

gasb 87 implementation guide 2022

Understanding GASB 87 Implementation Guide 2022

The **GASB 87 Implementation Guide 2022** is a crucial document for state and local governments in the United States, as it provides essential guidance on how to account for leases in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 87. This standard fundamentally changes the way governmental entities report lease agreements, ensuring that financial statements reflect a more accurate picture of a government's financial obligations and resources. This article will explore the key components of the GASB 87 Implementation Guide, its implications for governmental accounting, and steps for effective implementation.

Overview of GASB 87

GASB 87, which was officially adopted in June 2017, introduced a new model for lease accounting. The primary objectives of this standard are to:

- Improve the transparency and consistency of lease accounting.
- Provide a more accurate representation of a government entity's obligations and resources.

Under GASB 87, leases are classified as a right-to-use asset and a corresponding lease liability, which is a significant shift from previous standards that focused on operating versus capital leases.

Key Changes Introduced by GASB 87

1. Recognition of Lease Assets and Liabilities:

- Governments must recognize lease assets and liabilities for leases with a term longer than 12 months.
- The lease asset represents the government's right to use the underlying asset, while the lease liability reflects the obligation to make lease payments.

2. Measurement of Lease Liability:

- The lease liability is measured at the present value of future lease payments, which may include fixed payments, variable payments that depend on an index or rate, and any termination penalties.

3. Right-to-Use Asset Measurement:

- The right-to-use asset is initially measured at the amount of the lease liability, adjusted

for any prepaid or accrued lease payments, initial direct costs, and any incentives received from the lessor.

4. Lease Term Considerations:

- The lease term includes the non-cancellable period and any periods covered by options to extend or terminate the lease if it is reasonably certain that the option will be exercised.

Implications of GASB 87 for Governmental Entities

The shift to GASB 87 has several implications for governmental entities, affecting how they manage their leases and report their financial position.

Financial Reporting Changes

The adoption of GASB 87 will lead to:

- **Increased Transparency:** By recognizing lease liabilities and assets, government financial statements will provide stakeholders with a clearer understanding of a government entity's obligations.
- **Impact on Financial Ratios:** The inclusion of lease liabilities may affect key financial ratios, potentially influencing credit ratings and borrowing costs.
- **Budgetary Considerations:** Governments may need to adjust their budgeting processes to account for the impact of lease accounting on their financial statements.

Operational Changes

Implementing GASB 87 will require:

- **Enhanced Recordkeeping:** Governments will need to maintain detailed records of all leases, including terms, payment schedules, and options for renewal or termination.
- **Training:** Staff responsible for accounting and financial reporting may require training on the new standards to ensure compliance and accurate reporting.
- **Policy Revisions:** Entities may need to review and revise their leasing policies and practices to align with the new accounting requirements.

Steps for Implementing GASB 87

To ensure a successful transition to GASB 87, governmental entities should follow a structured implementation process:

1. Conduct an Inventory of Leases

- Identify Existing Leases: Compile a comprehensive list of all lease agreements, including those with public and private entities.
- Review Lease Terms: Assess the terms of each lease, including duration, payment schedules, and any options for renewal or termination.

2. Evaluate Lease Classification

- Determine Lease Characteristics: Evaluate whether each lease meets the criteria set forth in GASB 87 for classification as a lease.
- Assess Impact on Financial Statements: Calculate the potential financial impact of each lease on your organization's financial position.

3. Calculate Lease Liabilities and Right-to-Use Assets

- Present Value Calculations: Use appropriate discount rates to calculate the present value of future lease payments for each identified lease.
- Adjust for Prepayments and Incentives: Make necessary adjustments to account for prepaid amounts and any incentives received from lessors.

4. Update Financial Reporting Processes

- Revise Financial Statements: Update financial statement formats and disclosures to include lease liabilities and right-to-use assets.
- Ensure Compliance: Verify that the updated reporting processes comply with GASB 87 requirements.

5. Train Staff and Communicate Changes

- Conduct Training Sessions: Organize training for accounting and finance personnel to familiarize them with the new standards and procedures.
- Engage Stakeholders: Communicate changes to key stakeholders, including governing boards, auditors, and external financial partners.

Challenges in Implementing GASB 87

While the implementation of GASB 87 brings several benefits, it also presents challenges that governmental entities must navigate:

- Complexity of Lease Agreements: Many entities have a diverse range of lease agreements, which can complicate the implementation process.
- Resource Allocation: Smaller governments may struggle with limited resources and staffing, making it difficult to conduct a thorough inventory of leases and implement the necessary changes.
- Technological Considerations: Entities may need to invest in new accounting software or systems to manage lease data effectively.

Conclusion

The **GASB 87 Implementation Guide 2022** marks a significant transition in governmental accounting practices. By requiring the recognition of lease liabilities and right-to-use assets, it enhances the transparency and accuracy of financial reporting. While the implementation process may present challenges, following a structured approach can help governmental entities navigate the changes effectively. As governments adapt to these new standards, they will ultimately gain a clearer understanding of their financial obligations, leading to better decision-making and accountability to stakeholders.

Frequently Asked Questions

What is GASB 87 and why is it important?

GASB 87 is a standard issued by the Governmental Accounting Standards Board that establishes accounting and financial reporting for leases by state and local governments. It is important because it enhances transparency and comparability in financial statements by requiring governments to recognize lease assets and liabilities.

What are the key changes introduced in the GASB 87 Implementation Guide 2022?

The GASB 87 Implementation Guide 2022 clarifies various aspects of the original standard, including guidance on short-term leases, lease modifications, variable lease payments, and the treatment of certain non-financial assets.

How does GASB 87 affect financial reporting for governmental entities?

GASB 87 requires governmental entities to report lease liabilities and right-to-use assets, which can significantly impact balance sheets and financial ratios, leading to improved visibility of lease commitments on financial statements.

What types of leases are covered under GASB 87?

GASB 87 covers both operating and capital leases, requiring all leases over 12 months to be reported as a liability and an asset, regardless of their classification under previous

accounting standards.

When did GASB 87 become effective?

GASB 87 became effective for reporting periods beginning after December 15, 2019, with the option for earlier implementation. The Implementation Guide 2022 provides additional support and clarifications for entities that are still in the process of adoption.

What challenges do entities face when implementing GASB 87?

Entities may face challenges such as identifying all lease agreements, determining the appropriate discount rates, and integrating lease data into existing financial reporting systems. The complexity of lease terms and conditions can also complicate implementation.

How can governmental entities prepare for the transition to GASB 87?

Governmental entities can prepare for the transition by conducting a thorough review of all existing lease agreements, training finance staff on the new requirements, and updating accounting systems to capture lease data accurately.

What resources are available for understanding GASB 87 implementation?

Resources for understanding GASB 87 implementation include the GASB website, webinars, training sessions offered by accounting organizations, and the GASB 87 Implementation Guide 2022 itself, which provides specific examples and FAQs.

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