

gasb 87 implementation guide

Gasb 87 Implementation Guide: Navigating the New Lease Accounting Standard

gasb 87 implementation guide is an essential resource for governmental entities gearing up to comply with the updated lease accounting standards issued by the Governmental Accounting Standards Board (GASB). Since its introduction, GASB 87 has significantly changed how leases are recognized, measured, and reported in government financial statements. Transitioning to this new framework can feel overwhelming, but understanding the practical steps involved in the gasb 87 implementation guide will help organizations manage the process smoothly and ensure accurate financial reporting.

Understanding GASB 87 and Its Impact on Governmental Accounting

Before diving into the implementation details, it's crucial to grasp what GASB 87 entails. This standard aims to enhance transparency and comparability by requiring governments to recognize most leases on their balance sheets. Unlike previous standards that allowed operating leases to remain off-balance-sheet, GASB 87 mandates that both lessees and lessors recognize lease assets and liabilities, thus providing a more faithful representation of leasing activities.

The shift means that government entities must now identify lease contracts, determine lease terms, measure lease liabilities, and recognize corresponding right-to-use assets. This comprehensive approach impacts budgeting, financial analysis, and audit processes, making the gasb 87 implementation guide vital for a successful transition.

Key Steps in the Gasb 87 Implementation Guide

Implementing GASB 87 is a multi-faceted process requiring coordination among finance, legal, procurement, and IT departments. Here's a breakdown of the essential steps to incorporate the new lease accounting standard effectively:

1. Lease Inventory and Identification

The foundation of GASB 87 compliance lies in compiling a complete lease inventory. Government entities must review all contracts to identify those that meet the lease definition under GASB 87: an agreement conveying control of the right to use another entity's asset for a period in exchange for payment.

Since leases may be embedded in service contracts or other agreements, this process demands detailed scrutiny. Establishing a comprehensive lease database early on

facilitates accurate recognition and ongoing management.

2. Analyzing Lease Components and Terms

Once leases are identified, it's important to dissect each contract to understand the lease term, payment schedules, renewal options, and any clauses affecting lease classification. The lease term includes noncancelable periods plus certain optional extensions or terminations if reasonably certain.

This analysis helps in correctly measuring lease liabilities and right-of-use assets. The GASB 87 implementation guide recommends involving legal counsel to interpret complex lease provisions to avoid misclassification.

3. Calculating Lease Liabilities and Right-of-Use Assets

The core of GASB 87 revolves around measuring lease liabilities at the present value of lease payments over the lease term. Discount rates play a pivotal role here—if the implicit rate in the lease is unknown, governments should use their incremental borrowing rate.

Simultaneously, the right-of-use asset is initially measured at the amount of the lease liability plus any prepaid lease payments and initial direct costs, less any lease incentives received. Accurate calculations ensure that financial statements fairly reflect leasing obligations and resources.

4. Updating Accounting Systems and Controls

Many government entities face challenges adapting existing accounting systems to accommodate the new lease recognition requirements. The GASB 87 implementation guide stresses the importance of leveraging lease accounting software or upgrading ERP systems to automate calculations, track lease modifications, and generate compliant disclosures.

Establishing internal controls around lease data entry, approval workflows, and periodic reviews also mitigates risks of errors and noncompliance.

5. Training and Communication Across Departments

Successful GASB 87 implementation hinges on clear communication and training. Finance teams need to understand new accounting treatments, while procurement and legal departments play critical roles in identifying leases and negotiating terms.

Organizing cross-functional workshops and regularly updating stakeholders on progress builds awareness and fosters collaboration during the transition period.

Common Challenges in Implementing GASB 87 and How to Overcome Them

Adopting the new lease accounting standard is not without hurdles. Recognizing these challenges early can help governments proactively address them.

Complex Lease Portfolios

Government entities often manage diverse leases, from office space to vehicles and equipment. The sheer volume and variety can complicate identification and measurement. Utilizing centralized lease management systems and conducting thorough contract reviews are effective ways to streamline this complexity.

Determining Lease Terms in Uncertain Situations

Estimating lease terms when contracts have renewal or termination options can be subjective. GASB 87 requires judgment about whether extensions are “reasonably certain.” Documenting decision-making processes and assumptions enhances transparency and audit readiness.

Data Gaps and Incomplete Documentation

In some cases, lease documentation may be outdated or incomplete, hindering accurate accounting. Collaborating with lessors to obtain necessary information and establishing standardized lease documentation procedures moving forward can alleviate these issues.

Impact on Financial Ratios and Budgeting

Recognizing leases on the balance sheet increases liabilities and assets, potentially affecting debt covenants and budgeting processes. Early engagement with policymakers and stakeholders to explain the standard’s effects can help manage expectations and adjust financial plans accordingly.

Best Practices for a Smooth GASB 87 Implementation

Navigating the intricacies of GASB 87 requires thoughtful planning and execution. Here are some valuable tips from experienced practitioners:

- **Start Early:** Begin lease identification and data gathering well before the effective date to allow ample time for analysis and system updates.
- **Leverage Technology:** Invest in lease accounting software tailored to GASB 87 to reduce manual errors and streamline reporting.
- **Engage Stakeholders:** Maintain open communication with auditors, legal counsel, and leadership to ensure alignment and address concerns promptly.
- **Document Judgments:** Keep detailed records of assumptions made regarding lease terms and discount rates to support audit examinations.
- **Provide Training:** Equip staff across departments with training sessions to build understanding and confidence in applying the new standard.

Ongoing Compliance and Reporting Under GASB 87

Meeting the initial implementation requirements is just the beginning. GASB 87 also necessitates ongoing processes such as:

- Regularly reviewing lease portfolios for modifications or new leases
- Updating lease measurements when terms change
- Preparing required disclosures in financial statements, including qualitative and quantitative information about leasing arrangements
- Coordinating with auditors during annual financial audits

Establishing a robust lease management framework ensures that governmental entities remain compliant and maintain the integrity of their financial reporting over time.

The gasb 87 implementation guide is more than a checklist—it's a roadmap for transforming lease accounting practices. By understanding the standard's requirements, addressing challenges head-on, and adopting best practices, government organizations can achieve a seamless transition that enhances transparency and supports informed decision-making.

Frequently Asked Questions

What is GASB 87 and why is it important?

GASB 87 is a Governmental Accounting Standards Board statement that establishes standards for lease accounting for state and local governments. It is important because it improves financial reporting by requiring governments to recognize lease assets and liabilities, enhancing transparency and comparability.

What are the key steps in implementing GASB 87?

Key steps include identifying lease contracts, assessing lease terms and options, measuring lease liabilities and right-of-use assets, updating accounting systems, training staff, and ensuring proper disclosures in financial statements.

How does GASB 87 impact lease accounting for governments?

GASB 87 requires governments to report most leases on the balance sheet as lease liabilities and right-of-use assets, replacing previous off-balance-sheet operating lease treatments, thereby increasing transparency and providing a more accurate picture of financial obligations.

What types of leases are covered under GASB 87?

GASB 87 covers leases that convey control of the right to use an underlying asset for a period of time in exchange for consideration, including both operating and finance leases for governmental entities. Certain short-term leases and leases of intangible assets are excluded.

What challenges do organizations face when implementing GASB 87?

Challenges include identifying all leases, gathering complete contract data, estimating lease terms and discount rates, updating accounting systems, ensuring staff understanding, and adjusting financial policies and disclosures.

What systems or software can assist with GASB 87 implementation?

Lease accounting software solutions such as LeaseQuery, Visual Lease, and AMTdirect can assist with GASB 87 implementation by automating lease identification, calculations, reporting, and compliance tracking tailored to governmental accounting requirements.

How should governments disclose lease information under GASB 87?

Governments must disclose qualitative and quantitative information about leases, including significant assumptions and judgments, lease terms, expense recognition, and

total lease liabilities and right-of-use assets in the notes to financial statements.

What training or resources are recommended for GASB 87 implementation?

Recommended resources include official GASB implementation guides, webinars, training sessions provided by accounting firms, and workshops offered by professional organizations like GFOA. Training should focus on lease accounting principles, system updates, and disclosure requirements.

When did GASB 87 become effective and what is the transition approach?

GASB 87 became effective for reporting periods beginning after December 15, 2019. The standard requires a modified prospective transition approach, where leases existing at the effective date are recognized as right-of-use assets and lease liabilities without restating prior periods.

Additional Resources

Gasb 87 Implementation Guide: Navigating the New Lease Accounting Standard

gasb 87 implementation guide serves as a critical resource for governmental entities adjusting to the updated lease accounting standards introduced by the Governmental Accounting Standards Board (GASB). As GASB 87 fundamentally changes how leases are recognized, measured, and disclosed, this guide delves into the practical steps, challenges, and strategic considerations necessary for a smooth transition. Understanding the nuances of GASB 87 not only ensures compliance but also enhances transparency and accountability in public sector financial reporting.

Understanding GASB 87: The Shift in Lease Accounting

GASB 87 represents a significant overhaul in lease accounting for state and local governments. Prior to this standard, leases were classified as either operating or capital leases, with only capital leases appearing on the balance sheet. The new standard eliminates this distinction, requiring almost all leases to be reported on the balance sheet as a lease liability and a corresponding intangible right-to-use asset.

This change aims to provide a more faithful representation of a government's leasing activities, reflecting the economic realities of lease agreements. The implementation guide highlights that GASB 87 applies to leases longer than 12 months and covers both lessees and lessors, broadening the scope compared to previous standards.

Key Components of GASB 87

The implementation guide breaks down the essential elements of GASB 87, including:

- **Lease Definition:** A contract that conveys control of the right to use another entity's asset for a period in exchange for consideration.
- **Right-to-Use Asset:** Recognized by lessees representing the right to use the leased asset during the lease term.
- **Lease Liability:** The obligation to make lease payments, discounted to present value.
- **Lease Term:** Includes non-cancellable periods plus options to extend or terminate when reasonably certain.
- **Measurement and Recognition:** Initial measurement at the present value of lease payments and subsequent amortization of the right-to-use asset.

Steps for Implementing GASB 87

Transitioning to GASB 87 requires a methodical approach to ensure accuracy and regulatory compliance. The implementation guide recommends the following procedural framework:

1. Comprehensive Lease Inventory

The first and arguably most critical step is to identify and catalog all existing lease agreements. Many governments might not have a centralized lease database, which complicates this process. The guide emphasizes the importance of reviewing contracts thoroughly to distinguish leases from service agreements or other arrangements.

2. Data Collection and Analysis

Once leases are identified, detailed data must be collected including lease terms, payment schedules, renewal options, and any clauses affecting the lease duration or payment amounts. Collecting accurate data is essential for precise lease liability and asset calculations.

3. System and Process Updates

Most entities will need to upgrade or implement accounting systems capable of handling lease data under GASB 87. The guide explores options ranging from specialized lease accounting software to modifications in existing enterprise resource planning (ERP) systems.

4. Calculating Lease Liabilities and Assets

Applying the present value techniques to lease payments requires judgment, particularly in selecting appropriate discount rates. The guide notes that entities can use the interest rate implicit in the lease or their incremental borrowing rate if the implicit rate is not readily determinable.

5. Financial Statement Presentation and Disclosure

GASB 87 mandates expanded disclosures, including qualitative and quantitative information about leasing arrangements. The guide outlines the necessary footnotes, such as descriptions of leasing arrangements, significant assumptions, and maturity analysis of lease liabilities.

Challenges and Considerations in GASB 87 Implementation

While GASB 87 enhances transparency, its implementation is not without challenges. The guide identifies several potential hurdles:

Data Complexity and Volume

Governmental entities often manage a wide range of leases across departments. Gathering and validating lease data from disparate sources demands significant coordination and resources.

Judgment in Lease Term and Discount Rate

Determining the lease term, especially when renewal or termination options exist, involves subjective judgment. Similarly, choosing the discount rate can affect the reported lease liabilities and assets materially.

System Integration and Training

Implementing new software or modifying existing systems requires investment and training of accounting personnel. The guide stresses the importance of early planning to avoid disruptions during the reporting period.

Impact on Financial Ratios and Budgets

Bringing leases onto the balance sheet can alter key financial ratios and measures of debt, potentially affecting bond ratings and borrowing capacity. The guide suggests proactive communication with stakeholders to explain these changes.

Comparative Insights: GASB 87 vs. Previous Lease Standards

A nuanced understanding of the differences between GASB 87 and prior lease standards (such as GASB 13) is vital for effective implementation. Unlike the earlier model which only recognized capital leases on the balance sheet, GASB 87 requires recognition of nearly all leases, eliminating the operating lease concept. This change aligns governmental accounting more closely with private sector standards like ASC 842 and IFRS 16, though with government-specific considerations.

The implementation guide highlights that this shift leads to increased reported liabilities and assets, which, while improving transparency, may initially concern auditors and stakeholders unfamiliar with the new accounting treatment.

Benefits of GASB 87 Adoption

- **Enhanced Transparency:** Full recognition of lease obligations improves stakeholders' understanding of financial commitments.
- **Consistency:** Uniform lease accounting reduces ambiguity and comparability issues.
- **Improved Decision-Making:** More accurate financial data aids in budgeting and asset management.

Potential Drawbacks

- **Implementation Costs:** Significant investment in systems and training can strain budgets.
- **Increased Complexity:** More detailed calculations and disclosures increase administrative workload.
- **Financial Ratios Impact:** Larger reported liabilities may affect creditworthiness perceptions.

Best Practices for a Successful GASB 87 Implementation

Drawing from the implementation guide and industry experiences, several best practices emerge:

1. **Early Planning:** Begin lease identification and system assessments well before the effective date.
2. **Cross-Department Collaboration:** Engage finance, legal, procurement, and operations teams for comprehensive lease data.
3. **Leverage Technology:** Invest in lease accounting software to automate calculations and streamline disclosures.
4. **Training and Education:** Provide ongoing training to accounting staff and management to ensure understanding of new requirements.
5. **Transparent Communication:** Inform auditors, rating agencies, and stakeholders about the implications of GASB 87 adoption.

Role of Auditors and Consultants

The guide underscores the value of involving external auditors and consultants early in the process. Their expertise can help validate lease classifications, assumptions, and accounting treatments, ensuring compliance and minimizing risks of restatements or audit findings.

Conclusion: Navigating the Complexities with

Confidence

The gasb 87 implementation guide is indispensable for government entities striving to comply with the new lease accounting standard. While the transition demands careful planning, resource allocation, and judgment, the benefits of enhanced financial transparency and accountability are substantial. By following a structured approach and embracing best practices outlined in the guide, organizations can effectively navigate the complexities of GASB 87 and position themselves for improved financial reporting in the public sector.

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