**Financial Audits Division| Georgia Department of Audits and Accounts Client Ledger #**

**Highlights**

**GASB 87**

Issued in June 2017

Effective for reporting periods beginning after June 15, 2021

For all state and local government entities

Early adoption is encouraged

New standards are designed to increase the usefulness of governments’ financial statements by requiring reporting fo certain lease liabilities that currently are not reported.

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***The Leasing Standards***

To better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments.

**What happened?**

*GASB Statement No.87*

In June of 2017, the GASB issued GASB Statement No. 87, Leases , *Leases.* This statement was intended to increase the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The effective date of this pronouncement is for reporting periods beginning after June 15, 2021, with early adoption encouraged.

**No. 2021-01**

December 2021

**Client ledger**

**Georgia State Capitol**

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***What you need to know***

***Definition—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.***

***Lease Term = Noncancelable period***

***+ Lessee’s option to extend if reasonably certain***

***+ Lessee’s option to terminate***

***+ Lessor’s option to extend***

***+ Lessor’s option to terminate***

***Lease Accounting***

***A lessee recognizes a lease asset and a lease liability***

***A lessor recognizes a lease receivable and a deferred inflow of resources***

***The effective date of Statement 87 is reporting periods beginning after June 15, 2021.***

***This Statement will increase the usefulness of governments’ financial statements by requiring reporting of certain lease liabilities that were not required before***

**What are the key provisions?**

**DOAA—In The Know**

|  |  |  |
| --- | --- | --- |
| **Topic** | **Previous Standards** | **New Standards** |
| **Capital/Operating Lease Determination** | Four prong test:  Transfer of ownership at end of lease term  A bargain purchase option exists  Lease term is 75% or more of the life of the asset  PV of payments 90% or more of fair value of asset | All leases greater than 12 month term are treated under single procedure.  Lease terms maximum 12 months or less, lessor and lessee recognize outflows and inflows of resources over the course of the lease. No recognition of assets or liabilities. |
| **Key Provisions** |  |  |
| **Contracts with Multiple Components and Contract Combinations** | Generally, a government should account for the lease and non-lease components of a lease as separate contracts.  If the contract involves multiple underlying assets, the lessee (and lessor under certain circumstances) should account for each asset as a separate lease contract. Allocate the price to different components using the contract prices for the components as long as they appear reasonable.  If the contract price components do not appear reasonable, use professional judgment.  If this is not practicable, account for the components as a single lease unit.  Contracts entered into at or near the same time with the same counterparty should be considered part of the same lease contract. |  |
| **Lease Modifications and Terminations** | An amendment to a lease should be considered a lease modification. If the lessee’s right to use the underlying asset decreases, this is a full or partial termination. |  |
| **Subleases and Leaseback Transactions** | Subleases should be treated as transactions separate from the original lease.  A transaction qualifies as a sale-leaseback only if it includes a sale. Otherwise, it is a borrowing. The sale and leaseback should be accounted for as separate transactions.  A lease-leaseback is accounted for as a net transaction. |  |
| **How the Changes in This Statement will Improve Accounting and Financial Reporting** | This Statement will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. It will also enhance the decision usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government’s leasing arrangement. |  |

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**Additional**

**Resources**

GASB Statement No. 87. *Leases*

GASB Implementation Guide No. 2019-3, *Leases*

GASB Implementation Guide No. 2020-1, Implementation Guidance Update—2020

GASB Implementation Guide No. 2021-1, Implementation Guidance Update—2021

GASB 95—*Postponement of the Effective Dates of Certain Authoritative Guidance*

**Client Tips**

Familiarize yourself with GASB 87. Links included above.

Review all your contracts & agreements to ensure that all leases have been identified by the definition included in GASB 87.

Restate existing leases according to guidance contained in GASB 87.

For any leases not restated, document the rationale for the non-restatement.

Review all note disclosures to ensure GASB 87 compliance.

*Application*

GASB Statement No. 87 requires a government lessee to report a lease liability and a lease asset at the beginning of the lease term. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term. A lessor should NOT derecognize the underlying asset. The lease receivable should be measured at the present value of lease payments expected during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term.

A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease.

*Disclosure*

Lessee notes to the financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

Lessor notes to the financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

**Why is this important?**

Statement No. 87 is designed to improve the information reported on state and local government financial reports. More accurate reporting will be available to statement users for decision making and comparisons.

**What’s next?**

Due to GASB Statement No. 95 Postponement of the Effective Dates of Certain Authoritative Guidance, Statement No. 87 will be effective for reporting periods beginning after June 15, 2021, with earlier application encouraged.

**DOAA—Client Ledger**