed to director@gasb.org.

OTHER INFORMATION

Public files. Written comments will become part of the Board's public file and are posted on the GASB's website.

This Exposure Draft may be downloaded from the GASB's website at www.gasb.org.

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Proposed Implementation Guide of the Governmental Accounting Standards Board

Leases

February 19, 2019

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INTRODUCTION

1. The objective of this Implementation Guide is to provide guidance that clarifies, explains, or elaborates on the requirements of Statement No. 87, *Leases*.

IMPLEMENTATION GUIDANCE

Applicability of This Implementation Guide

2. The requirements of this Implementation Guide apply to the financial statements of all state and local governments.
3. Paragraphs C2 and C4 of this Implementation Guide include provisions to remove from the *Codification of Governmental Accounting and Financial Reporting Standards* and from the *Comprehensive Implementation Guide*, respectively, the transition-related questions and answers in this Implementation Guide at the conclusion of the transition period for this Implementation Guide.

New Questions and Answers

4. Questions and answers in this paragraph address issues related to accounting and financial reporting for leases in accordance with the requirements of Statement 87.

Scope and Applicability of Statement 87

- 4.1. Q—A government leases land, which has a market rent of \$100,000 per year, for \$1 per year. Should the government apply the guidance in Statement 87 to that transaction?

A—No. The definition of a lease in paragraph 4 of Statement 87 specifies that the Statement should be applied only to exchange or exchange-like transactions. Paragraph 1 of Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, classifies all transactions of state and local governments into two categories: (a) exchange and exchange-like and (b) nonexchange. The government's lease of land for \$1 does not meet the description of an exchange or exchange-like transaction in that each party does not receive or give up essentially equal value or not quite equal value.

- 4.2. Q—A government enters into a multi-year lease of a facility. The government has exclusive use of the facility four days a week. Other parties use the facility on the other days. To meet the definition of a lease, is the government, as the lessee, required to have sole control of the right to use the facility?

A—No. In determining whether a contract conveys control of the right to use an underlying asset, paragraph 5 of Statement 87 requires a government to assess whether it has (a) the right to obtain the present service capacity from use of the

underlying asset and (b) the right to determine the nature and manner of use of the underlying asset “as specified in the contract.” If the contract specifies that the government has control of those rights during four days of each week, the control criterion is met. The requirement that the contract be for a period of time does not require uninterrupted usage.

4.3. Q—Are certain easements excluded from the scope of Statement 87?

A—Yes. An easement is a lease only if it meets the definition of a lease. Paragraph 4 of Statement 87 states that, among other things, a lease is “for a period of time in an exchange or exchange-like transaction” (footnote reference omitted). Permanent easements do not meet the period-of-time criterion. In addition, easements obtained for an amount that does not meet the Statement 33, as amended, description of exchange or exchange-like transactions do not meet the exchange or exchange-like criterion.

4.4. Q—A contract allows the lessor to replace the underlying asset with an identical asset. Does that substantive right of substitution affect the application of Statement 87?

A— No. A lease conveys control of the *right to use* another entity’s asset. That right is distinct from the underlying asset. That is, the right-to-use asset relates to the *service capacity* associated with an underlying asset, rather than the underlying asset itself. Substitution with an essentially identical asset allows the lessee to maintain control of the right to use the service capacity of another entity’s underlying asset and does not violate the definition of a lease.

4.5. Q—To obtain access to additional power during the warmest months of the year, a government enters into a contract with a private party wherein the government has full control of a portion of a power plant, specifically, a steam turbine, from March through October for three years. The government makes fixed payments to obtain exclusive rights to the present service capacity and to determine the nature and manner of use of the steam turbine. In addition, the government makes variable payments that are based on actual usage and output. Does this contract include a lease?

A—Yes. Paragraph 8f of Statement 87 states that the Statement does not apply to supply contracts. However, this contract conveys control of the right to use the underlying asset (a steam turbine) as specified in the contract for a period of time in addition to the right to the output generated by the underlying asset. The portion of the contract that requires fixed payments pertains to the full control of a steam turbine and meets the definition of a lease in paragraphs 4 and 5 of Statement 87. The variable payments based on actual usage and output are supply contract payments and are therefore excluded from the lease liability. (See also Question 4.12.)

4.6. Q—Are cell phone tower or antenna placement agreements leases?

A—If they meet the criteria to be a lease, including the control criterion, then such agreements are leases. The control criterion generally is met if a cell phone tower or antenna placement agreement conveys control of the right to use the land on which the tower is placed or the connection point to which the antenna is affixed.

4.7. Q—A government enters into a lease agreement that conveys control of the right to use a parcel of land to a company that engages in oil and gas exploration and production. Is this lease excluded from Statement 87?

A—No. While paragraph 8a of Statement 87 excludes “leases of intangible assets, including rights to explore for or to exploit natural resources such as oil, gas, and minerals,” that exclusion applies only when the underlying asset in the lease is the intangible right to those resources. In this example, the land itself is the underlying asset. In contrast, if the government only provided the company with the right to explore for oil and gas but did not convey control of the right to use the land, that lease would be excluded from Statement 87.

4.8. Q—A government owns land that it leases to another entity for use as cropland. Is this contract excluded from Statement 87 as a lease of biological assets?

A—No. Leases of biological assets are excluded from the leases guidance by paragraph 8b of Statement 87. While the use of land for farming may produce biological assets, the underlying asset of the lease is the land, which is not a biological asset. Therefore, this lease would not be excluded from the scope of Statement 87.

4.9. Q—A city-owned zoo leases 2 lions, 2 tigers, and 12 penguins for a specific period of time. Is this contract excluded from Statement 87 as a lease of biological assets?

A—Yes. In this case, the underlying assets of the lease are the lions, tigers, and penguins. Those animals would be considered biological assets.

4.10. Q—A government enters into an agreement that provides another entity with the right to use the government’s land. The other entity plans to use the land for hunting and is the only party that is allowed to access and use the land during hunting season each year for the term of the agreement (five years). Is the hunting rights agreement a lease?

A—Yes. Because the lessee is the only party allowed to access and use the land during the hunting season each year, the contract conveys control of the right to use the underlying asset (the land). (See also Question 4.2.)

4.11. Q—A government enters into an agreement that allows a rancher to use the government’s land for grazing. The agreement states that the rancher is required to allow access to the land for compatible public recreation activities. In addition, the agreement states that the government can construct roads and buildings, or otherwise

alter the land, without permission from the rancher. Is the grazing rights agreement a lease?

A—No. The agreement does not convey the right to determine the nature and manner of use of the underlying asset because the lessee cannot prevent others from accessing, using, or altering the land. (See also Questions 4.8 and 4.10.)

4.12. Q—Paragraph 8f of Statement 87 states that the Statement does not apply to supply contracts. How does a supply contract differ from a lease?

A—Supply contracts, such as power purchase agreements, are contracts that are intended to result in the purchase or sale of a commodity, such as natural gas or electricity, used in the normal course of operations. Such agreements normally do not convey the right to use the underlying asset. For example, in a supply contract, a government has a right to some or all of the output generated by the underlying asset, but it does not have the ability to *control* the use of the underlying asset.

4.13. Q—A government enters into a contract with a private party wherein the private party will design and build a solar farm based on the government’s specifications. The solar farm will be located on the government’s property, but title to the solar equipment will be retained by the private party. The contract requires the government to purchase all of the power generated from the solar farm and make payments based solely on the amount of power generated. The contract also requires the private party to dismantle and remove the solar farm at the end of the contract. Does this contract result in a lease of solar equipment?

A—No. Paragraph 8f of Statement 87 states that Statement 87 does not apply to supply contracts. Therefore, Statement 87 does not address the component of the contract that provides the government with the right to all of the power generated by the solar farm. However, the component of the contract that allows the private party to use the government’s property may be a lease. (See also Question 4.6 regarding equipment placed on government property and Question 4.33 regarding the removal of assets.)

Lease Term

4.14. Q—A developer builds and leases a building to a government. The government is required to make payments during the three-year construction period. The government does not have access to the building until a certificate of occupancy is issued at the end of the construction period. When does the lease term begin?

A—Paragraph 12 of Statement 87 states that the lease term commences when the lessee has a noncancellable right to use the underlying asset. Paragraph 5 of Statement 87 further explains that the right to use the underlying asset is the right to obtain the present service capacity from its use and the right to determine the nature and manner of its use. Thus, the lease term commences when the lessee gains physical possession of the asset or attains access to use the underlying asset. In this example,

the lease term begins when the certificate of occupancy is issued because that is when the government gains access to the building. (See also Question 4.35.)

- 4.15. Q—A lease contract has a noncancellable period of five years and specifies that at the end of the five years, the lessor and lessee may continue the lease, using the same terms during the renegotiation period. Is the month-to-month holdover period included in the initial assessment of the lease term?

A—No. During the holdover period, the lessee has not contracted for a noncancellable right to use an underlying asset, and the lessor is not required to continue providing the asset. That is, the holdover period is cancellable by either party and, therefore, is excluded from the lease term, as defined in paragraph 12 of Statement 87.

- 4.16. Q—How does a bargain renewal option, such as a 20-year lease with a \$1 option to renew the lease for an additional 5 years, affect the initial assessment of the lease term?

A—Paragraph 14 of Statement 87 requires that, at the commencement of the lease term, the lessee and the lessor assess all factors relevant to the likelihood that the lessee or lessor will exercise lease extension or termination options identified in paragraphs 12a–12d of that Statement. Relevant factors include significant economic incentives and disincentives, such as the cost of exercising the renewal option and the expected condition and maintenance requirements for the underlying asset during the extension period. In this example, if the governmental lessee or lessor determines that it is reasonably certain that the option will be exercised, the lease term for the lessee or lessor would be 25 years.

- 4.17. Q—A lease contract allows either party to cancel the lease at any time but also provides for cancellation penalties. Are the cancellable periods excluded from the lease term?

A—Paragraph 12 of Statement 87 requires that periods for which both the lessee and the lessor have an option to terminate the lease without permission from the other party be excluded from the lease term as cancellable periods. The presence of cancellation penalties does not affect this conclusion. (See also Question 4.18.)

- 4.18. Q—A lease contract allows only the lessee to cancel the lease at any time but also provides for cancellation penalties. Are the cancellable periods excluded from the lease term?

A—Paragraph 12 of Statement 87 requires that periods covered by either a lessee or a lessor option to terminate the lease be included in the lease term if it is reasonably certain, based on all relevant factors, that the lessee or lessor will not exercise the option. In determining whether it is reasonably certain that the lessee will not exercise the option to terminate the lease, the lessee (or in the case in which the government is the lessor—the lessor) should assess all factors relevant to the likelihood that the lessee will not exercise the option, including significant economic disincentives, such

as a cancellation penalty, as discussed in paragraph 14 of Statement 87. (See also Question 4.32.)

Short-Term Leases

- 4.19. Q—A government enters into a 12-month lease with the lessee having options to renew for 12 months at a time, up to 49 times. Is this agreement a short-term lease under Statement 87?

A—No. According to paragraph 16 of Statement 87, the maximum possible term is required to be 12 months or less, including any options to extend. The presence of lessee renewal options, regardless of their probability of being exercised, means this lease does not meet the definition of a short-term lease.

- 4.20. Q—A government enters into a lease with a six-month noncancellable period and an option to extend for one year. The government is not reasonably certain that it will exercise the option to extend and, therefore, assesses the lease term as six months. Is this agreement a short-term lease under Statement 87?

A—No. Paragraph 16 of Statement 87 states that a short-term lease “has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised.” Therefore, the lessee should report a lease liability and a lease asset; however, the lease term would be only six months.

- 4.21. Q—A city enters into a lease with a lessor for 16 months. The city can cancel the lease at any time after six months. The lessor does not have the option to cancel the lease. For purposes of determining whether this lease is a short-term lease, what is the maximum possible term for this lease?

A—The maximum possible term is 16 months. Paragraph 16 of Statement 87 defines the maximum possible term as the noncancellable period for a lease that is cancellable by “either the lessee or the lessor.” However, the intent of that provision is that the lessee and lessor *both* are required to have a right to cancel. Because only the lessee has the right to cancel in this scenario, the maximum possible term would be the full 16 months that the lease could last and, therefore, it is not a short-term lease.

- 4.22. Q—A government signs a contract for a lease beginning January 1, 20X2, and ending December 31, 20X2. During the negotiations of that contract, a second contract also was being negotiated. One month after signing the first contract, the government signs the second contract with the same party for a lease of the same asset with a term beginning January 1, 20X3, and ending December 31, 20X3. The amount of consideration in each contract is independent of the other contract. Can the government account for both contracts as short-term leases?

A—While each contract individually would meet the definition of a short-term lease, the government should consider the guidance for contract combinations in paragraphs 69 and 70 of Statement 87. If those contracts were negotiated as a package with a

single objective (the intent was to lease the asset for two years, even though the structure is two single-year lease contracts), then it would be considered a two-year lease and would not qualify as a short-term lease.

Contracts That Transfer Ownership

4.23. Q—An equipment vendor installs equipment on a government’s building to increase energy efficiency. The government makes payments to the equipment vendor based on a percentage of the government’s energy cost savings. The government will own the equipment at the end of the agreement, and the contract does not contain a termination option. Is this transaction a lease for financial reporting purposes?

A—No. If title to the equipment transfers to the lessee by the end of the contract, the transaction is not accounted for as a lease for financial reporting purposes. Rather, the transaction is a financed purchase, as discussed in paragraph 19 of Statement 87.

4.24. Q—A school district leases computers. At the end of the lease term, students are given the option to purchase their computer from the school district. Regardless of whether the students purchase their computers, the school district is required to purchase all computers from the lessor. Should this arrangement be reported as a financed purchase of the computers by the school district?

A—Yes. Paragraph 19 of Statement 87 states that one criterion of a financed purchase is that the contract transfers ownership of the underlying asset to the lessee by the end of the contract. In this example, the lessee is the school district, not the students. The sale of computers to the students is a separate transaction.

Lessee Recognition and Measurement for Leases Other Than Short-Term Leases and Contracts That Transfer Ownership

Lease Liability

4.25. Q—A government adopts a capitalization threshold and expenses acquisitions, including lease assets, that fall below that threshold. Can the government apply a similar threshold to recording lease liabilities?

A—Authoritative pronouncements do not provide specific guidance related to a capitalization threshold. However, governments often use capitalization thresholds in practice so that limited resources are not spent accounting for insignificant items. When applying a capitalization threshold to leases, lessees should consider the significance of the lease liability in addition to the significance of the lease asset in accordance with the guidance provided in Question 7.4.1 of *Implementation Guide No. 2015-1*, as amended. Significant lease liabilities, either individually or in the aggregate, should be recognized.

4.26. Q—A government enters into a lease with another government that includes an optional extension period of three years, exercisable only by the lessee. The payment

schedule for the optional period will be negotiated at the time the option is exercised. The lessee has an ongoing relationship with the lessor and is reasonably certain that it will exercise its option to extend. How should the lessee measure the lease liability if the payment amount for the optional period is not specified in the contract?

A—Paragraph 12a of Statement 87 requires that periods covered by a lessee option to extend the lease should be included in the lease term if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option. In this example, the payments may be estimated based on the lessee and lessor’s ongoing relationship and professional judgment, maximizing the use of observable information. In that case, the payments for the three-year extension period would be included in the lease liability as payments expected to be made during the lease term.

- 4.27. Q—Lease payments for a five-year lease are indexed to the Consumer Price Index (CPI). The lease payments for the first year are \$5,000 per month, and payments for subsequent years will increase or decrease based on the change in CPI during the preceding year. The CPI at the commencement of the lease is 251. How should the initial lease liability be calculated?

A—Paragraph 21b of Statement 87 requires that variable payments that depend on an index or rate initially be measured using the index or rate as of the commencement of the lease term. If lease payments are indexed to the CPI, the payments to be included in the initial measurement of the lease liability should be based on the CPI in effect when the lease commences. If the CPI is 251 at the commencement of the lease, a government would assume it will stay at 251 throughout the lease, which would result in consistent lease payments for initial measurement of the lease liability because the subsequent years’ payments are based on the change in CPI. Therefore, the lease liability should be calculated at the present value of \$5,000 per month for 60 months. (See Illustration B3 in nonauthoritative Appendix B.)

- 4.28. Q—A government leases tires for its transit fleet. Lease payments are based entirely on miles driven, and the government expects each bus to entirely wear out several sets of tires over the contract period, consuming essentially all of the estimated service capacity of the tires. Should the government record an estimated liability for the expected total payments over the lease term?

A—No. The variable payments associated with the tire leases depend on miles driven (that is, future performance of the lessee or usage of the underlying asset) by the government. Thus, the variable payments do not have a baseline measurement at the commencement of the lease term and, therefore, are excluded from the measurement of the liability as described in paragraph 22 of Statement 87. Those variable payments should be recognized as outflows of resources in the period(s) in which the obligation for those payments is incurred. (See also Question 4.42.)

- 4.29. Q—A lease contract for copy machines requires that a minimum amount be paid for toner and paper regardless of whether these supplies are obtained. Should some

portion of the minimum amount to be paid for supplies be included in the measurement of the lease liability?

A—As discussed in paragraphs 66 and 67 of Statement 87, if the amount that the lessee is required to pay for supplies does not appear to be unreasonable, regardless of whether supplies are obtained, the government should account for the supplies separately from the lease and therefore not include it in the measurement of the lease liability. If the amount appears to be unreasonable, professional judgment may be needed to determine whether some or all of the minimum amount is, in substance, a fixed lease payment that should be included in the measurement of the lease liability.

- 4.30. Q—A government enters into two leases. The first lease requires monthly lease payments based on a fixed percentage of sales or \$10,000, whichever is more. The second lease includes a choice to pay either (a) a fixed monthly payment of \$30,000 or (b) \$100 per hour of equipment use with a monthly minimum payment of \$10,000. The choice is made by the lessee at the beginning of each month. Which payments from the two leases should be included in the lease liability?

A—Paragraph 21c of Statement 87 requires that the lease liability include “variable payments that are fixed in substance.” For both leases, the minimum amount that is required to be paid (\$10,000) is fixed in substance and therefore should be included in the lease liability.

- 4.31. Q—A school district leases buses for two years and is required to make variable payments based on the number of miles driven. The school district is reasonably certain of the minimum number of miles that will be driven based on established routes. Paragraph 21h of Statement 87 requires that a lease liability include “any other payments that are reasonably certain of being required based on an assessment of all relevant factors.” Should the lease liability include the reasonably certain variable lease payments?

A—No. Paragraph 22 of Statement 87 requires that variable payments based on future performance of the lessee or usage of the underlying asset not be included in the measurement of the lease liability. Rather, those variable payments should be recognized as outflows of resources in the period(s) in which the obligation for those payments is incurred. (See also Question 4.42.)

- 4.32. Q—Paragraph 21f of Statement 87 states that measurement of the lease liability should include “payments for penalties for terminating the lease, if the lease term reflects the lessee exercising (1) an option to terminate the lease or (2) a fiscal funding or cancellation clause.” Does *term* refer to a provision of the contract or does it refer to the lease term as defined in paragraphs 12–15 of Statement 87?

A—In paragraph 21f of Statement 87, *term* refers to the lease term as defined in paragraphs 12–15 of that Statement. If the lease term was calculated to reflect the lessee terminating the lease, the measurement of the lease liability should include all penalties that are expected to be incurred.

4.33. Q—A lessee installs physical assets on leased land and is required by the lease contract to remove those assets and restore the land to pre-lease condition at the end of the lease. Should the lessee include the obligation to remove the assets in the lease liability or should the lessee report an asset retirement obligation (ARO) under Statement No. 83, *Certain Asset Retirement Obligations*?

A—If payments are included in the lease contract to compensate the lessor for doing the restoration work, the payments should be included in the lease liability. Alternatively, if the lessee is directly responsible for the restoration work, the lessee should report an ARO under Statement 83, separate from its lease liability. Paragraph 21h of Statement 87 requires that the lease liability include any other payments that are reasonably certain of being required based on an assessment of all relevant factors. However, that requirement does not include payments that are reasonably certain of being required from the lessee to parties other than the lessor.

4.34. Q—A government leases a fleet of vehicles for half of their estimated useful lives. The lease does not specify the discount rate. Total lease payments over the term of the lease are \$1.1 million, and the fair value of the vehicles at the commencement of the lease is \$2 million. May the fair value of the vehicles be used in determining the implicit discount rate of the lease?

A—Yes. Discounting the lease payments at the rate the lessor charges the lessee, explicitly or implicitly, arrives at the fair value of the intangible right to use the vehicles, which is not necessarily equivalent to the fair value of the vehicles. Using the \$2 million fair value of the vehicles at the commencement of the lease to determine the implicit discount rate in a lease may be appropriate if the government has determined that, considering the facts and circumstances of the agreement, the fair value of the vehicles approximates the fair value of the lessee's right to use the vehicles. In this example, the interest associated with the lease is \$100,000. If those values differ because the lease uses less than the entire useful life of the vehicles (in this case, half of their estimated value), the fair value of the service utility of the vehicles for the lease term may be estimated using professional judgment, maximizing the use of observable information, and that fair value may be used rather than the fair value of the vehicles.

Lease Asset

4.35. Q—A government makes payments related to a building lease during a construction period before gaining access to the building. Can payments made during the construction period be reported as a lease asset at the time they are paid?

A—No. Payments made before commencement of the lease term represent prepayments. At the commencement of the lease term, the lessee obtains the right to use the underlying asset by either gaining physical possession of the asset or attaining access to use the underlying asset. The lease asset is the right to use the underlying asset rather than the underlying asset itself. The right to use makes the underlying asset a resource to the lessee and provides the lessee access to the underlying asset's

present service capacity. Therefore, at the commencement of the lease term, the prepayments would be reclassified as part of the initial measurement of the lease asset, as provided in paragraph 30b of Statement 87.

4.36. Q—Can composite or group methods be used to amortize lease assets?

A—Yes. If a government has many similar leases, it may choose to amortize the lease assets as a group rather than individually. Similarly, if a collection of dissimilar leases comprises, for example, a network subsystem, composite amortization may be applied to the lease assets of the subsystem. (See also Questions 7.15.3 and 7.15.4 in Implementation Guide 2015-1.)

4.37. Q—A government leases land and amortizes the lease asset because it is not reasonably certain that it will purchase the land. If the government subsequently becomes reasonably certain that it will purchase the land, should the lease asset be remeasured to the amount of the initial measurement before the lease asset was amortized?

A—No. If a lease contract includes a purchase option and the lessee determines that it is reasonably certain of being exercised, paragraph 32 of Statement 87 requires that the lease asset be amortized over the useful life of the underlying asset, unless the underlying asset is nondepreciable. Therefore, the government should cease amortizing the lease asset as of the date that the government becomes reasonably certain that it will purchase the underlying asset. (The government should not reclassify the lease asset as land until the purchase occurs.) The lessee also should determine whether exercising the purchase option is expected to significantly affect the amount of the lease liability. A lease asset generally should be adjusted by the same amount as the corresponding lease liability when that liability is remeasured based on paragraphs 25–29 of Statement 87. Paragraph 25c of that Statement requires the lessee to remeasure the lease liability when an assessment of all relevant factors indicates that the likelihood of a purchase option being exercised has changed from reasonably certain to not reasonably certain, or vice versa.

4.38. Q—What would be the answer to Question 4.37 if the underlying asset were a depreciable asset such as equipment?

A—The government in Question 4.37 would continue to amortize its lease asset once it becomes reasonably certain that it will purchase a depreciable underlying asset. However, the government should amortize the lease asset over the remaining useful life of the underlying asset, if different from the lease term. Additionally, the asset value that is amortized may change if the lease liability is adjusted for the change in likelihood of the purchase option being exercised, as described in Question 4.37.

4.39. Q—At the end of year 9 of a 10-year lease, a flood damages a leased building. Before the flood, the lessee reported a lease asset, net of amortization, of \$275,000, and a lease liability of \$300,000. Because of the damage, the lessor reduces the lessee's remaining payments by \$20,000, and the lessee determines that the remaining service

utility of the lease asset is only \$100,000. How should the lessee report the impairment?

A—Paragraph 34 of Statement 87 states that the lease asset should be reduced first for any change in the corresponding lease liability, with any remaining amount of the decrease in the lease asset’s service utility being recognized as an impairment. Accordingly, the lessee should reduce the lease liability and lease asset by \$20,000 for the reduction of remaining payments due to the lessor. The lessee also should reduce the lease asset by an additional \$155,000 and record an impairment of \$155,000 to reflect the remaining decrease in service utility of the lease asset. However, if the change in the lease liability had been sufficient to reduce the carrying value of the lease asset to zero, any remaining reduction of the lease liability should be reported as an inflow in the resource flows statement (for example, a gain) as discussed in paragraph 33 of Statement 87.

Notes to Financial Statements—Lessees

4.40. Q—Can amortization expense for lease assets be combined with depreciation expense in the required disclosure by function?

A—Yes. Paragraph 117d of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, requires disclosure of amounts of depreciation expense “charged to each of the functions in the statement of activities.” If the lease amortization expense is applicable to multiple functions in the statement of activities, it should be charged to those functions accordingly. Therefore, lease amortization expense by function should be disclosed and may be combined with the disclosure of depreciation expense by function.

4.41. Q—Does a lessee’s ability to group lease activities for the purpose of disclosure also apply to disclosures in other paragraphs, such as disclosures of sublease transactions required by paragraph 81 of Statement 87?

A—Yes. The grouping provisions in paragraph 37 of Statement 87 apply to disclosures in which a grouping option is not specifically addressed in other disclosure requirements.

4.42. Q—A government makes lease payments based only on the use of leased equipment. Future payments are variable payments based on usage of the underlying asset; therefore, the government does not record a lease asset and lease liability. Is the government required to disclose the lease?

A—Yes. The lessee should apply the lease disclosure requirements in paragraphs 37–39 of Statement 87, as applicable, unless the lease meets the short-term lease exception.

4.43. Q—A government purchases an underlying asset from the lessor and, as a result, terminates a lease. The government reclassifies the right-to-use lease asset to the

appropriate asset class. How should this reclassification be disclosed in the notes to financial statements?

A—Paragraph 37b of Statement 87 requires that lease assets, and the related accumulated amortization, be disclosed separately from other capital assets. Because lease assets are capital assets, paragraphs 116–120 of Statement 34 apply. Upon termination of the lease and purchase of the underlying asset, the lessee should disclose a decrease of the lease asset and an increase of a capital asset in the appropriate capital asset class, as described in paragraph 117 of Statement 34, as amended. Alternatively, a reclassification column could be used to show the change from lease asset to the other capital asset class.

4.44. Q—Should lease assets be included with other capital assets in the disclosure of changes in capital assets?

A—Yes. Lease assets are capital assets and, therefore, should be included in the disclosure of changes in capital assets. Paragraph 37c of Statement 87 requires lessees to disclose “the amount of lease assets by major classes of underlying assets, disclosed separately from other capital assets.” Paragraphs 116 and 117 of Statement 34, as amended, require disclosure of information about major classes of capital assets, including disclosure of changes in capital assets.

4.45. Q—A government makes a residual value guarantee payment during the reporting period. Should this payment be disclosed in the aggregate with other payments not previously included in the measurement of the lease liability?

A—Yes. Paragraph 37e of Statement 87 requires lessees to disclose “the amount of outflows of resources recognized in the reporting period for other payments, such as residual value guarantees or termination penalties, not previously included in the measurement of the lease liability.” The other payments noted in paragraph 37e of Statement 87 should be disclosed in the aggregate because they represent subtypes of “other payments” distinct from the other types of items, such as lease assets, commitments, and impairments, for which disclosure is required by paragraph 37 of that Statement. Nevertheless, additional information about the subtypes in paragraph 37e of Statement 87 may be provided.

Lessor Recognition and Measurement for Leases Other Than Short-Term Leases and Contracts That Transfer Ownership

4.46. Q—A state holds legal title to land and grants the right to use that land to a school district. Subsequently, the school district leases the land to a third party. In the lease to the third party, is the lessor the state or the school district?

A—The lessor is the school district because the school district has conveyed its right to control the use of the underlying asset to the third party. Provided that the school district is allowed to enter into a lease, the school district’s ability to obtain the present service capacity from use of the underlying asset and to determine the nature and

manner of use of the underlying asset is evidenced by the school district's ability to convey those rights to another party. In substance, there are two transactions. First, the state has donated the right to use the land to the school district in a nonexchange transaction. Second, the school district has leased its right to use the land to the third party. The second transaction is equivalent to leasing the intangible right-to-use asset created by a sublease.

- 4.47. Q—Paragraph 40 of Statement 87 requires initial direct costs to be reported as outflows by a government lessor. What are initial direct costs?

A—Initial direct costs that are required to be reported as outflows by a government lessor are (a) costs to originate a lease incurred in transactions with independent third parties that (1) result directly from and are essential to acquiring that lease and (2) would not have been incurred had that leasing transaction not occurred and (b) certain costs directly related to specified activities performed by the lessor for that lease. Those activities are evaluating the prospective lessee's financial condition; evaluating and recording guarantees, collateral, and other security arrangements; negotiating lease terms; preparing and processing lease documents; and closing the transaction. (See also Question 4.61.)

Leases of Assets That Are Investments

- 4.48. Q—A state pension fund owns a building that is classified as an investment. The pension fund enters into a contract that conveys the right to use the building to a non-governmental entity. Should that contract be accounted for as a lease?

A—No. The state pension fund holds the building as an investment, rather than a lease, in accordance with paragraph 41 of Statement 87.

Certain Regulated Leases

- 4.49. Q—An airport has a lease contract with an airline. The contract includes space for aeronautical use as well as nonaeronautical use, as defined by the Federal Aviation Administration. How does paragraph 43 of Statement 87 apply to this lease?

A—A single contract may contain more than one lease. A lease of airport space for nonaeronautical use is not expected to meet the criteria in paragraph 43 of Statement 87 for treatment as a regulated lease. If a contract contains a lease component that meets the criteria of paragraph 43 and a lease component that does not meet the criteria of paragraph 43, the components should be separated in accordance with the multiple component guidance in paragraphs 63–68 of that Statement.

Lease Receivable

- 4.50. Q—A government leases retail space to a vendor for three years. The principal portion in the first year is \$100,000 (“minimum annual guarantee”). The principal portion in the second year depends on sales in the first year. If the first year's sales exceed \$1,000,000, the minimum annual guarantee for the second year is \$110,000.

If the first year's sales were less than \$1,000,000, the minimum annual guarantee for the second year is \$100,000, and the minimum annual guarantee for the third year is \$90,000. What amounts should be included in the lessor's lease receivable at the commencement of the lease?

A—The lease receivable should include the variable payments that are fixed in substance and not dependent upon the future performance of the lessee, as described in paragraph 45 of Statement 87. In this example, the payments that would be made if the lessee were to have \$0 in sales each year should be included in the lease receivable at the commencement of the lease because the lease payments increase with increased sales. The individual payments to be included in the calculation of the lease receivable total \$290,000 (first year—\$100,000, second year—\$100,000, and third year—\$90,000).

- 4.51. Q—In addition to fixed payments, a lease contract includes provisions for variable payments based on future performance and for a residual value guarantee that did not initially meet the criteria for recognition in the lease receivable. If those variable payments and residual value guarantee subsequently meet the criteria for recognition, should the amounts be added to the existing lease receivable or reported as separate receivables?

A—When the variable payments and residual value guarantee meet the criteria for recognition, the amounts should be added to the existing lease receivable. Paragraphs 45 and 46 of Statement 87 state that variable payments based on future performance and residual value guarantees that are not fixed in substance should not be included in the measurement of the lease receivable. The intent of paragraphs 45 and 46 of that Statement is to clarify *when* uncertain payments excluded from the initial measurement of the lease receivable qualify for recognition in the lease receivable. Those paragraphs exclude certain payments from the initial measurement of the lease receivable because they are contingent payments.

- 4.52. Q—Can methodologies other than the interest method, such as straight-line amortization, be used to amortize the discount on lease receivables?

A—No. Lease receivables should be amortized using the interest method. Paragraph 185 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, describes the “interest method” of amortization as a method that amortizes a discount “as interest . . . revenue over the life of the note in such a way as to result in a constant rate of interest when applied to the amount outstanding at the beginning of any given period.” Paragraph 47 of Statement 87 states that lessors are not required to apply the guidance for imputation of interest in paragraphs 173–187 of Statement 62, as amended, but may do so; however, that option applies to the imputation of the interest rate, not to the method of amortizing the discount.

Deferred Inflow of Resources

- 4.53. Q—Paragraph 31 of Statement 87 requires lessees to amortize their lease asset over the shorter of the lease term or the useful life of the underlying asset. Can the lessor recognize the deferred inflow of resources as an inflow over the useful life of the underlying asset if it differs from the lease term?

A—No. The guidance for leases is based on the foundational principle that leases are financings. In a lease transaction, the lessee promises to make payments over time for the right to use an underlying asset. Accordingly, the lessor recognizes inflows, including interest revenue, over that period of time—the lease term, which may be different than the useful life of the underlying asset.

- 4.54. Q—Halfway through a 10-year lease, a lessor remeasures the lease receivable from \$500,000 to \$10,000, due to a reduction in the lease term. The related deferred inflow of resources balance at that date was \$480,000. How does the remeasurement of the lease receivable affect the measurement of the remaining deferred inflow of resources?

A—According to paragraph 54 of Statement 87, the deferred inflow of resources generally should be adjusted by the same amount as the corresponding lease receivable when the receivable is remeasured. However, if that change reduces the carrying value of the deferred inflow of resources to zero, any remaining amount should be reported as an outflow in the resource flows statement (for example, a loss). Accordingly, the lessor should reduce the lease receivable by \$490,000 and the deferred inflow of resources by \$480,000 and record an outflow of \$10,000.

Underlying Asset

- 4.55. Q—A county issues bonds to purchase fire trucks and leases the fire trucks to a city. The lease includes an option for the city to purchase the fire trucks for the present value of the remaining bond payments. Should the county derecognize the fire trucks if the county determines it is reasonably certain that the city will exercise the purchase option?

A—No. The county should continue to report the fire trucks as capital assets until the purchase option is exercised. Paragraph 55 of Statement 87 states that “a lessor should not derecognize the asset underlying the lease.” Paragraph 46 of that Statement states that amounts to be received for the exercise price of a purchase option should be recognized as an inflow of resources (for example, revenue) when that option is exercised.

- 4.56. Q—How should the lessor assess impairment of an underlying asset when the rights to that asset are controlled by the lessee and the lessor does not have physical access to the underlying asset?

A—Paragraph 8 of Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, states that “the events or changes in circumstances affecting a capital asset that may indicate impairment are prominent—that is, conspicuous or known to the government. Absent any such events or changes in circumstances, governments are not required to perform additional procedures to identify potential impairment of capital assets beyond those already performed as part of their normal operations.” Absent any indication of impairment from the lessee, or other impairment information known to the lessor, the lessor would not recognize any impairment of the underlying asset in accordance with the provisions of Statement 42, as amended.

Notes to Financial Statements—Lessors

- 4.57. Q—Does a lessor’s ability to group lease activities for the purpose of disclosure also apply to disclosures in other paragraphs, such as disclosures of sublease transactions required by paragraph 81 of Statement 87?

A—Yes. The grouping provisions in paragraph 57 of Statement 87 apply to disclosures in which a grouping option is not specifically addressed in other disclosure requirements.

- 4.58. Q—An airport leases gates under agreements that meet the definition of certain regulated agreements in paragraph 42 of Statement 87. Fifteen of the airport’s gates are leased under exclusive use agreements to three airlines. Other airlines rent the airport’s other nine gates on a per-use basis. Paragraph 60b of Statement 87 requires the airport to disclose “the extent to which capital assets are subject to preferential or exclusive use by counterparties under agreements, by major class of assets and by major counterparty.” Is the airport required to disclose the carrying value of gates under exclusive use agreements?

A—No. The airport could meet the requirement in paragraph 60b of Statement 87, for example, by disclosing the number of gates leased under exclusive use contracts by major counterparty and the number of gates rented on a per-use basis. Other methods of disclosure may include the percentage of gate square footage currently leased under exclusive use agreements or the carrying amount of the gates leased under exclusive use agreements.

Lease Incentives

- 4.59. Q—Lease incentive payments provided by a lessor before the commencement of a lease term are included in the initial measurement of the lease asset. How are such

payments reported by the lessee until the lease asset is recognized at the time the lease term commences?

A—Lease incentives received by a lessee before the commencement of the lease term would reduce any lease prepayments made by the lessee and be reclassified to the lease asset at the commencement of the lease. If there are no lease prepayments, the advance incentives would result in a liability until the commencement of the lease term. At that time, the lease incentives would be reclassified to a reduction of the lease asset. (See Illustration B2 in nonauthoritative Appendix B for an example of an incentive after the lease begins.)

- 4.60. Q—A governmental lessor makes incentive payments to a lessee to relieve the lessee's existing obligation to another lessor. The payments are made prior to the commencement of the lease term. How are such payments reported by the governmental lessor?

A—The governmental lessor will recognize a prepayment at the time the payments are made. Paragraph 62 of Statement 87 provides that lease incentive payments should be considered reductions of lease payments for the periods in which the incentive payments are provided. Because the lease incentives relate to the beginning of the lease, in this case, at the commencement of the lease, the prepaid amount will be recognized as a reduction of lease revenue in that period.

Contracts with Multiple Components

- 4.61. Q—A government leases equipment that will be installed by the lessor for an additional \$10,000. The lease contract requires the government to pay the lessor for installation of the equipment over the life of the lease. Should the government record the installation costs as part of the lease liability or as a separate contract?

A—Initial direct costs are not included in the measurement of the lease liability. Installation costs generally are considered a nonlease component. Because the \$10,000 is a payment for installation costs and not a payment for the right to use the equipment, it is not considered a lease payment under paragraph 21 of Statement 87 and should be accounted for as a separate contract. However, the installation costs should be included in the initial measurement of the lease asset in accordance with paragraph 30c of Statement 87.

- 4.62. Q—A government leases a certain piece of equipment. The contract includes the use of the equipment and a license for the software run by the equipment. Should the government separate those components for accounting purposes?

A—Yes. If a lease contains multiple underlying assets, the lease components should be separated if the accounting treatment for each underlying asset would be different. Statement 87 does not apply to software licenses but does apply to the use of the equipment. Therefore, in this example, the components of the lease should be separated.

4.63. Q—A government leases two floors of an eight-floor building. A part of the lease payments covers the government’s share of utilities and janitorial costs for maintaining a lobby that all tenants share. Should the utilities and janitorial costs for the lobby be included in the government’s lease liability?

A—Based on paragraph 64 of Statement 87, if the government is able to separate and estimate the costs for those services, the costs should not be included in the government’s lease liability. For example, if the lease contract itself does not specify the amount (in dollars or percentage), the government could request that information from the landlord. Additionally, local real estate professionals may have statistics such as average charges per square footage. However, if the government is unable to separate the costs and estimate them, based on the provisions in paragraph 67 of Statement 87, the janitorial services and utility costs for the lobby should be included in the government’s lease liability.

4.64. Q—A contract conveys the right to use a building for 30 years and the attached parking garage for 15 years. Should the discount rate be separately assessed for each component?

A—Yes. Paragraph 65 of Statement 87 requires that lease contracts involving multiple underlying assets be accounted for as separate lease components if the underlying assets have different lease terms. The reporting of two components instead of one may affect the discount rate implicit in the agreement. The lessee’s implicit incremental borrowing rate may differ between the two components because of differences in lease terms.

4.65. Q—If a lease contract with multiple components meets the exception in paragraph 67 of Statement 87 to be accounted for as a single lease unit, paragraph 68 of that Statement requires that “the accounting for that unit should be based on the primary lease component within that unit.” What factors may be useful in determining the primary lease component?

A—The determination of which component is the primary lease component in a contract with multiple components requires professional judgment, maximizing the use of observable information. The following characteristics, among others, may be indicative of a primary component:

- a. The component performs a function that is the government’s primary objective in entering into the contract.
- b. The component’s fair value is substantial relative to the fair values of the other components.
- c. The lease term of the component is longer than the lease terms of the other components.
- d. The component’s benefit to the government is substantial relative to the benefits of the other components.

Contract Combinations

- 4.66. Q—A government solicits bids for a fleet of public safety vehicles and leases the assets from the lowest bidder. A separate lease agreement is used for each vehicle. The leases are entered into over the course of several months as the police and fire departments review the specifications of each agreement. The lease contracts do not provide information about the government’s objectives. Can the government’s procurement processes be used to determine whether there is a single objective?

A—Yes. Paragraph 69a of Statement 87 requires that contracts that are entered into at or near the same time with the same counterparty be considered part of the same contract if negotiated as a package with a single objective. In this situation, in the absence of explicit information in the contracts about the government’s objectives, the government’s procurement processes provide sufficient information to determine the government’s objective for entering into the lease agreements.

- 4.67. Q—A state enters into a master vendor agreement that specifies models, prices, and contract terms for computers. State agencies and departments subsequently contact the vendor to lease the computers as needed. Should all the computers leased under a master vendor agreement be considered one contract for the purpose of applying the guidance in paragraph 69 of Statement 87?

A—The use of a master vendor agreement does not require that the underlying contracts be accounted for as part of the same contract unless the contracts are entered into at or near the same time and at least one of the criteria in paragraphs 69a and 69b of Statement 87 is met.

Lease Modifications and Terminations

- 4.68. Q—While a lease contract is in effect, the provisions of the contract are amended to change the number of vehicles included in the contract. Are additions and subtractions of underlying assets in a lease accounted for as a lease modification or a lease termination?

A—A lease amendment that adds an underlying asset to the contract and the increase in lease payments does not appear to be unreasonable should be accounted for as a lease modification (for example, increasing the lease from three vehicles to four). Alternatively, a lease amendment that removes an underlying asset from the contract (for example, decreasing the lease from three vehicles to two) should be accounted for as a partial lease termination.

- 4.69. Q—A 10-year lease contract includes an option to extend the lease for 5 years if both the lessor and lessee agree. Because both parties have to agree to extend, paragraph 12 of Statement 87 refers to this as a cancellable period and, therefore, it has been excluded from the lease term. If, during the lease term, the lessor and lessee agree to

extend the contract for five years, should this be accounted for as a lease modification or as a new lease?

A—Because both parties have to agree to the optional five-year period, it is considered cancellable and, therefore, not subject to the lease term reassessment guidance in paragraph 15 of Statement 87. However, once the lessor and lessee agree to exercise the five-year option, it becomes enforceable. Paragraph 71 of Statement 87 states that lengthening a lease term while the contract is in effect is an amendment that should be considered a lease modification.

Lease Modifications

Lessees

4.70. Q—Three years into a 4-year lease, a school district modifies its lease from 200 computers to 230 computers due to an increase in enrollment, changing the remaining lease liability from \$200,000 to \$202,500. The school district has determined that the increase in the lease payments appears to be unreasonable based on the advertised list price of the computers. How should the school district account for the amendment to the lease?

A—Because the school district has determined that the increase in the lease payments appears to be unreasonable based on the advertised list price of the computers, the school district should account for this as a lease modification. Paragraph 73 of Statement 87 states that unless a modification is reported as a separate lease as provided by paragraph 72, a lessee should account for a lease modification by remeasuring the lease liability. The lease asset should be adjusted by the difference between the remeasured liability and the liability immediately before the lease modification. Thus, the lease asset should be increased by \$2,500, which represents the difference between the remeasured liability and the liability immediately before the lease modification.

Lessors

4.71. Q—A government leases one floor of an office building to a private party for several years. In the middle of the lease, a significant downturn in the local real estate market occurs. The government and the lessee renegotiate the rental payments for the remainder of the lease. The lease receivable (present value of lease payments expected to be received during the remaining lease term) before the amendment was \$500,000 and after it was \$270,000. How should the government account for the lease modification?

A—Paragraph 75 of Statement 87 states that unless a modification is reported as a separate lease as provided in paragraph 72, a lessor should account for a lease modification by remeasuring the lease receivable. Thus, the lease receivable should decrease by \$230,000, which represents the difference between the receivable before the lease modification and the remeasured receivable. Additionally, the deferred

inflow of resources should decrease by \$230,000. However, to the extent that the change in the lease receivable relates to payments for the current period, the change should be recognized as a decrease in revenue.

Lease Terminations

Lessees

4.72. Q—Two years into a 10-year lease, the lease term is reduced to 5 years. At the time of the amendment, the carrying value of the lease liability is \$80,000, and the carrying value of the lease asset is \$76,000. How should the lessee account for the partial termination of the lease?

A—According to paragraph 78 of Statement 87, the lessee should account for the amendment as a decrease in the right to use the underlying asset. For example, if, in accordance with paragraph 25 of Statement 87, the lessee determines that the remeasured liability is \$50,000, the lease liability and the lease asset each should be reduced by \$30,000.

Lessors

4.73. Q—Two years into a 10-year lease, the remaining lease agreement is cancelled. The carrying value of the lease receivable is \$80,000, and the related deferred inflow of resources is \$76,000. How should the lessor account for the full termination of the lease?

A—According to paragraph 79 of Statement 87, once the lease is terminated, the carrying value of the lease receivable and the related deferred inflow of resources should be eliminated. A loss of \$4,000 should be recognized in financial statements that apply the economic resources measurement focus. In financial statements that apply the current financial resources measurement focus, an other financing use should be recognized.

Sale-Leaseback Transactions

4.74. Q—The difference between the carrying value of a capital asset that was sold and the net proceeds of the sale in a sale-leaseback transaction is reported as a deferred inflow of resources or a deferred outflow of resources and subsequently recognized in the resource flows statements. Should the amount of inflows or outflows of resources recognized in subsequent years be considered part of the sale transaction or lease transaction?

A—The recognition of the deferred inflow of resources or deferred outflow of resources should be considered a component of the sale transaction because this amount represents the overall gain or loss on the sale of the asset.

4.75. Q—A government sells a building to a third party and leases a different but equivalent building from the same party. As part of the consideration for the building

sale, the government receives rent concessions for the leased building. Is this a sale-leaseback transaction?

A—No. A sale-leaseback transaction involves the sale and leaseback of the same underlying asset. Because the sale and the lease relate to two different underlying assets, the sale and the lease should be recorded as two separate transactions. The rent concessions should be recorded as part of the consideration for the sale rather than as a lease incentive and, therefore, should not affect the initial recording of the lease.

Lease-Leaseback Transactions

4.76. Q—A government leases an office building to a private party and determines that, as a lessor, its initial lease receivable and related deferred inflow of resources are \$3,000,000. The government leases back one floor of the building to house its finance department and determines that, as a lessee, its initial lease liability and related lease asset are \$700,000. How should the lease-leaseback transaction be reported?

A—Paragraph 87 of Statement 87 requires that lease-leasebacks be reported as net transactions. In a lease-leaseback transaction, each party is both a lessor and a lessee. Because each portion of the transaction is with the same counterparty, a right of offset exists. The lease liability and the lease receivable should be offset and reported as either a net lease liability or a net lease receivable. Similarly, the lease asset and the deferred inflow of resources should be offset. In this example, the government should report a lease receivable (net of the leaseback) and a deferred inflow of resources (net of the leaseback) of \$2,300,000.

4.77. Q—A government leases land to a contractor on which the contractor will build a new school and lease both the land and the school back to the government. The government makes advance lease payments to the contractor during construction. How should the government report the lease during the construction period?

A—Prior to the new building being made available to the government, the lease of the land to the contractor should be reported as a stand-alone lease. Any lease payments made to the contractor prior to the new building being made available should be reported as a prepayment. Once the new building is made available to the government, the lease and the prepayment should be accounted for as a lease-leaseback transaction. (See also Question 4.14.)

Intra-Entity Leases

4.78. Q—A county building authority is a blended component unit of a county. The building authority acquires and constructs public capital assets to lease them to the county. Should the leases with the county be eliminated as intra-entity leases in the financial statements of the reporting entity?

A—Yes. Paragraph 88 of Statement 87 states that “when the lessor is a blended component unit, the debt and assets of the lessor should be reported as if they were the primary government’s debt and assets.” However, the building authority should report the leases in its stand-alone financial statements.

Effective Date and Transition of Statement 87

4.79. Q—For leases that were reported as operating leases prior to the implementation of Statement 87, should a government determine what the lease asset would be on the date of implementation if it initially had been recognized as a capital lease and amortized in prior periods?

A—No. Paragraph 94 of Statement 87 states that leases should be measured using the facts and circumstances that existed at the beginning of the period of implementation. The government is not required to estimate what the lease asset would have been if it initially had been recognized as a capital lease and amortized in prior periods. The right-to-use asset should be measured based on the lease liability at the beginning of the earliest period restated.

4.80. Q—In a period prior to the implementation of Statement 87, a government entered into a capital lease with an interest rate of 5 percent and recorded a capital asset and liability of \$45,600. At the beginning of the earliest period restated, the carrying value of the capital asset is \$20,900, and the liability (principal outstanding) is \$21,500. The government determines that the liability at that date should be \$22,500 under Statement 87 due to a change in the assessment of the lease term. For leases that were reported as capital leases prior to the implementation of Statement 87, can the government use the carrying value of the capital lease asset at the beginning of the earliest period restated as the measure of the lease asset?

A—Paragraph 94 of Statement 87 states that leases should be measured using the facts and circumstances that exist at the beginning of the period of implementation. This allows for use of the carrying value of the existing capital lease asset, adjusted for any amounts included in or excluded from the lease liability under Statement 87 that previously were not included or excluded. In this example, the government should report a \$1,000 increase of the lease liability to \$22,500 due to the reassessment of the lease term. Accordingly, the lease asset should be increased by the same amount (\$1,000), to \$21,900.

EFFECTIVE DATE AND TRANSITION OF THIS IMPLEMENTATION GUIDE

5. The requirements of this Implementation Guide are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged if Statement 87 has been implemented.

6. Changes adopted to conform to the provisions of this Implementation Guide should be applied retroactively by restating financial statements, if practicable, for all prior periods presented. If restatement for prior periods is not practicable, the cumulative effect, if any, of applying this Implementation Guide should be reported as a restatement of beginning net position for the earliest period restated. In the first period that this Implementation Guide is applied, the notes to financial statements should disclose the nature of the restatement and its effect. Also, the reason for not restating prior periods presented should be disclosed.

The requirements in this Implementation Guide need not be applied to immaterial items.

Appendix A

BACKGROUND

A1. Statement No. 87, *Leases*, was issued in June 2017 with an effective date for reporting periods beginning after December 15, 2019. In December 2017, the GASB added a project to its technical agenda to develop implementation guidance related to Statement 87.

A2. Questions and answers are included in this Implementation Guide to address issues raised by the GASB's stakeholders through inquiries posed to the GASB or through comments submitted in response to GASB due process documents. Still others address issues identified by the GASB in anticipation of questions that will arise during implementation of Statement 87.

A3. The GASB assembled a consultative group for the project that was broadly representative of the GASB's stakeholders. Members of the group provided suggestions regarding potential topics to be addressed in the Implementation Guide and were provided with drafts of potential questions and answers for review and comment.

Appendix B

ILLUSTRATIONS

B1. This nonauthoritative appendix presents illustrations related to Statement 87. The facts assumed in these examples are illustrative only and may not be indicative of current economic conditions. These examples are not intended to modify or limit the requirements being illustrated or to indicate the GASB's endorsement of the policies or practices shown. Application of certain provisions may require accounting treatments, disclosures, or formats other than those illustrated. In some cases, amounts that may be considered immaterial are used to illustrate specific requirements or alternatives. No inferences regarding determining materiality should be drawn from these illustrations. Amounts presented may include rounding differences.

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Illustration B1—Lessee Reporting of an Equipment Lease

Illustration B2—Lessee Reporting of a Building Lease with a Lease Incentive

Illustration B3—Variable Payments That Depend on an Index or a Rate

Illustration B1—Lessee Reporting of an Equipment Lease

The following example illustrates the application of the guidance in Statement 87 to a lease of equipment by a city government.

Facts and Assumptions

A city enters into a lease contract to obtain equipment. The lease begins on January 1, 20X1, the first day of the city's fiscal year, and is for 60 months. The city has an option to extend the lease for an additional 24 months. The city is unsure whether it will exercise the option to extend the lease. After the end of the 60 months (if the city does not extend the lease) or 84 months (if the city does extend the lease), the lease may be continued on a month-to-month basis.

The base monthly payment is \$1,000, due on the 1st of each month, and includes 200 machine hours. If the city uses more than 200 machine hours in a month, it is required to pay \$5 per excess hour. In addition, the contract requires an \$80 monthly payment for repairs and maintenance, which is a reasonable amount for those services. During any month-to-month period, each monthly payment can be adjusted upward based on the Consumer Price Index with 30 days' notice.

The lease contract states an interest rate of 4 percent. There is a separate contract with the lessor for delivery (\$800) and installation (\$700) of the equipment, which is due with the first lease payment.

Accounting and Financial Reporting

Lease Term

The noncancellable period of the lease is 60 months. Because the city is not reasonably certain that it will exercise the option to extend the lease for an additional 24 months, it should not include those months in the lease term. The potential month-to-month extensions also would not be included in the lease term because these periods are not enforceable (either the city or the lessor can cancel). Therefore, the lease term should include only the noncancellable period—60 months. (See paragraphs 12–14 of Statement 87.)

Initial Measurement of the Lease Asset and Lease Liability

<u>Payment Type</u>	<u>Include in Measurement?</u>	<u>Amount</u>	
Base payment	Yes, fixed payments are included.	\$ 54,480	(\$1,000/month × 60 months discounted at 4%)
Excess use charge	No, variable payments based on future usage are excluded.	-	
Repair and maintenance	No, service (nonlease) components are excluded unless not practicable.	-	
	Initial value of lease liability	<u>\$ 54,480</u>	
Delivery and installation	Yes, initial direct costs are included.	1,500	(\$800 delivery + \$700 installation)
	Initial value of lease asset	<u><u>\$ 55,980</u></u>	

Subsequent Measurement of the Lease Asset and Lease Liability

The city chooses to amortize the lease asset on a straight-line basis—\$933/month (\$55,980 lease asset divided by 60 months).

The monthly payment schedule for reducing the lease liability in the first year is as follows:

<u>Date</u>	<u>Beginning Balance</u>	<u>Interest Accrued</u>	<u>Interest Paid</u>	<u>Principal Paid</u>	<u>Total Payment</u>	<u>Balance after Payment</u>
1/1/20X1	\$ 54,480	\$ -	\$ -	\$ 1,000	\$ 1,000	\$ 53,480
2/1/20X1	53,480	178	178	822	1,000	52,658
3/1/20X1	52,658	176	176	824	1,000	51,834
4/1/20X1	51,834	173	173	827	1,000	51,007
5/1/20X1	51,007	170	170	830	1,000	50,177
6/1/20X1	50,177	167	167	833	1,000	49,344
7/1/20X1	49,344	164	164	836	1,000	48,508
8/1/20X1	48,508	162	162	838	1,000	47,670
9/1/20X1	47,670	159	159	841	1,000	46,829
10/1/20X1	46,829	156	156	844	1,000	45,985
11/1/20X1	45,985	153	153	847	1,000	45,138
12/1/20X1	45,138	150	150	850	1,000	44,289
12/31/20X1	44,289	148	-	-		
			<u>\$ 1,809</u>	<u>\$ 10,191</u>		

Assuming the lease payments do not need to be remeasured at subsequent financial reporting dates (see paragraphs 25–29 of Statement 87), the annual lease liability amortization schedule for the remainder of the lease is as follows:

<u>Date</u>	<u>Beginning Balance</u>	<u>Interest Paid</u>	<u>Principal Paid</u>	<u>Total Payment</u>	<u>Year-End Principal Balance</u>	<u>Year-End Accrued Interest</u>
12/31/20X2	\$ 44,289	\$ 1,582	\$ 10,418	\$ 12,000	\$ 33,871	\$ 113
12/31/20X3	33,871	1,157	10,843	12,000	23,028	77
12/31/20X4	23,028	716	11,284	12,000	11,744	39
12/31/20X5	11,744	256	11,744	12,000	-	-

Illustration B2—Lessee Reporting of a Building Lease with a Lease Incentive

The following example illustrates the application of the lease incentives guidance in paragraphs 61 and 62 of Statement 87 by a lessee to a lease that includes a lease incentive.

Facts and Assumptions

A utility enters into a lease for a building for a noncancellable term of 10 years. Fixed payments of \$15,000 are due at the beginning of each year. At the end of the first year, the utility is entitled to a rebate (a lease incentive) of \$5,000. The discount rate is 6 percent.

Accounting and Financial Reporting

Lease Liability

The lease incentive is treated as a reduction of the lease payments. Because the incentive is provided at the end of year 1, it was determined that the incentive was a reduction of the second year's payment and would be factored into the present value of lease payments for that year, in accordance with paragraph 62 of Statement 87. The calculation of the initial lease liability is as follows:

<u>Year</u>	<u>Payment</u>	<u>Present Value</u>	<u>Incentive</u>	<u>Present Value</u>	<u>Total</u>
1	\$ 15,000	\$ 15,000	\$ -	\$ -	\$ 15,000
2	15,000	14,151	(5,000)	(4,717)	9,434
3	15,000	13,350	-	-	13,350
4	15,000	12,594	-	-	12,594
5	15,000	11,881	-	-	11,881
6	15,000	11,209	-	-	11,209
7	15,000	10,574	-	-	10,574
8	15,000	9,976	-	-	9,976
9	15,000	9,411	-	-	9,411
10	15,000	8,878	-	-	8,878
		Initial lease liability			<u>\$112,308</u>

Lease Asset

The lease incentive would reduce the lease asset by the same amount as the lease liability.

Illustration B3—Variable Payments That Depend on an Index or a Rate

The following examples illustrate the application of the guidance in Statement 87 to a lease of a building by a school district with variable payments that depend on an index or a rate.

Example 1—Variable Payments That Depend on an Index

Facts and Assumptions

A school district enters into a lease contract for a building for five years. Lease payments are due at the beginning of each year. The payment for each year is 100 times the Consumer Price Index (CPI) as of December 31 of the prior year. The lease commences on January 1, 20X1. The CPI as of December 31, 20X0, was 251.

Accounting and Financial Reporting

The first payment, due January 1, 20X1, will be \$25,100 (100 times the CPI of 251). In accordance with paragraph 21b of Statement 87, the variable payments should initially be measured using the CPI as of the commencement of the lease term. Therefore, the initial measurement of the lease liability will be the present value of \$125,500 (\$25,100 per year, multiplied by 5 years).

If the CPI at December 31, 20X1, increases to 253, the school district's payment on January 1, 20X2, will be \$25,300. The additional \$200 will be recognized as an outflow of the period.

Example 2—Variable Payments That Depend on the Change in a Rate

Facts and Assumptions

A school district enters into a lease contract for a building for five years. Lease payments are due at the beginning of each year. The payment for the first year is \$25,000. Payments in subsequent years will increase or decrease based on the change in the prime interest rate over the preceding year. The lease commences on January 1, 20X1. The prime interest rate as of January 1, 20X1, was 5.0 percent.

Accounting and Financial Reporting

The first payment, due January 1, 20X1, will be \$25,000. In accordance with paragraph 21b of Statement 87, variable payments should initially be measured using the prime interest rate as of the commencement of the lease term. In the initial measurement of the lease liability, the change in the prime interest rate is assumed to be zero, which would result in subsequent payments that would not vary from the first payment amount. Therefore, the initial measurement of the lease liability should be the present value of \$125,000 (\$25,000 per year multiplied by 5 years).

If the prime interest rate at January 1, 20X2, is 5.1 percent, a 2 percent increase, the school district's payment on January 1, 20X2, will be \$25,500. The additional \$500 will be recognized as an outflow of the period.

Appendix C

CODIFICATION INSTRUCTIONS

Codification of Governmental Accounting and Financial Reporting Standards—December 2019 Update

C1. The instructions that follow update the December 31, 2018 *Codification of Governmental Accounting and Financial Reporting Standards* (Codification) for the provisions of this Implementation Guide. Only the question number from this Implementation Guide is listed if the question and answer will be cited in full in the Codification.

* * *

[Update cross-references throughout.]

* * *

LEASES

SECTION L20

Sources: [Add GASBIG 201X-Y.]

[Replace all Implementation Guidance material with the following:]

.701 Scope and Applicability of This Section

.701-1–.701-13 [GASBIG 201X-Y, Q4.1–Q4.13]

.702 Lease Term

.702-1–.702-5 [GASBIG 201X-Y, Q4.14–Q4.18]

.703 Short-Term Leases

.703-1–.703-4 [GASBIG 201X-Y, Q4.19–Q4.22]

.704 Lessees

No questions assigned.

.705 Lessors

No questions assigned.

.706 Contracts That Transfer Ownership

.706-1–.706-2 [GASBIG 201X-Y, Q4.23–Q4.24]

.707 Lessee Recognition and Measurement for Leases Other Than Short-Term Leases and Contracts That Transfer Ownership

No questions assigned.

.708 Lease Liability

.708-1–.708-10 [GASBIG 201X-Y, Q4.25–Q4.34]

.709 Lease Asset

.709-1–.709-5 [GASBIG 201X-Y, Q4.35–Q4.39]

.710 Financial Statements Prepared Using the Current Financial Resources Measurement Focus

No questions assigned.

.711 Notes to Financial Statements—Lessees

.711-1–.711-6 [GASBIG 201X-Y, Q4.40–Q4.45]

.712 Lessor Recognition and Measurement for Leases Other Than Short-Term Leases and Contracts That Transfer Ownership

.712-1–.712-2 [GASBIG 201X-Y, Q4.46–Q4.47]

.713 Leases of Assets That Are Investments

.713-1 [GASBIG 201X-Y, Q4.48]

.714 Certain Regulated Leases

.714-1 [GASBIG 201X-Y, Q4.49]

.715 Lease Receivable

.715-1–.715-3 [GASBIG 201X-Y, Q4.50–Q4.52]

.716 Deferred Inflow of Resources

.716-1–.716-2 [GASBIG 201X-Y, Q4.53–Q4.54]

.717 Underlying Asset

.717-1–.717-2 [GASBIG 201X-Y, Q4.55–Q4.56]

.718 Financial Statements Prepared Using the Current Financial Resources Measurement Focus

No questions assigned.

.719 Notes to Financial Statements—Lessors

.719-1–.719-2 [GASBIG 201X-Y, Q4.57–Q4.58]

.720 Lease Incentives

.720-1–.720-2 [GASBIG 201X-Y, Q4.59–Q4.60]

.721 Contracts with Multiple Components

.721-1–.721-5 [GASBIG 201X-Y, Q4.61–Q4.65]

.722 Contract Combinations

.722-1–.722-2 [GASBIG 201X-Y, Q4.66–Q4.67]

.723 Lease Modifications and Terminations

.723-1–.723-2 [GASBIG 201X-Y, Q4.68–Q4.69]

.724 Lease Modifications

No questions assigned.

.725 Lessees

.725-1 [GASBIG 201X-Y, Q4.70]

.726 Lessors

.726-1 [GASBIG 201X-Y, Q4.71]

.727 Lease Terminations

No questions assigned.

.728 Lessees

.728-1 [GASBIG 201X-Y, Q4.72]

.729 Lessors

.729-1 [GASBIG 201X-Y, Q4.73]

.730 Subleases

No questions assigned.

.731 Sale-Leaseback Transactions

.731-1–.731-2 [GASBIG 201X-Y, Q4.74–Q4.75]

.732 Lease-Leaseback Transactions

.732-1–.732-2 [GASBIG 201X-Y, Q4.76–Q4.77]

.733 Intra-Entity Leases

.733-1 [GASBIG 201X-Y, Q4.78]

.734 Leases between Related Parties

No questions assigned.

.735 Effective Date and Transition

.735-1–.735-2 [GASBIG 201X-Y, Q4.79–Q4.80]

* * *

Codification—December 2021 Update

C2. The instructions that follow update paragraph C1 of this Implementation Guide to remove transition guidance included in this Implementation Guide.

* * *

LEASES

SECTION L20

[Delete heading .735 and Questions .735-1–.735-2.]

* * *

Comprehensive Implementation Guide—December 2019 Update

C3. The instructions that follow update the December 31, 2018 *Comprehensive Implementation Guide* for the provisions of this Implementation Guide. Only the question number from this Implementation Guide is listed if the question and answer will be cited in full in the *Comprehensive Implementation Guide*.

* * *

Insert new Chapter 12 material as follows:

QUESTIONS AND ANSWERS

12.1 Scope and Applicability of This Section

12.2 Definition of a Lease

12.2.1–12.2.3. [GASBIG 201X-Y, Q4.1–Q4.3]

12.3 Conveys Control of the Right to Use the Underlying Asset

12.3.1–12.3.3. [GASBIG 201X-Y, Q4.4–Q4.6]

12.4 Exclusions

12.5 Intangible Assets

12.5.1. [GASBIG 201X-Y, Q4.7]

12.6 Biological Assets

12.6.1–12.6.4. [GASBIG 201X-Y, Q4.8–Q4.11]

12.7 Inventory

12.8 Service Concession Arrangements

12.9 Conduit Debt

12.10 Supply Contracts

12.10.1–12.10.2. [GASBIG 201X-Y, Q4.12–Q4.13]

12.11 Lease Term

12.11.1. [GASBIG 201X-Y, Q4.14]

12.12 Noncancellable Period

12.12.1. [GASBIG 201X-Y, Q4.15]

12.13 Options to Extend or Terminate

12.13.1–12.13.3. [GASBIG 201X-Y, Q4.16–Q4.18]

12.14 Fiscal Funding or Cancellation Clauses

12.15 Relevant Factors

12.16 Reassessment

12.17 Short-Term Leases

12.17.1–12.17.4. [GASBIG 201X-Y, Q4.19–Q4.22]

12.18 Lessees

12.19 Lessors

12.20 Contracts That Transfer Ownership

12.20.1–12.20.2. [GASBIG 201X-Y, Q4.23–Q4.24]

12.21 Lessee Recognition and Measurement for Leases Other Than Short-Term Leases and Contracts That Transfer Ownership

12.22 Lease Liability

12.22.1. [GASBIG 201X-Y, Q4.25]

12.23 Initial Measurement

12.23.1. [GASBIG 201X-Y, Q4.26]

12.24 Lease payment

12.25 Fixed payments

12.26 Variable payments

12.26.1–12.26.5. [GASBIG 201X-Y, Q4.27–Q4.31]

12.27 Residual value guarantees

12.28 Exercise price of a purchase option

12.29 Termination penalties

12.29.1. [GASBIG 201X-Y, Q4.32]

12.30 Lease incentives

12.31 Other payments

12.31.1. [GASBIG 201X-Y, Q4.33]

12.32 Discount rate

12.32.1. [GASBIG 201X-Y, Q4.34]

- 12.33** *Subsequent Amortization*
- 12.34** *Remeasurement*
- 12.35** Changes requiring remeasurement
- 12.36** *Adjustments for variable payments*
- 12.37** *Discount rate*
- 12.38** Lease Asset
- 12.39** *Initial Measurement*
- 12.40** Lease liability
- 12.41** Payments at or before commencement
 - 12.41.1. [GASBIG 201X-Y, Q4.35]
- 12.42** Lease incentives
- 12.43** Initial direct costs
- 12.44** *Subsequent Amortization*
 - 12.44.1. [GASBIG 201X-Y, Q4.36]
- 12.45** Purchase option
 - 12.45.1–12.45.2. [GASBIG 201X-Y, Q4.37–Q4.38]
- 12.46** *Remeasurement*
- 12.47** *Impairment*
 - 12.47.1. [GASBIG 201X-Y, Q4.39]
- 12.48** Financial Statements Prepared Using the Current Financial Resources Measurement Focus
- 12.49** Notes to Financial Statements—Lessees
 - 12.49.1–12.49.3. [GASBIG 201X-Y, Q4.40–Q4.42]
- 12.50** Paragraph 37a
- 12.51** Paragraph 37b
 - 12.51.1. [GASBIG 201X-Y, Q4.43]
- 12.52** Paragraph 37c

12.52.1. [GASBIG 201X-Y, Q4.44]

12.53 Paragraph 37d

12.54 Paragraph 37e

12.54.1. [GASBIG 201X-Y, Q4.45]

12.55 Paragraph 37f

12.56 Paragraph 37g

12.57 Paragraph 37h

12.58 Paragraph 38

12.59 Paragraph 39

12.60 Lessor Recognition and Measurement for Leases Other Than Short-Term Leases and Contracts That Transfer Ownership

12.60.1–12.60.2. [GASBIG 201X-Y, Q4.46–Q4.47]

12.61 Leases of Assets That Are Investments

12.61.1. [GASBIG 201X-Y, Q4.48]

12.62 Certain Regulated Leases

12.62.1. [GASBIG 201X-Y, Q4.49]

12.63 Lease Receivable

12.64 *Initial Measurement*

12.65 Lease payment

12.66 *Fixed payments*

12.67 *Variable payments*

12.67.1. [GASBIG 201X-Y, Q4.50]

12.68 *Residual value guarantees*

12.69 *Lease incentives*

12.70 *Payments not included in initial measurement*

12.70.1. [GASBIG 201X-Y, Q4.51]

12.71 Discount rate

12.72 *Subsequent Amortization*

12.72.1. [GASBIG 201X-Y, Q4.52]

12.73 *Remeasurement*

12.74 Changes requiring remeasurement

12.75 Adjustments for variable payments

12.76 Discount rate

12.77 Deferred Inflow of Resources

12.78 *Initial Measurement*

12.79 *Subsequent Recognition*

12.79.1. [GASBIG 201X-Y, Q4.53]

12.80 *Remeasurement*

12.80.1. [GASBIG 201X-Y, Q4.54]

12.81 Underlying Asset

12.81.1–12.81.2. [GASBIG 201X-Y, Q4.55–Q4.56]

12.82 Financial Statements Prepared Using the Current Financial Resources Measurement Focus

12.83 Notes to Financial Statements—Lessors

12.83.1. [GASBIG 201X-Y, Q4.57]

12.84 Paragraph 57a

12.85 Paragraph 57b

12.86 Paragraph 57c

12.87 Paragraph 57d

12.88 Paragraph 58

12.89 Paragraph 59

12.90 Paragraph 60a

12.91 Paragraph 60b

12.91.1. [GASBIG 201X-Y, Q4.58]

12.92 Paragraph 60c

12.93 Paragraph 60d

12.94 Paragraph 60e

12.95 Paragraph 60f

12.96 Lease Incentives

12.97 Description

12.98 Recognition and Measurement

12.98.1–12.98.2. [GASBIG 201X-Y, Q4.59–Q4.60]

12.99 Contracts with Multiple Components

12.100 Identification

12.100.1–12.100.3. [GASBIG 201X-Y, Q4.61–Q4.63]

12.101 Allocation

12.101.1. [GASBIG 201X-Y, Q4.64]

12.102 Single-Lease Unit

12.102.1. [GASBIG 201X-Y, Q4.65]

12.103 Contract Combinations

12.103.1–12.103.2. [GASBIG 201X-Y, Q4.66–Q4.67]

12.104 Lease Modifications and Terminations

12.104.1–12.104.2. [GASBIG 201X-Y, Q4.68–Q4.69]

12.105 Lease Modifications

12.106 Lessees

12.107 Remeasurement

12.107.1. [GASBIG 201X-Y, Q4.70]

12.108 Debt refundings

12.109 Lessors

12.110 Remeasurement

12.110.1. [GASBIG 201X-Y, Q4.71]

12.111 Debt refundings

12.112 Lease Terminations

12.113 Lessees

12.113.1. [GASBIG 201X-Y, Q4.72]

12.114 Lessors

12.114.1. [GASBIG 201X-Y, Q4.73]

12.115 Subleases

12.116 Sale-Leaseback Transactions

12.116.1–12.116.2. [GASBIG 201X-Y, Q4.74–Q4.75]

12.117 Off-Market Terms

12.118 Disclosures

12.119 Regulated Operations

12.120 Lease-Leaseback Transactions

12.120.1–12.120.2. [GASBIG 201X-Y, Q4.76–Q4.77]

12.121 Intra-Entity Leases

12.121.1. [GASBIG 201X-Y, Q4.78]

12.122 Blended Component Units

12.123 Discretely Presented Component Units

12.124 Leases between Related Parties

12.125 Equity Method Investee

12.126 Effective Date and Transition of Statement 87

12.126.1–12.126.2. [GASBIG 201X-Y, Q4.79–Q4.80]

* * *

Comprehensive Implementation Guide—December 2021 Update

C4. The instructions that follow update paragraph C1 of this Implementation Guide to remove transition guidance included in this Implementation Guide.

* * *

[Replace text of Questions 12.126.1–12.126.2 with *Question number not used.*]