

## GASB 87 IMPLEMENTATION CONSIDERATIONS

August 2019



## LEASE ACCOUNTING UPDATES &amp; IMPLEMENTATION READINESS

Issued in June 2017, with an effective implementation date for reporting periods beginning after December 15, 2019, Governmental Accounting Standards Board Statement No. 87 ("GASB 87") substantially changes the reporting of government leases.

As a result of the considerable changes to GASB 87, the Office of the State Auditor (OSA) recommends New Mexico's oversight agencies engage their agency leadership and fiscal teams to plan, develop, monitor, and actively participate in the implementation of the new standard.

## IMPLEMENTATION GUIDE AND TIMELINE

AUGUST 2019: GASB 87

Implementation Guide Approved

GASB has approved an implementation guide that provides direction and information on the new standards of reporting for leases.

JANUARY 1, 2020: Implementation  
for calendar year periods

Agencies that follow a *calendar year* reporting period shall implement the GASB 87 standards the first of the year 2020.

JULY 1, 2020: Implementation for  
fiscal year end June 30th

Agencies that follow a *fiscal year* reporting period shall implement the GASB 87 standards for reporting period ending June 30, 2021 on July 1, 2020.

## LEASE DEFINED

GASB 87 defines a lease as "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. Examples of nonfinancial assets include buildings, land, vehicles, and equipment." The importance of this definition is to highlight what leases should be accounted for on financial statements, as both the lessee and lessor.

## LEASE TERM DEFINED

GASB 87 defines the lease term as "the period during which a lessee has a noncancelable right to use an underlying asset (referred to as the noncancelable period)" with additional periods, as applicable, including: periods covered by the lessee or the lessor's option to extend or terminate, if the exercise is reasonably certain or not, respectively.

## UPDATES TO LEASE CLASSIFICATION

Under GASB 87 there no longer exists a distinction between an *operating lease* and a *capital lease*. GASB 87 adopts the assumption that all leases are *capital leases* barring specific exceptions noted in the standard. Impacted lease categories include: short-term leases, contracts that transfer ownership, and all other leases that do not fit into the preceding categories.

## GASB 87 IMPLEMENTATION CONSIDERATIONS

August 2019



## GASB 87 READINESS: IMPLEMENTATION CONSIDERATIONS

As oversight and statewide agencies prepare for the new GASB 87 standards various aspects should be considered to ensure compliance. Below you will find suggested steps agencies should consider to prepare for implementation.

It's recommended, if you haven't initiated planning sessions, to do so without delay. Agencies will need to assess all leases and consider updates to policies and procedures concerning record maintenance of leases as both a lessee and lessor.

## STRATEGIC PLANNING CONSIDERATIONS

It's important to note the planning considerations suggested below are not an exhaustive strategic list. GASB 87 is complex; planning and implementing the new standards will require thorough review and comprehensive analysis. Oversight agencies should prepare to provide consultation for implementation.



## PLAN

- Take inventory of all leases (as lessee and lessor)
- Identify agreements not currently recognized or disclosed as leases for completeness
- Review contracts to determine if the lease meets the definition under GASB 87
- Seek input from legal counsel and/or IPA to explain contract details and new terms for accounting standards



## ANALYZE

- Review details of each contract to identify potential nonlease components
- Assess all leases greater than twelve months
- Review debt limits and capitalization thresholds for impact
- Calculate present value for reporting



## ACT

- As lessee, prepare schedule of future lease payments
- Prepare disclosures with details of the lease agreements