

PREPARING FOR GASB'S NEW LEASE STANDARD

EARLY PLANNING AND ASSESSMENT ARE KEY

EFFECTIVE FOR FISCAL YEAR ENDING JUNE 30, 2022

Background

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87 – Leases (GASB 87). GASB 87's objectives are to better meet the information needs of financial statement users by improving how governments report leases, enhancing the comparability of financial statements between governments, and enhancing the relevance, reliability, and consistency of information about governments' leasing activities. GASB 87 is effective for governments with a June 30 year-end for the year ending June 30, 2022.¹

Governments may enter into leases for many types of assets. Under previous guidance, leases were classified as either capital or operating leases—depending on whether the lease met certain criteria—with different reporting requirements for each type. GASB 87's definition of leases excludes contracts that transfer ownership; therefore such contracts previously classified as capital leases are not covered by GASB 87 requirements and are instead reported as financed purchases. Other previously classified capital and operating leases will now be accounted for under a single reporting model that requires lessees to recognize a lease liability and an intangible right-to-use leased asset; and lessors to recognize a lease receivable and a deferred inflow of resources. It is more common for a government to be a lessee, leasing property or equipment, but a government may also be a lessor if, for example, it has unused space it leases to a third party.

The new lease accounting standards represent the most far-reaching changes GASB has introduced in many years, and implementation efforts may take well over a year for governments with a significant volume of leases. Also, implementation may significantly impact many departments and stakeholders from various levels across the organization, and not just the finance department. Finally, changes in processes, internal controls, and IT systems are likely necessary to help ensure all material leases² are captured and the underlying data necessary to apply the new lease standards is efficiently compiled.

REDEFINING LEASES

GASB 87 modifies the definition of leases for reporting purposes. Accordingly, governments need to determine whether contracts that convey the right to use another entity's nonfinancial asset, such as property, equipment, and vehicles—including contracts not explicitly identified as leases—must be reported as a lease under GASB 87.

WHAT SHOULD WE BE DOING NOW TO PREPARE?

Early planning and assessment are necessary to achieve compliance. Governments should become familiar with the new standard, identify key personnel and responsibilities, and develop a comprehensive plan with implementation milestones. One of the biggest implementation challenges governments will face is determining their complete population of leases. Determination and analysis of the lease population, as further discussed below, will aid in the successful implementation of GASB 87.

¹ GASB Statement No. 95 – Postponement of the Effective Dates of Certain Authoritative Guidance.

² GASB standards need not be applied to immaterial items.

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DETERMINING AND ANALYZING THE LEASE POPULATION

Take a complete inventory of all contracts to identify the lease population. Not every lease under the new standards will be called a lease in its existing contract. Also, leases could be embedded within service contracts and agreements. For example, a school district's contract for student transportation services may include the use of the contractor's buses. If the contract allows the school district to control aspects of how those buses are used, that service contract may include an embedded lease of buses under GASB 87.

Procedures to help identify leases, including embedded leases, may include the following:

- Consult with legal and procurement departments and employees most familiar with contracting processes.
- Consult with operational departments, as needed, to identify contracts maintained in decentralized systems outside the business or procurement areas.
- Scrutinize accounts payable data to identify significant vendors and recurring payments that could represent leases under the new guidance.
- Analyze rent expenses and revisit rental agreements for property and equipment.
- Evaluate construction projects and related agreements for potential lease arrangements.
- Review service contracts that include the use of tangible assets to provide the related services.
- Re-evaluate previous operating leases where the government is the lessor to ensure proper recognition of lease receivables and deferred inflows of resources under the new guidance.

The individuals with the best knowledge of contracts should look for unrecorded leases, taking a close look at all operations. Governments should undertake careful, upfront planning to identify a complete lease population and to establish appropriate procedures as new and modified contracts are executed. Identifying embedded leases can involve considerable time and judgment because many of these contracts may not have been identified as leases in the past.

Analyze the lease population and determine scope. After all potential leases have been identified, the government should evaluate and analyze them to determine if they meet the new GASB 87 criteria. Leases determined to be short-term (those with a total possible term of 12 months or less) and leases that transfer ownership of the underlying asset should be excluded from GASB 87 reporting. Governments should work closely with their internal and external auditors to determine appropriate materiality thresholds for lease reporting and should avoid simply defaulting to existing capitalization thresholds for property and equipment. This materiality assessment should consider the significance of the lease liability and asset for lessees and the lease receivable and deferred inflow of resources for lessors. Governments should revisit their lease thresholds at least annually to ensure all material leases, either individually or in the aggregate, are reported.

Identify opportunities to leverage technology as part of the implementation process. The new lease standard requires significantly more data and calculations to produce accounting journal entries and disclosures for lease reporting. Governments that identify numerous leases across departments should consider centralizing storage and management of lease agreements using IT solutions to facilitate transition to the new lease standard. Governments that choose to implement a new IT tool to manage leases will need to allow additional time in their implementation process to ensure the new tool will be fully operational.

Other available resources:

[GASB Pronouncements:](#)

GASB Statement No. 87

GASB Implementation Guide No. 2019-3

[GFOA Advisory: Accounting for Leases](#)