

From: [OSPI](#)
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Subject: Accounting Guidance Update: Leases
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Accounting Guidance Update: Prior Period Leases – Present Value Measurement

New GASB 87 leases requirements were effective beginning with the 2021-22 school year and impact both modified accrual and cash basis school districts. Schools who report on the modified accrual basis must calculate the present value of remaining lease payments, using a discount rate to determine interest/principal components. The new requirements apply retroactively, which means districts will need to evaluate not just current leases but also those existing (older) leases in place before the 2021-22 school year began.

Existing (older) Leases:

Previous guidance to schools has been to calculate the present value of existing leases back to the original inception date of the lease. It was recently determined this guidance is not inline with the new GASB 87 leases requirements. While the new leases requirements apply retro-actively to existing leases, **existing leases should be measured as of the beginning of the implementation year (9/1/2021), not at the time when the lease actually started.**

For example, if a lease has an inception date of 2012 with a term through 8/31/2025, the school would only calculate the present value of the lease for the period 9/1/21 – 8/31/25.

Leases should be measured using the facts and circumstances, remaining lease term and discount rate that exist at the beginning of the period of implementation. If there is a discount rate stated explicitly in the lease agreement, schools should use the explicit rate, if reasonable.

For schools who have begun calculating the present value of older leases using the inception date (instead of the implementation date), there will be different impacts to both lessee and lessor situations that need to be resolved:

Lessees:

The difference between calculating the present value of existing leases as of the inception date or period of implementation would likely result in the same amounts. Beginning and Ending lease liabilities, principal and interest amounts are typically the same using either method.

Lessors:

In lessor situations, schools report Deferred Inflow and Lease Receivable balances on the Balance Sheet. The receivable balance is reduced by the interest method, and Deferred Inflow balance is typically reduced using a straight line method. Calculating the present value of existing leases at the inception date or implementation date can result in different amounts of amortization applied each period. Therefore, schools should calculate the present value of older leases using the implementation date (9/1/2021).

This change in guidance is only expected to impact the calculation of existing leases in the year of

implementation (2021-22 school year). For leases entered into during the implementation year and going forward, the present value of lease payments should be calculated using the inception date of the lease.

If you have any questions, please reach out to:

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Thank you.

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