


# OREGON ACCOUNTING MANUAL

 <p style="font-size: 1.2em; font-weight: bold;">STATEWIDE POLICY</p>	<p><b><u>NUMBER</u></b></p> <p>15.60.30</p>	<p><b><u>SUPERSEDES</u></b></p> <p>15.60.30 dated 07/01/2012</p>
	<p><b><u>EFFECTIVE DATE</u></b></p> <p style="background-color: yellow;">MM/DD/YYYY</p>	<p><b><u>PAGE NUMBER</u></b></p> <p>Pages 1 of 22</p>
<p><b><u>Division</u></b> <b>Chief Financial Office</b></p>	<p><b><u>REFERENCE/AUTHORITY</u></b></p> <p>ORS 293.590 NCGA Statement No. 5 GASB Statement No. 34 GASB Statement No. 38 GASB Statement No. 62 GASB Statement No. 87</p>	
<p><b><u>Policy Owner</u></b> Statewide Accounting and Reporting Services</p>		
<p><b><u>SUBJECT</u></b> Capital Assets – Leases</p>	<p><b><u>APPROVED SIGNATURE</u></b></p> <p><i>George Naughton, Chief Financial Officer</i> <i>Signature on file</i></p>	

**PURPOSE**

This policy provides guidance on accounting and financial reporting for leases by lessees and lessors.

**APPLICABILITY**

This policy applies to all state agencies included in the State’s annual financial statements, except for those agencies specifically exempted by [OAM 01.05.00](#).

**FORMS/EXHIBITS/INSTRUCTIONS**

- Exhibit A – Lease Accounting Decision Tree for Lessees
- Exhibit B – Lease Accounting Decision Tree for Lessors
- Exhibit C – Lease Accounting Entries for Lessees
- Exhibit D – Lease Accounting Entries for Lessors
- Exhibit E – Lease Measurement Example

**DEFINITIONS**

For purposes of this policy, conveys **control** of the right to use an underlying asset includes 1) the right to obtain the present service capacity from use of the underlying asset as specified in the contract and 2) the right to determine the nature and manner of use of the underlying asset as specified in the contract.

A **lease** is a contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Leases include contracts that, although not explicitly identified as leases, meet the definition of a lease. This definition excludes contracts for services except those contracts that contain both a lease component and a service component.

As used in this policy, **lease incentives** are (a) payments made to, or on behalf of, the lessee, for which the lessee has a right of offset with its obligation to the lessor, or (b) other concessions granted to the lessee. A lease incentive is equivalent to a rebate or discount and includes assumption of a

lessee's preexisting lease obligations to a third party, other reimbursements of lessee costs, rent holidays, and reductions of interest or principal charges by the lessor.

**Lease term** is the period during which a lessee has a noncancelable right to use an underlying asset (referred to as the noncancelable period), plus the following periods, if applicable:

- a. Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option.
- b. Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option.
- c. Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option.
- d. Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option.

For purposes of this policy, a **lessee** refers to an entity that leases a nonfinancial asset from another entity. A **lessor** refers to an entity that leases a nonfinancial asset to another entity.

A **short-term lease** is a lease that, at the commencement of the lease term, 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. For a lease that is cancelable by either the lessee or the lessor, such as a rolling month-to-month lease or a year-to-year lease, the maximum possible term is the noncancelable period, including any notice periods.

**Underlying asset** – another entity's nonfinancial asset.

Click here for other [definitions](#).

### **EXCLUSIONS AND SPECIAL SITUATIONS**

This policy does not apply to:

- a. Leases of intangible assets, including rights to explore for or to exploit natural resources such as oil, gas, and minerals and similar nonregenerative resources; licensing contracts for items such as motion picture films, video recordings, plays, manuscripts, patents, and copyrights; and licensing contracts for computer software. In sublease transactions, however, this policy does apply to the intangible right-to-use assets that are created by the original leases of tangible underlying assets.
- b. Leases of biological assets, including timber, living plants, and living animals.
- c. Leases of inventory.
- d. Contracts that meet the definition of a service concession arrangement.
- e. Leases in which the underlying asset is financed with outstanding conduit debt, unless both the underlying asset and the conduit debt are reported by the lessor.
- f. Supply contracts, such as power purchase agreements.

### **POLICY**

101. Agency management is responsible to ensure proper accounting and reporting of **leases**.
102. Agency management must determine whether any of the agency's contracts meet the definition of a **lease** and/or contain an embedded lease (e.g. a services contract that includes the lease of an **underlying asset**).
103. At lease commencement, a **lessee** should recognize a **lease** liability and an intangible right to use lease asset for leases in which the discounted present value of the minimum future lease payments exceed the state's capitalization threshold of \$5,000. This provision does not apply to **short-term leases** or contracts that transfer ownership (as described in paragraph 106).

*Note:* Recognize lease payments on contracts below the statewide capitalization threshold of \$5,000 as outflows of resources (e.g. expense) based on the payment provisions of the lease contract.

104. At **lease** commencement, a **lessor** should recognize a lease receivable and deferred inflows of resources for leases in which the discounted present value of the minimum future lease payments exceed \$250,000. This provision does not apply to **short-term leases**, contracts that transfer ownership (as described in paragraph 106), or leases of assets that are investments (as described in paragraph 132),

*Note:* Recognize lease payments on contracts below the statewide lease receivable threshold of \$250,000 as inflows of resources (e.g. revenue) based on the payment provisions of the lease contract.

## **PROCEDURE**

105. **Leases** that exceed the statewide capitalization threshold or the statewide lease receivable threshold are reportable regardless of the remaining balance of the lease. For example, at lease commencement, a **lessor** calculates the discounted present value of the minimum future lease payments as \$275,000; at the end of year three, the balance remaining on the lease is \$210,000. The lessor should continue to recognize a lease receivable and deferred inflows of resources until 1) the end of the lease or 2) the lease qualifies for remeasurement and the amended value of the lease is less than \$250,000.
106. A contract that (a) transfers ownership of the **underlying asset** to the **lessee** by the end of the contract and (b) does not contain termination options, but that may contain a fiscal funding or cancellation clause that is not reasonably certain of being exercised, should be reported as a financed purchase of the underlying asset by the lessee or sale of the asset by the **lessor**.

## **Lease term**

107. Periods for which both the **lessee** and the **lessor** have an option to terminate the **lease** without permission from the other party (or if both parties have to agree to extend) are cancelable periods and are excluded from the **lease term**. For example, a rolling month-to-month lease, or a lease that continues into a holdover period until a new lease contract is signed, would not be enforceable if both the lessee and the lessor have an option to terminate and, therefore, either could cancel the lease at any time.
108. Provisions that allow for termination of a **lease** due to (1) purchase of the **underlying asset**, (2) payment of all sums due, or (3) default on payments, are not considered termination options.
109. A fiscal funding or cancellation clause allows governmental **lessees** to cancel a **lease** if the government does not appropriate funds for the lease payments. This type of clause should affect the **lease term** only if it is reasonably certain that the clause will be exercised.
110. At the commencement of the **lease term**, the **lessee** and the **lessor** should assess all factors relevant to the likelihood that the lessee or the lessor will exercise options to extend or terminate, whether these factors are contract based, **underlying asset** based, market based, or government specific. The assessment often will require the consideration of a combination of these interrelated factors. Examples of factors to consider include, but are not limited to, the following:

- a. A significant economic incentive, such as contractual terms and conditions for the optional periods that are favorable compared with current market rates.
  - b. A significant economic disincentive, such as costs to terminate the **lease** and sign a new lease (e.g. negotiation costs, relocation costs, abandonment of significant leasehold improvements, costs of identifying another suitable underlying asset, costs associated with returning the underlying asset in a contractually specified condition or to a contractually specified location, or a substantial cancellation penalty).
  - c. The history of exercising options to extend or terminate.
  - d. The extent to which the asset underlying the lease is essential to the provision of government services.
111. **Lessees** and **lessors** should reassess the **lease term** only if one or more of the following occur:
- a. The lessee or lessor elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option.
  - b. The lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option.
  - c. An event specified in the **lease** contract that requires an extension or termination of the lease takes place.

### Short-term leases

112. A **lessee** should recognize **short-term lease** payments as outflows of resources (e.g. expense) based on the payment provisions of the **lease** contract. The lessee should recognize an asset if payments are made in advance or a liability for rent due if payments are to be made subsequent to the reporting period. The lessee should not recognize an outflow of resources during any rent holiday period (e.g. one or more months free).
113. A **lessor** should recognize **short-term lease** payments as inflows of resources (e.g. revenue) based on the payment provisions of the lease contract. The lessor should recognize a liability if payments are received in advance or an asset for rent due if payments are to be received subsequent to the reporting period. The lessor should not recognize an inflow of resources during any rent holiday period (e.g. one or more months free).

### Lessee recognition and measurement

#### Lease liability

114. A **lessee** initially should measure the **lease** liability at the present value of payments expected to be made during the **lease term**. Measurement of the lease liability should include the following, if required by a lease:
- a. Fixed payments.
  - b. Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the lease term.
  - c. Variable payments that are fixed in substance (refer to paragraph 116).
  - d. Amounts that are reasonably certain of being required to be paid by the lessee under residual value guarantees.
  - e. The exercise price of a purchase option if it is reasonably certain that the lessee will exercise that option.

- f. 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.
  - g. Any **lease incentives** receivable from the **lessor** (refer to paragraph 147).
  - h. Any other payments that are reasonably certain of being required based on an assessment of all relevant factors.
115. Recognize a **lease** liability in GL account 1716, *Lease Obligations-Noncurrent*. Refer to Exhibit C – *Lease Accounting Entries for Lessees*.
116. Variable payments based on future performance of the **lessee** or usage of the **underlying asset** should not be included in the measurement of the **lease** liability. Rather, those variable payments should be recognized as expenses in the period in which the obligation for those payments is incurred. However, any component of those variable payments that is fixed in substance should be included in the measurement of the lease liability.
117. The future **lease** payments should be discounted using the interest rate the **lessor** charges the **lessee**, which may be the interest rate implicit in the lease. If the interest rate cannot be readily determined by the lessee, the lessee’s estimated incremental borrowing rate (an estimate of the interest rate that would be charged for borrowing the lease payment amounts during the lease term) should be used.
- a. When agencies are unable to determine the interest rate charged by the lessor, they should consider their agency’s recently issued debt, whether general obligation bond, revenue bond, or certificate of participation, to determine if one of those issuances would provide an incremental borrowing rate. If one is not available or is not suitable for the lease arrangement, agencies shall rely upon the Oregon Bond Index (<https://www.oregon.gov/treasury/oregon-bonds/Documents/Public-Financial-Services-MDAC/undated/Bond-Index.pdf>), State of Oregon columns, and select the rate that most closely matches the effective date and lease term.
118. In subsequent financial reporting periods, the **lessee** should calculate the amortization of the discount on the **lease** liability and report that amount as an outflow of resources (e.g. interest expense) for the period. Any payments made should be allocated first to the accrued interest liability and then to the lease liability.
119. The **lessee** should remeasure the **lease** liability at subsequent financial reporting dates if one or more of the following changes have occurred at or before that financial reporting date, based on the most recent lease contract before the changes, and the changes individually or in the aggregate are expected to significantly affect the amount of the lease liability since the previous measurement:
- a. There is a change in the **lease term**.
  - b. An assessment of all relevant factors indicates that the likelihood of a residual value guarantee being paid has changed from reasonably certain to not reasonably certain, or vice versa.
  - c. 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.
  - d. There is a change in the estimated amounts for payments already included in the measurement of the lease liability (except as provided in paragraph 120).
  - e. There is a change in the interest rate the lessor charges the lessee, if used as the initial discount rate.

- f. A contingency, upon which some or all of the variable payments that will be made over the remainder of the lease term are based, is resolved such that those payments now meet the criteria for measuring the lease liability under paragraph 114. For example, an event occurs that causes variable payments that were contingent on the performance or use of the **underlying asset** to become fixed payments for the remainder of the lease term.
120. If a **lease** liability is remeasured for any of the changes in paragraph 119, the liability also should be adjusted for any change in an index or rate used to determine variable payments if that change in the index or rate is expected to significantly affect the amount of the liability since the previous measurement. A lease liability is not required to be remeasured solely for a change in an index or rate used to determine variable payments.
121. If a **lease** liability is remeasured for any of the changes in paragraph 119, the **lessee** also should update the discount rate as part of the remeasurement if one or both of the following changes have occurred and the changes individually or in the aggregate are expected to significantly affect the amount of the lease liability:
- There is a change in the **lease term**.
  - 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.
122. A **lease** liability is not required to be remeasured, nor is the discount rate required to be reassessed, solely for a change in the lessee's incremental borrowing rate.
123. If the discount rate is required to be updated based on the provisions in paragraph 121, the discount rate should be based on the revised interest rate the lessor charges the lessee at the time the discount rate is updated. If that interest rate cannot be readily determined, the lessee's estimated incremental borrowing rate at the time the discount rate is updated should be used (refer to paragraph 117a).

### Lease Asset

124. A **lessee** initially should measure the **lease** asset as the sum of the following:
- The amount of the initial measurement of the lease liability (refer to paragraph 114).
  - Lease payments made to the **lessor** at or before the commencement of the **lease term**, less any **lease incentives** (refer to paragraph 147) received from the lessor at or before the commencement of the lease term.
  - Initial direct costs that are ancillary charges necessary to place the lease asset into service. Any initial direct costs that would be considered debt issuance costs under paragraph 12 of Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, should be recognized as outflows of resources (e.g. expense) in the period in which they are incurred.
125. Recognize the **lease** asset in one of the following general ledger (GL) accounts:
- GL 0821, *Leased Equipment and Machinery*
  - GL 0822, *Leased Motor Vehicles*
  - GL 0823, *Leased Data Processing Hardware*
  - GL 0824, *Leased Tunnels and Bridges*
  - GL 0825, *Leased Airports*
  - GL 0826, *Leased Docks, Dikes, and Dams*

- GL 0827, *Leased Land*
- GL 0828, *Leased Buildings*
- GL 0829, *Leased Other Assets*

Refer to Exhibit C – *Lease Accounting Entries for Lessees*.

126. A **lease** asset should be amortized in a systematic and rational manner over the shorter of the **lease term** or the useful life of the underlying asset, except as provided in paragraph 127. The amortization of the lease asset should be reported as an outflow of resources (e.g. amortization expense). Refer to [OAM 15.60.20](#), *Capital Assets-Depreciation and Amortization* for additional guidance.
127. If a **lease** contains a purchase option that the **lessee** has determined is reasonably certain of being exercised, the lease asset should be amortized over the useful life of the underlying asset. In that circumstance, if the underlying asset is nondepreciable, such as land, the lease asset should not be amortized.
128. A **lease** asset generally should be adjusted by the same amount as the corresponding lease liability when that liability is remeasured based on paragraphs 119-123. However, if that change reduces the carrying value of the lease asset to zero, any remaining amount should be reported in the resource flows statement (e.g. gain).
129. The presence of impairment indicators (described in [OAM 15.60.25](#)) with respect to the **underlying asset** may result in a change in the manner or duration of use of the **lessee's** right to use asset. Such a change in the manner or duration of use of the lessee's right to use asset may indicate that the service utility of that **lease** asset is impaired. The length of time during which the lessee cannot use the underlying asset, or is limited to using it in a different manner, should be compared to its previously expected manner and duration of use to determine whether there is a significant decline in service utility of the lease asset. If a lease asset is impaired, the amount reported for the lease asset should be reduced first for any change in the corresponding lease liability. Any remaining amount should be recognized as an impairment.
130. If an agency **leases** property and accounts for it in a proprietary fund or fiduciary fund, account for the lease within the accounts of that fund. If an agency leases property for general government purposes (using resources from governmental funds), account for the lease in the government-wide reporting fund. Record payments to reduce the liability in the governmental fund that originated the liability. Do not use a debt service fund to record payments on this type of liability unless legally mandated through an appropriation. Refer to Exhibit C – *Lease Accounting Entries for Lessees*.
131. An expenditure and other financing source should be reported in the period the **lease** is initially recognized. The expenditure and other financing source should be measured as provided in paragraphs 114-117. Subsequent governmental fund lease payments should be accounted for consistent with principles for debt service payments on long-term debt. Refer to Exhibit C – *Lease Accounting Entries for Lessees*.

### **Lessor recognition and measurement**

132. *Leases of Assets That Are Investments* - If the **underlying asset** in a **lease** meets the requirements to be reported as an investment measured at fair value, the **lessor** should not apply the recognition and measurement provisions of this policy. The lessor should disclose the information in paragraph 186d of this policy but is not required to make the other disclosures in paragraph 186.

### Certain regulated leases

133. Certain **leases** are subject to external laws, regulations, or legal rulings. For example, the U.S. Department of Transportation and the Federal Aviation Administration regulate aviation leases between airports and air carriers and other aeronautical users. **Lessors** should not apply the provisions in paragraphs 135-146 and 186 of this policy to leases that meet the provisions of paragraph 134.
134. **Lessors** should recognize inflows of resources (e.g. revenue) based on the payment provisions of the **lease** contract and provide the disclosures in paragraph 189 for leases for which external laws, regulations, or legal rulings establish all of the following requirements:
- a. Lease rates cannot exceed a reasonable amount, with reasonableness being subject to determination by an external regulator.
  - b. Lease rates should be similar for **lessees** that are similarly situated.
  - c. The lessor cannot deny potential lessees the right to enter into leases if facilities are available, provided that the lessee's use of the facilities complies with generally applicable use restrictions.

### Lease receivable

135. A **lessor** initially should measure the **lease** receivable at the present value of lease payments expected to be received during the **lease term**, reduced by any provision for estimated uncollectible amounts. Measurement of the lease receivable should include the following, if required by a lease:
- a. Fixed payments.
  - b. Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the lease term.
  - c. Variable payments that are fixed in substance (as discussed in paragraph 136).
  - d. Residual value guarantee payments that are fixed in substance (as discussed in paragraph 137).
  - e. Any **lease incentives** (as discussed in paragraph 147) payable to the **lessee**.
136. Variable payments based on future performance of the **lessee** or usage of the **underlying asset** should not be included in the measurement of the **lease** receivable. Rather, those variable payments should be recognized as inflows of resources (e.g. revenue) in the period to which those payments relate. However, any component of those variable payments that is fixed in substance should be included in the measurement of the lease receivable.
137. Amounts to be received under residual value guarantees (that are not fixed in substance) should be recognized as a receivable and an inflow of resources if (a) a guarantee payment is required (as agreed to by the **lessee** and **lessor**) and (b) the amount can be reasonably estimated. Amounts to be received for the exercise price of a purchase option or penalty for **lease** termination should be recognized as a receivable and an inflow of resources (e.g. revenue) when those options are exercised.
138. The future **lease** payments to be received should be discounted using the interest rate the **lessor** charges the **lessee**, which may be the interest rate implicit in the lease.
139. In subsequent financial reporting periods, the **lessor** should calculate the amortization of the discount on the **lease** receivable and report that amount as an inflow of resources (e.g. interest



revenue) for the period. Any payments received should be allocated first to the accrued interest receivable and then to the lease receivable.

140. The **lessor** should remeasure the **lease** receivable at subsequent financial reporting dates if one or more of the following changes have occurred at or before that financial reporting date, based on the most recent lease contract before the changes, and the changes individually or in the aggregate are expected to significantly affect the amount of the lease receivable since the previous measurement:
- a. There is a change in the **lease term**.
  - b. There is a change in the interest rate the lessor charges the **lessee**.
  - c. A contingency, upon which some or all of the variable payments that will be received over the remainder of the lease term are based, is resolved such that those payments now meet the criteria for measuring the lease receivable under paragraph 135. For example, an event occurs that results in variable payments that were contingent on the performance or use of the underlying asset becoming fixed payments for the remainder of the lease term.
141. If a **lease** receivable is remeasured for any of the changes in paragraph 140, the receivable also should be adjusted for any change in an index or rate used to determine variable payments if that change in the index or rate is expected to significantly affect the amount of the receivable since the previous measurement. A lease receivable is not required to be remeasured solely for a change in an index or rate used to determine variable payments.
142. The **lessor** also should update the discount rate as part of the remeasurement if one or both of the following changes have occurred and the changes individually or in the aggregate are expected to significantly affect the amount of the **lease** receivable:
- a. There is a change in the **lease term**.
  - b. There is a change in the interest rate the lessor charges the **lessee**.
143. If the discount rate is updated based on the provisions in paragraph 142, the receivable should be remeasured using the revised discount rate.

#### Deferred Inflow of Resources

144. A **lessor** initially should measure the deferred inflow of resources as follows:
- a. The amount of the initial measurement of the **lease** receivable.
  - b. Lease payments received from the **lessee** at or before the commencement of the **lease term** that relate to future periods (e.g. the final month's rent), less any **lease incentives** (refer to paragraph 147) paid to, or on behalf of, the lessee at or before the commencement of the lease term.
145. A **lessor** subsequently should recognize the deferred inflow of resources as inflows of resources (e.g. revenue) in a systematic and rational manner over the **term of the lease**. The deferred inflow of resources generally should be adjusted by the same amount as any change resulting from the remeasurement of the lease receivable.

#### Underlying Asset

146. A **lessor** should not derecognize the **asset underlying** the **lease**. A lessor should continue to apply other applicable guidance to the underlying asset, including depreciation and impairment.

However, if the lease contract requires the **lessee** to return the asset in its original or enhanced condition, a lessor should not depreciate the asset during the **lease term**.

## Lease Incentives

147. **Lease incentives** reduce the amount that a **lessee** is required to pay for a **lease**. Lease incentives that provide payments to, or on behalf of, a lessee at or before the commencement of a **lease term** are included in initial measurement by directly reducing the amount of the lease asset. Lease incentive payments to be provided after the commencement of the lease term should be accounted for by lessees and lessors as reductions of lease payments for the periods in which the incentive payments will be provided. Those payments should be measured by lessees consistently with the lessee's lease liability and by **lessors** consistently with the lessor's lease receivable. Accordingly, lease incentive payments to be provided after the commencement of the lease term are included in initial measurement and any remeasurement if they are fixed or fixed in substance, whereas variable or contingent lease incentive payments are not included in initial measurement.

## Contracts with Multiple Components

148. **Lessees** and **lessors** may enter into contracts that contain multiple components, such as a contract that contains both a **lease** component and a nonlease component, or a lease that contains multiple **underlying assets**.
149. If a **lessee** or **lessor** enters into a contract that contains both a **lease** component (such as the right to use a building) and a nonlease component (such as maintenance services for the building), the government should account for the lease and nonlease components as separate contracts unless the contract meets the exception in paragraph 152.
150. If a **lease** involves multiple **underlying assets** and the assets have different **lease terms**, the **lessee** and the **lessor** should account for each underlying asset as a separate lease component. In addition, the lessee should account for each underlying asset as a separate lease component if the underlying assets are in different major classes of assets for disclosure purposes under paragraph 182c. The provisions of this paragraph should be applied unless the contract meets the exception in paragraph 152.
151. To allocate the contract price to the different components, **lessees** and **lessors** first should use any prices for individual components that are included in the contract, as long as the price allocation does not appear to be unreasonable based on the terms of the contract and professional judgment, maximizing the use of observable information (e.g. using readily available observable stand-alone prices). Stand-alone prices are those that would be paid or received if the same or similar assets were leased individually or if the same or similar nonlease components (such as services) were contracted individually. Some contracts provide discounts for bundling multiple **leases** or lease and nonlease components together in one contract. Those discounts may be taken into account when determining whether individual component prices do not appear to be unreasonable. For example, if the individual component prices are each discounted by the same percentage from normal market prices, the discount included in those component prices would not appear to be unreasonable.
152. If a contract does not include prices for individual components, or if any of those prices appear to be unreasonable as provided in paragraph 151, **lessees** and **lessors** should use professional judgment to determine their best estimate for allocating the contract price to those components, maximizing the use of observable information. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a government should account for those components as a single **lease** unit.

153. If multiple components are accounted for as a single **lease** unit as provided for in paragraph 152, the accounting for that unit should be based on the primary lease component within that unit. For example, the primary lease component's **lease term** should be used for the unit if the lease components have different lease terms.

### **Contract Combinations**

154. Contracts that are entered into at or near the same time with the same counterparty should be considered part of the same contract if either of the following criteria is met:
- a. The contracts are negotiated as a package with a single objective.
  - b. The amount of consideration to be paid in one contract depends on the price or performance of the other contract.
155. If multiple contracts are determined to be part of the same contract, that contract should be evaluated in accordance with the guidance for contracts with multiple components in paragraphs 148-153.

### **Lease Modifications and Terminations**

156. The provisions of a **lease** contract may be amended while the contract is in effect. Amendments modify the provisions of the lease contract. Examples of amendments to lease contracts include changing the contract price, lengthening or shortening the **lease term**, and adding or removing an **underlying asset**. An amendment should be considered a lease modification unless the **lessee's** right to use the underlying asset decreases, in which case the amendment should be considered a partial or full lease termination. By contrast, exercising an existing option, such as an option to extend or terminate the lease, is subject to the guidance for remeasurement.

#### Lease Modifications

157. The **lessee** and **lessor** should account for an amendment during the reporting period resulting in a modification to a **lease** contract as a separate lease (that is, separate from the most recent lease contract before the modification) if both of the following conditions are present:
- a. The lease modification gives the lessee an additional lease asset by adding one or more **underlying assets** that were not included in the original lease contract.
  - b. The increase in lease payments for the additional lease asset does not appear to be unreasonable based on (1) the terms of the amended lease contract and (2) professional judgment, maximizing the use of observable information (e.g. using readily available observable stand-alone prices).

#### *Lessees*

158. Unless a modification is reported as a separate **lease** as provided in paragraph 157, 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. However, if the change reduces the carrying value of the lease asset to zero, any remaining amount should be reported in the resource flows statement (e.g. a gain).
159. If prior to the expiration of the **lease term** a change to the provisions of a **lease** results from a debt refunding by the **lessor**, including an advance refunding, in which the perceived economic

advantages of the refunding are passed through to the **lessee**, the change should be accounted for as follows:

- a. If a change to the provisions of a lease results from a debt refunding by the lessor, including an advance refunding that results in a defeasance of debt, the lessee should adjust the lease liability to the present value of the future lease payments under the revised lease using the effective interest rate applicable to the revised lease contract. The resulting difference should be reported as a deferred outflow of resources or a deferred inflow of resources. The deferred outflow of resources or the deferred inflow of resources should be recognized as an adjustment to an outflow of resources (e.g. as an increase or decrease to interest expense) in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.
- b. If (1) the provisions of a lease are changed in connection with an advance refunding by the lessor that results in a defeasance of debt and (2) the lessee is obligated to reimburse the lessor for any costs related to the refunded debt that have been or will be incurred (such as an unamortized discount or a call premium), the lessee should recognize those costs in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

### *Lessors*

160. Unless a modification is reported as a separate **lease** as provided in paragraph 157, a **lessor** should account for a lease modification by remeasuring the lease receivable. The deferred inflow of resources should be adjusted by the difference between the remeasured receivable and the receivable immediately before the lease modification. However, to the extent that the change relates to payments for the current period, the change should be recognized as an inflow of resources (e.g. revenue) or an outflow of resources (e.g. expense) for the current period.
161. If prior to the expiration of the **lease term** a change to the provisions of a **lease** results from a debt refunding by the **lessor**, including an advance refunding, in which the perceived economic advantages of the refunding are passed through to the **lessee**, the change should be accounted for as follows:
  - a. If a change to the provisions of a lease results from a debt refunding by the lessor, including an advance refunding that results in a defeasance of debt, the lessor should adjust the lease receivable to the present value of the future lease payments based on the interest rate applicable to the revised lease contract and also should adjust the deferred inflows of resources. The adjustment to the deferred inflow of resources should be recognized as inflows of resources or outflows of resources (for example, gain or loss) over the remaining life of the old debt or the life of the new debt, whichever is shorter.
  - b. If a change to the provisions of a lease results from an advance refunding that results in a defeasance of debt, the lessor also should systematically recognize, as inflows of resources (e.g. revenue), any reimbursements to be received from the lessee for costs related to the refunded debt (such as an unamortized discount or a call premium) over the remaining life of the old debt or the life of the new debt, whichever is shorter.

### *Lease Terminations*

162. The **lessee** and **lessor** should account for an amendment during the reporting period resulting in a decrease in the lessee's right to use the **underlying asset** (e.g. the **lease term** is shortened or the number of underlying assets is reduced) as a partial or full **lease** termination.

## Lessees

163. A **lessee** generally should account for the partial or full **lease** termination by reducing the carrying values of the lease asset and lease liability, and recognizing a gain or loss for the difference. However, if the lease is terminated as a result of the **lessee** purchasing an **underlying asset** from the **lessor**, the lease asset should be reclassified to the appropriate class of owned asset.

## Lessors

164. A **lessor** should account for the partial or full **lease** termination by reducing the carrying values of the lease receivable and related deferred inflow of resources, and recognizing a gain or loss for the difference. However, if the lease is terminated as a result of the **lessee** purchasing an **underlying asset** from the lessor, the carrying value of the underlying asset should be derecognized and included in the calculation of any resulting gain or loss.

## Subleases

165. A sublease involves three parties: the original **lessor**, the original **lessee** (who also is the lessor in the sublease), and the new lessee. The original lessor should continue to apply the general lessor guidance. The government that is the original lessee and becomes the lessor in the sublease should account for the original **lease** and the sublease as two separate transactions, as a lessee and a lessor, respectively. Those two separate transactions should not be offset against one another. The new lessee should apply the general lessee guidance.
166. The original **lessee** (now the **lessor** in the sublease) should include the sublease in its disclosure of the general description of **lease** arrangements. Its lessor transactions related to subleases should be disclosed separately from its lessee transactions related to original leases.

## Sale-Leaseback Transactions

167. Sale-leaseback transactions involve the sale of an **underlying asset** by the owner and a **lease** of the property back to the seller (original owner). A sale-leaseback should include a transaction that qualifies as a sale (refer to GASB Statement No. 62, paragraphs 287-319 and 321-323) to be eligible for sale-leaseback accounting. A sale-leaseback transaction that does not include a qualifying sale should be accounted for as a borrowing activity by the seller-**lessee** and a lending activity by the buyer-**lessor**.
168. The sale and **lease** portions of a sale-leaseback transaction should be accounted for in financial statements prepared using the economic resources measurement focus as two separate transactions—a sale transaction and a lease transaction—except that the difference between the carrying value of the capital asset that was sold and the net proceeds from the sale should be reported as a deferred inflow of resources or a deferred outflow of resources and subsequently recognized in the resource flows statements in a systematic and rational manner over the **term of the lease**. However, if the lease portion of the transaction qualifies as a **short-term lease**, any difference between the carrying value of the capital asset that was sold and the net proceeds from the sale should be recognized immediately.
169. A sale-leaseback transaction is considered to have off-market terms if there is a significant difference between (a) the sale price and the estimated fair value of the asset or (b) the present value of the contractual **lease** payments and the estimated present value of what the lease payments for that asset would be at the market price, whichever of the two differences is more readily determinable. That difference should be reported based on the substance of the

transaction (e.g. as a borrowing, a nonexchange transaction, or an advance lease payment) rather than as part of the sale-leaseback transaction.

170. A seller-**lessee** should disclose the terms and conditions of sale-leaseback transactions in addition to the disclosures required of a lessee in paragraph 182. A buyer-**lessor** should provide the disclosures required of a lessor in paragraph 186.
171. For entities that elect to apply the regulated operations guidance of GASB Statement No. 62, and that meet the criteria in paragraphs 476–500 of that Statement, as amended, the difference between (a) the amount of inflows of resources or outflows of resources (e.g. revenue or expense) recognized for a transaction that is accounted for as a sale-leaseback and (b) the amount of inflows of resources or outflows of resources included in allowable cost for rate-making purposes should be recognized as a separate regulatory-created asset or regulatory-created deferred inflow of resources, as appropriate.

### Lease-Leaseback Transactions

172. In a **lease**-leaseback transaction, an asset is leased by one party (first party) to another party and then leased back to the first party. The leaseback may involve an additional asset (such as leasing a school building that has been constructed by a developer on land owned by and leased back to a school district) or only a portion of the original asset (such as leasing back only one floor of a building to the owner). A lease-leaseback transaction should be accounted for as a net transaction. Both parties to a lease-leaseback transaction should disclose the amounts of the lease and the leaseback separately in the notes to financial statements.

### Intra-Entity Leases

173. When the **lessee** or **lessor** is included as a blended component unit of the primary government, the reporting requirements of this policy do not apply. Instead, 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. For example, the capital assets **leased** from a blended component unit would be reported as capital assets, and related debt would be reported as a long-term liability in the reporting entity's government-wide financial statements. The debt service activity of the lessor would be reported as a debt service activity of the reporting entity. With respect to leases with or between blended component units, for which eliminations are required, these eliminations should be made before the financial statements of the blended component units are aggregated with those of the primary government. The remaining cash payments between component units should be reported as inflows of resources and outflows of resources.
174. **Lease** arrangements between the primary government and discretely presented component units (or between discretely presented component units) should be treated in the same manner as any other lease under the provisions of this policy. However, related receivables and payables should not be combined with other amounts due to or due from discretely presented component units or with lease receivables and payables with organizations outside the reporting entity.

### Leases between Related Parties

175. In the separate financial statements of the related parties, the classification and accounting should be the same as for similar **leases** between unrelated parties, except in cases in which it is clear that the terms of the transaction have been significantly affected by the fact that the **lessee** and **lessor** are related. In such cases, the classification and accounting should be modified as necessary to recognize the substance of the transaction rather than merely its legal

form. For example, if the lease contract is structured to meet the definition of a **short-term lease** but the related parties have a mutual understanding that the lease contract will stay in effect for several more years, that lease should not be accounted for as a short-term lease. The nature and extent of leasing transactions with related parties should be disclosed.

176. In financial statements for which an interest in an investee is accounted for using the equity method, any inflow of resources or outflow of resources (e.g. gain or loss) on a leasing transaction with the related party should be accounted for in accordance with the investment in common stock principles set forth in GASB Statement No. 62, paragraphs 202–210 the equity interests in common stock principles set forth in GASB Statement No. 72, paragraph 77.

### Financial Statement Reporting

177. The SARS reports **lease** assets by major asset class within the capital asset section of the proprietary fund statement of net position, the statement of fiduciary net position, and the government-wide statement of net position.
178. SARS reports **lease** liability-current and lease liability-noncurrent on the proprietary fund statement of net position, the statement of fiduciary net position, and the government-wide statement of net position.
179. SARS reports depreciation expense, including that associated with **lease** assets, as a separate line item within operating expenses in the proprietary fund statement of revenues, expenses, and changes in fund net position. SARS reports depreciation expense as administrative expense on the statement of changes in fiduciary net position. SARS reports depreciation expense in the applicable function/program for governmental or business-type activities in the government-wide statement of activities.
180. SARS reports accumulated depreciation for capital assets, including that associated with **lease** assets, as a contra account to capital assets on both the proprietary funds statement of net position and the government-wide statement of net position. SARS nets accumulated depreciation for lease assets against the applicable major asset class in the statement of fiduciary net position.

### Disclosure Requirements

181. SARS includes disclosure information for **lease** assets along with disclosure information for all other capital assets as described in [OAM 15.60.10](#).

### Lessees

182. A **lessee** should disclose the following about its **lease** activities other than **short-term leases**:
- A general description of its leasing arrangements, including (1) the basis, terms, and conditions on which variable payments not included in the measurement of the lease liability are determined and (2) the existence, terms, and conditions of residual value guarantees provided by the lessee not included in the measurement of the lease liability.
  - The total amount of lease assets, and the related accumulated amortization, disclosed separately from other capital assets.
  - The amount of lease assets by major classes of underlying assets, disclosed separately from other capital assets.
  - The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the lease liability.

- e. 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.
- f. Principal and interest requirements to maturity, presented separately, for the lease liability for each of the five subsequent fiscal years and in five-year increments thereafter.
- g. Commitments under leases before the commencement of the **lease term**.
- h. The components of any loss associated with an impairment (the impairment loss and any related change in the lease liability).

183. A **lessee** also should provide relevant disclosures for the following transactions, if applicable:

- a. Sublease transactions.
- b. Sale-leaseback transactions.
- c. Lease-leaseback transactions.

184. A **lessee** is not required to disclose collateral pledged as a security for a lease if that collateral is solely the **asset underlying** the lease.

185. SARS gathers the **lease** disclosure for **lessees** detail on agency year-end disclosure forms.

### Lessors

186. A **lessor** should disclose the following about its **lease** activities other than **short-term leases** and certain regulated leases:

- a. A general description of its leasing arrangements, including the basis, terms, and conditions on which any variable payments not included in the measurement of the lease receivable are determined.
- b. The total amount of inflows of resources (e.g. lease revenue, interest revenue, and any other lease-related inflows) recognized in the reporting period from leases, if that amount cannot be determined based on the amounts displayed on the face of the financial statements.
- c. The amount of inflows of resources recognized in the reporting period for variable and other payments not previously included in the measurement of the lease receivable, including inflows of resources related to residual value guarantees and termination penalties.
- d. The existence, terms, and conditions of options by the lessee to terminate the lease or abate payments if the lessor government has issued debt for which the principal and interest payments are secured by the lease payments.

187. A **lessor** also should provide relevant disclosures for the following transactions, if applicable:

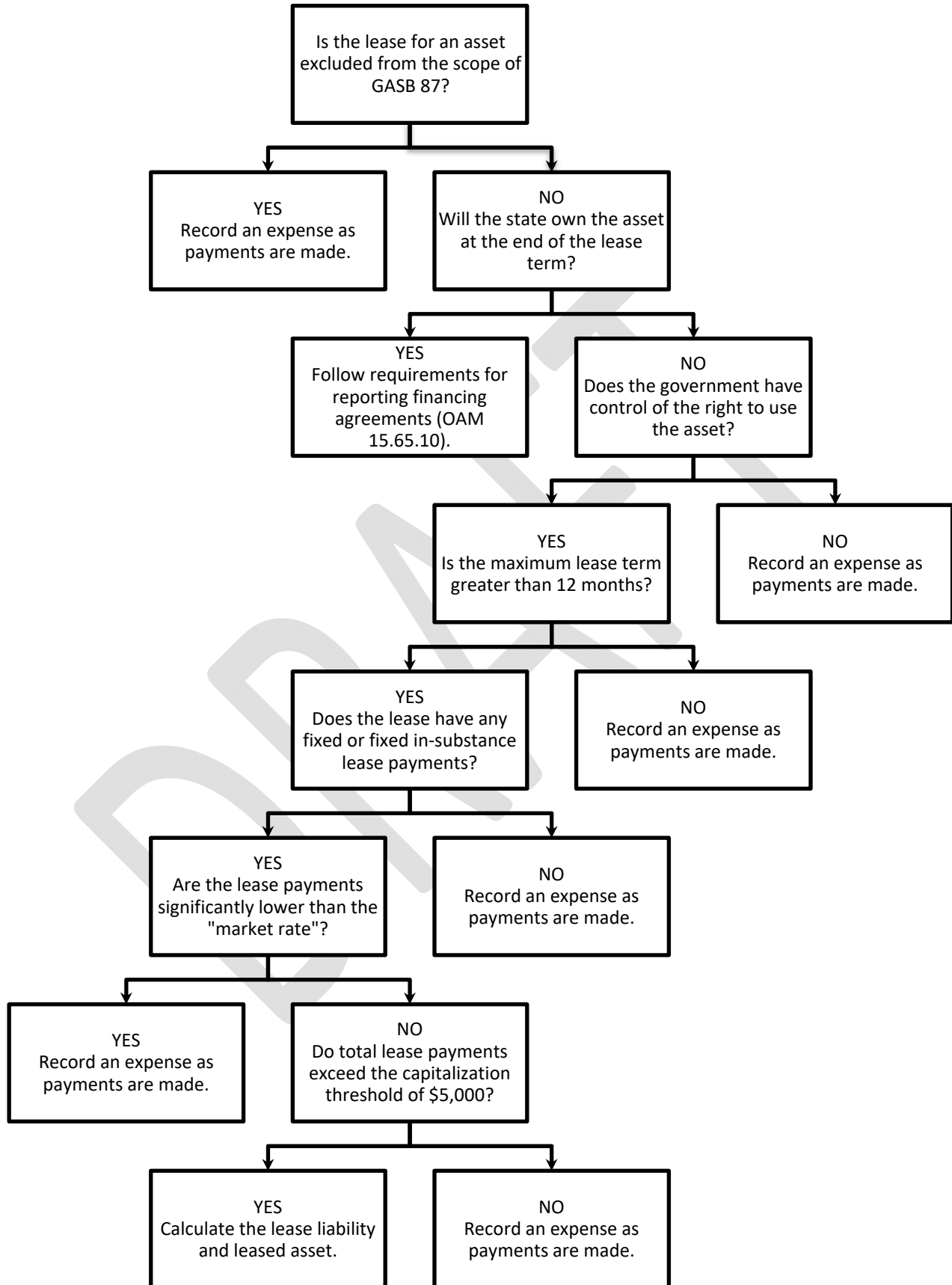
- a. **Leases** of assets that are investments.
- b. Certain regulated leases.
- c. Sublease transactions.
- d. Sale-leaseback transactions.
- e. Lease-leaseback transactions.

188. Additionally, if a lessor's principal ongoing operations consist of leasing assets to other entities, the government should disclose a schedule of future payments that are included in the measurement of the lease receivable, showing principal and interest separately, for each of the five subsequent fiscal years and in five-year increments thereafter.

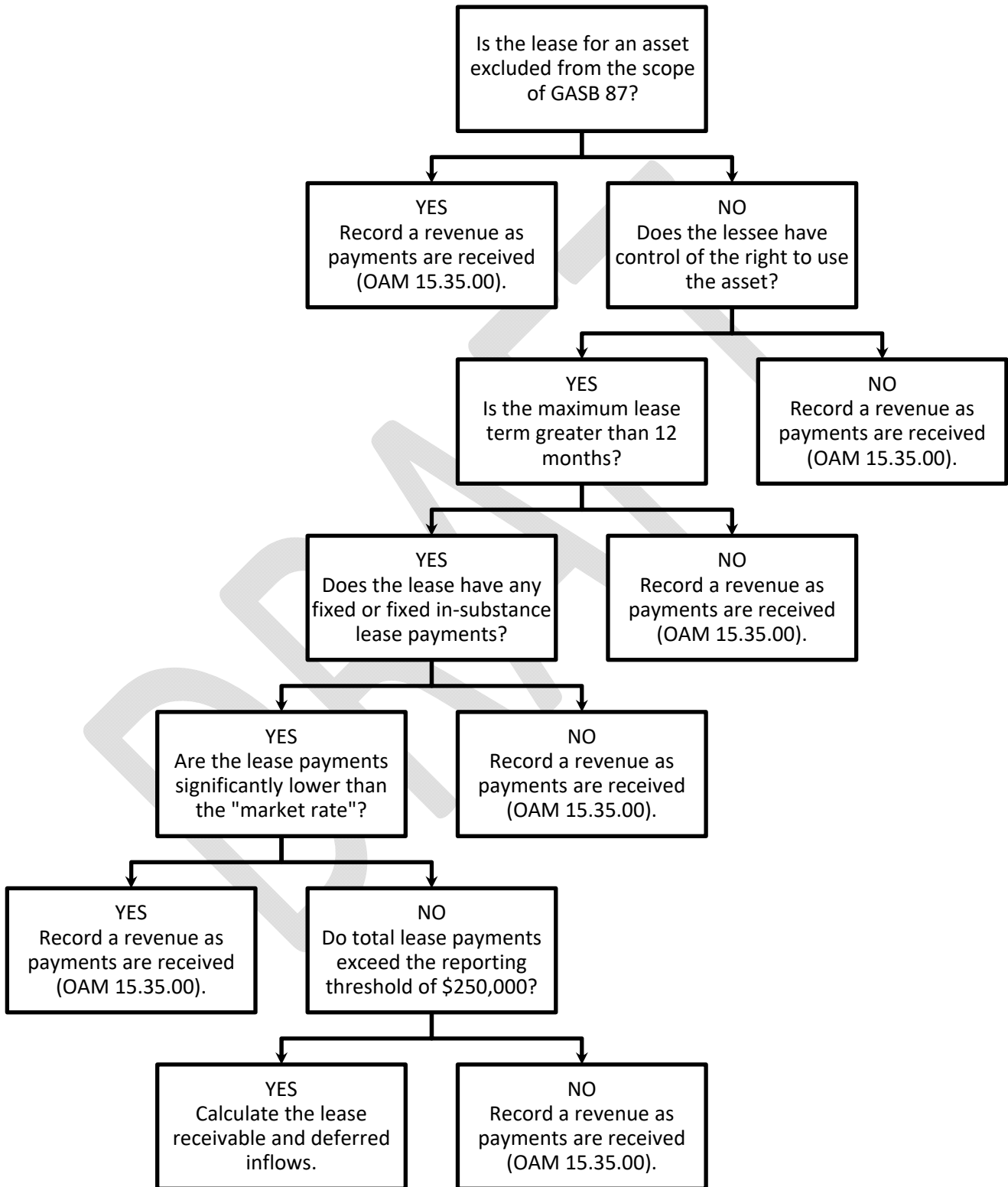


189. A **lessor** with one or more regulated **leases** should disclose the following about those lease activities, other than **short-term leases**:
- a. A general description of its agreements.
  - b. The extent to which capital assets are subject to preferential or exclusive use by counterparties under agreements, by major class of assets and by major counterparty.
  - c. The total amount of inflows of resources (e.g. lease revenue, interest revenue, and any other lease-related inflows) recognized in the reporting period from these agreements, if that amount cannot be determined based on the amounts displayed on the face of the financial statements.
  - d. A schedule of expected future minimum payments under these agreements for each of the subsequent five years and in five-year increments thereafter.
  - e. The amount of inflows of resources recognized in the reporting period for variable payments not included in expected future minimum payments.
  - f. The existence, terms, and conditions of options by the lessee to terminate the lease or abate lease payments if the lessor government has issued debt for which the principal and interest payments are secured by the lease payments.
190. SARS gathers the **lease** disclosure for **lessors** detail on agency year-end disclosure forms.

**EXHIBIT A – Lease Accounting Decision Tree for Lessees**



**EXHIBIT B – Lease Accounting Decision Tree for Lessors**



## EXHIBIT C – Lease Accounting Entries for Lessees

<b>Lessee entries at lease commencement</b>						<b>Measurement Focus</b>	
Step	Description of transaction	T-Code	DR	CR	Cobj	Economic Resources	Current Financial Resources
1.	Recognize lease proceeds (complete lease purchase-rev)	908R	1551-Deposit Liability	3200-GAAP Revenue Offset	1700	X	X
2.	Recognize acquisition of asset (complete lease purchase-exp)	909R	3600-GAAP Expenditure Offset	1551-Deposit Liability	5770	X	X
3.	Establish lease liability (eliminate 1700)	462	3200-GAAP Revenue Offset	1716-Lease Oblig.	1700	X	
4.	Establish lease asset (eliminate 5770)	545 or 555 (FID)	08XX-Leased Asset 3074-Change in Cap. Assets	3600-GAAP Exp. Offset 3018-Net Invest. In Cap. Assets	5770	X X	
<b>Lessee entries throughout the fiscal year</b>						<b>Measurement Focus</b>	
Step	Description of transaction	T-Code	DR	CR	Cobj	Economic Resources	Current Financial Resources
5.	Record accumulated amortization of lease	542 or 541 (FID)	3600-GAAP Exp. Offset 3018-Net Invest. In Cap. Assets	08XX-Amort. of Lease 3074-Change in Cap. Assets	74xx	X X	
6a.	a. Record lease payment (principal portion)	222	3500-Expenditure Control Cash	0070-Cash on Deposit w/ OST	70xx	X	X
	b. Record lease payment (interest portion)	222	3500-Expenditure Control Cash	0070-Cash on Deposit w/ OST	7401		
	OR						
6b.	a. Record total lease payment	222	3500-Expenditure Control Cash	0070-Cash on Deposit w/ OST	70xx	X	X
	b. Reclassify interest portion of lease payment	416	0070-Cash on Deposit w/ OST	3500-Expenditure Control Cash	70xx	X	X
	c. Reclassify interest portion of lease payment	415	3500-Expenditure Control Cash	0070-Cash on Deposit w/ OST	7401	X	X
7.	Reduce lease liability by <u>principal</u> lease payments	459	1716-Lease Oblig.	3600-GAAP Exp. Offset	70xx	X	
<b>Lessee entries at fiscal year end</b>						<b>Measurement Focus</b>	
Step	Description of transaction	T-Code	DR	CR	Cobj	Economic Resources	Current Financial Resources
8.	Reclass current portion of lease liability						
	a. Reduce lease liability-noncurrent	475R	1716-Lease Oblig. Noncurrent	2951-System Clearing GL	N/A	X	
	b. Establish/adjust lease liability-current	475	2951-System Clearing GL	1281-Lease Oblig. Current	N/A	X	
<b>Lessee entries at lease remeasurement or modification</b>						<b>Measurement Focus</b>	
Step	Description of transaction	T-Code	DR	CR	Cobj	Economic Resources	Current Financial Resources
9.	a. Recognize lease proceeds	908R	1551-Deposit Liability	3200-GAAP Revenue Offset	1700	X	X
	b. Recognize acquisition of asset	909R	3600-GAAP Expenditure Offset	1551-Deposit Liability	5770	X	X
	c. Adjust lease liability (eliminate amount from 9a)	462	3200-GAAP Revenue Offset	1716-Lease Oblig.	1700	X	
	d. Adjust lease asset (eliminate amount from 9b)	545 or 555 (FID)	08XX-Leased Asset 3074-Change in Cap. Assets	3600-GAAP Exp. Offset 3018-Net Invest. In Cap. Assets	5770	X X	
10.	Recognize gain/(loss) on leased asset only if the change reduces the carrying value of the leased asset to zero.	537 or 536 (FID)	3200-GAAP Revenue Offset 3018-Net Invest. In Cap. Assets	08XX-Leased Asset 3074-Change in Cap. Assets	2331	x x	
<b>Lessee entries at lease termination or at the end of the lease</b>						<b>Measurement Focus</b>	
Step	Description of transaction	T-Code	DR	CR	Cobj	Economic Resources	Current Financial Resources
11.	Move current portion of lease liability to noncurrent lease liability						
	a. Reduce lease liability-current	475R	1281-Lease Oblig. Current	2951-System Clearing GL	N/A	X	
	b. Adjust lease liability-noncurrent	475	2951-System Clearing GL	1716-Lease Oblig. Noncurrent	N/A	X	
12.	a. Eliminate excess asset value, record gain/(loss)	537 or 536 (FID)	3200-GAAP Revenue Offset 3018-Net Invest. In Cap. Assets	08XX-Leased Asset 3074-Change in Cap. Assets	2331	x x	
	b. Remove accumulated amortization	573	08XX-Amort. of Lease	2951-System Clearing GL	N/A	x	
	c. Remove asset value	574	2951-System Clearing GL	08XX-Leased Asset	N/A	x	
13.	a. Eliminate lease proceeds	908	3200-GAAP Revenue Offset	1551-Deposit Liability	1700	X	X
	b. Eliminate acquisition of leased asset	909	1551-Deposit Liability	3600-GAAP Exp. Offset	5770	X	X
	c. Adjust lease liability (eliminate amount from 13a)	462R	1716-Lease Oblig.	3200-GAAP Revenue Offset	1700	X	
	d. Adjust lease asset (eliminate amount from 13b)	545R or 555R	3600-GAAP Exp. Offset 3018-Net Invest. In Cap. Assets	08XX-Leased Asset 3074-Change in Cap. Assets	5770	X X	

## EXHIBIT D – Lease Accounting Entries for Lessors

<u>Lessor entries at lease commencement</u>						<b>Measurement Focus</b>	
Step	Description of transaction	T-Code	DR	CR	Cobj	Economic Resources	Current Financial Resources
1.	Establish lease receivable-noncurrent	498	0941-Lease Receivable-noncurrent	1861-Def. Inflow Lease Rec.	N/A	X	X
2.	Establish allowance for uncollectible lease receivable-noncurrent	498R	1861-Def. Inflow Lease Rec.	0942-Allow for Doubt. Lease Rec. NC	N/A	X	X
3.	Record payments <u>received before lease commencement</u>						
a.	Recognize cash transaction	190	0070-Cash on Deposit w/ OST	3100-Revenue Control Cash	0687	X	X
b.	Recognize deferred inflow-lease receivable	522R	3200-GAAP Revenue Offset	1861-Def. Inflow Lease Rec.	0687	X	X
<u>Lessor entries throughout the fiscal year</u>						<b>Measurement Focus</b>	
Step	Description of transaction	T-Code	DR	CR	Cobj	Economic Resources	Current Financial Resources
4a.	Record receipt of monthly lease <u>principal</u> payment	190	0070-Cash on Deposit w/ OST	3100-Revenue Control Cash	0687	X	X
b.	Record receipt of monthly lease <u>interest</u> payment OR	190	0070-Cash on Deposit w/ OST	3100-Revenue Control Cash	0802	X	X
4b.	a. Record receipt of <u>total</u> monthly lease payment	190	0070-Cash on Deposit w/ OST	3100-Revenue Control Cash	0687	X	X
b.	Reclass interest income on lease receivable	407	3100-Revenue Control Cash	0070-Cash on Deposit w/ OST	0687	X	X
c.	Reclass interest income on lease receivable )	408	0070-Cash on Deposit w/ OST	3100-Revenue Control Cash	0802	X	X
5.	Reduce lease receivable by lease payments (principal)	560	3200-GAAP Revenue Offset	0941-Lease Receivable-noncurrent	0687	X	X
6.	Record accumulated amortization of deferred inflow	522	1861-Def. Inflow Lease Rec.	3200-GAAP Revenue Offset	2347	X	X
<u>Lessor entries at fiscal year end</u>						<b>Measurement Focus</b>	
Step	Description of transaction	T-Code	DR	CR	Cobj	Economic Resources	Current Financial Resources
7.	Reclass current portion of lease receivable						
a.	Reduce lease receivable-noncurrent	474R	2951-System Clearing GL	0941-Lease Receivable-noncurrent	N/A	X	X
b.	Establish/adjust lease receivable-current	474	0506-Lease Receivable-current	2951-System Clearing GL	N/A	X	X
8.	Adjust allowance for uncollectible lease receivable-noncurrent	498R	1861-Def. Inflow Lease Rec.	0942-Allow for Doubt. Lease Rec. NC	N/A	X	X
<u>Lessor entries at lease remeasurement or modification</u>						<b>Measurement Focus</b>	
Step	Description of transaction	T-Code	DR	CR	Cobj	Economic Resources	Current Financial Resources
9.	Adjust lease receivable-noncurrent	498	0941-Lease Receivable-noncurrent	1861-Def. Inflow Lease Rec.	N/A	X	X
10.	Adjust allowance for uncollectible lease receivable-noncurrent	498R	1861-Def. Inflow Lease Rec.	0942-Allow for Doubt. Lease Rec. NC	N/A	X	X
<u>Lessor entries at lease termination or at the end of the lease</u>						<b>Measurement Focus</b>	
Step	Description of transaction	T-Code	DR	CR	Cobj	Economic Resources	Current Financial Resources
11.	Move current portion of lease receivable to noncurrent						
a.	Adjust lease receivable-current (non-document supported GL)	474R	2951-System Clearing GL	0506-Lease Receivable-current	N/A	X	X
b.	Adjust lease receivable-noncurrent	474	0941-Lease Receivable-noncurrent	2951-System Clearing GL	N/A	X	X
12.	Eliminate allowance for uncollectible lease receivable-noncurrent	498	0942-Allow for Doubt. Lease Rec. NC	1861-Def. Inflow Lease Rec.	N/A	X	X
13.	a. Record gain/(loss) on lease (calculation = NC receivable balance less deferred inflow on lease receivable balance)	522	1861-Def. Inflow Lease Rec.	3200-GAAP Revenue Offset	2332	X	X
b.	Eliminate lease receivable-noncurrent	498R	1861-Def. Inflow Lease Rec.	0941-Lease Receivable-noncurrent	N/A	X	X

### EXHIBIT E – Lease Measurement Example\*

Agency A enters into a contract with Contractor B to lease equipment.

- Leases equipment for a 5-year non-cancellable period
- Will make 5 annual payments of \$50,000
- The interest rate implicit in the lease is 3%
- Will make the first payment upon signing the lease on 6/30/X1

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Total</b>
<b>NPV =</b>	50,000.00	48,543.69	47,129.80	45,757.08	44,424.35	235,854.92
$\frac{\text{Net cash flow}}{(1 + \text{discount rate})^{\text{time}}}$	1.03	1.03	1.03	1.03	1.03	XXXXXXXXXX

Present value of minimum future lease payments = \$235,854.92

Capitalize the lease at \$235,854.92 and report interest per the following schedule:

Date	Lease Payment	Interest @ 3%	Principal	Remaining Liability
06/30/20x1	\$ -	\$ -	\$ -	\$ 235,854.92
06/30/20x1	50,000.00	-	50,000.00	185,854.92
06/30/20x2	50,000.00	5,575.65	44,424.35	141,430.57
06/30/20x3	50,000.00	4,242.92	45,757.08	95,673.48
06/30/20x4	50,000.00	2,870.20	47,129.80	48,543.69
06/30/20x5	50,000.00	1,456.31	48,543.69	-

\* Applies to measurement of lease liability or lease receivable.