

# REDW<sup>LLC</sup> webinar series.

## tribal lease accounting: GASB 87

As promised at the close of our first Tribal Lease Accounting webinar, held July 8, 2019, on How to Implement GASB 87, below are Questions asked by participants, along with Answers from our speakers, Corrine Wilson and Mike Dierlam. If you have further questions for them, please don't hesitate to contact them directly at [cwilson@redw.com](mailto:cwilson@redw.com) and [mdierlam@redw.com](mailto:mdierlam@redw.com). Thanks again for registering for our 3-part series; we look forward to your participation again on August 12<sup>th</sup> and September 9<sup>th</sup>!

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**Q** How do you reconcile the lessee and lessor amounts if the lease is not intra-government? Does the auditor send a confirmation letter to the other organization?

**A** *When the Tribe is the lessee with an external party, the terms of the agreement would determine the amounts used for calculations of what to record, and there would not be a need to reconcile to the lessor. The auditor may send a confirmation to the lessor for the terms of the lease, i.e., amortization tables, lease period, interest, and amounts.*

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**Q** Are GSA car leases included in GASB 87 reporting?

**A** *If the terms of the GSA car lease(s) meet the GASB 87 provisions, then yes. (See our slides 9 and 10). Many GSA car leases may be month-to-month or annual, which would likely meet the short-term lease provisions of GASB 87 criteria (Slide 15). Therefore, someone should read and understand the GSA car lease terms and then determine how GASB 87 would apply.*

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**Q** So you are to record the total value of the lease payments (60 months) as if it was a regular asset purchase at the beginning of the lease?

**A** *Yes, unless it is a short term lease or it transfers ownership of the asset initially. Remember to create separate lease asset and liability accounts in your general ledger and asset tracking systems.*

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**Q** I get how to handle new leases going forward. But how do we handle leases that are a couple years in at the time of implementation? What is the entry like? Do we use FMV at the time of implementation on the asset? Or go back to the date of lease inception, depreciate and amortize and then use that value?

**A** *Upon implementation, you are required to record the leases that existed at the beginning of the fiscal period of implementation, calculating the amounts per the terms of the lease as we displayed in our webinar. If there are applicable portions of your lease(s) that apply to earlier, prior period(s), those periods would need to be restated. It does allow for a restatement of the beginning net position (or fund balance as applicable) for the cumulative effect of multiple prior periods, if your restatements for multiple prior periods is not practicable. Also remember, restatements also require disclosure in the notes. For lessors, their underlying existing sales-type or direct-financing leases do not need to be restated, and any residual asset values for those leases should become the carrying values of the underlying assets.*

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**Q** If the building lease is month-to-month, do we need to report as GASB 87? Or do we need to draw up a new lease contract?

**A** *If it is a month-to-month lease, but there is a non-cancellable right for a specified period in the agreement, the lease period should be determined based on the length of time of that specified period, or based on your reasonable certainty that the asset will be used and other relevant GASB 87 factors.*

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**Q** Is a lease that transfers ownership exempt?

**A** *It is exempt to the extent that you would not record it as a leased asset and liability. Rather, it would be recorded as a capital asset that is financed, with the liability recorded. This exclusion applies to assets that transfer ownership at the INCEPTION of the lease agreement. In other words, this represents a purchase of an asset that the “lessee” is financing, and is masked as a “lease.” Leases that include language to potentially transfer ownership at the end of the lease (such as a bargain purchase option) are still subject to GASB 87.*

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**Q** What if there isn't interest in the lease agreement?

**A** *Lessees should request from the lessor that all lease agreements include a specified interest rate. For instances in which the lessor does not specifically state an interest rate (discount rate) within the lease agreement, a suggested implied rate to use in the present value calculation might be 3-4%.*

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To assist your understanding, you can download GASB 87 from: [www.gasb.org](http://www.gasb.org)