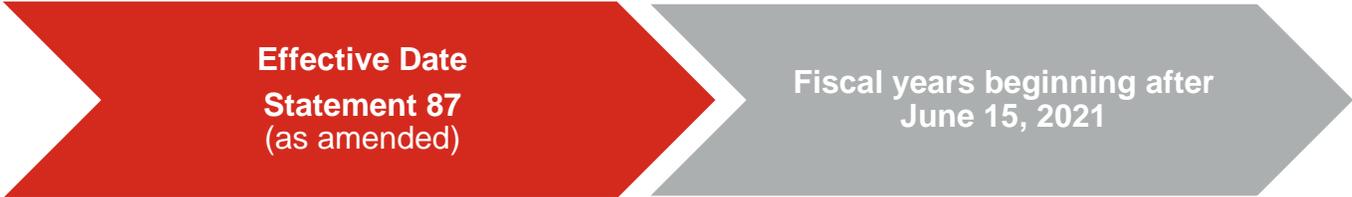


GASB 87 – Where to Find Leases

The first implementation challenge of adopting Statement 87, Leases, is identifying a complete population of arrangements covered by the new guidance. For many, this is the most time-consuming implementation task. Do not underestimate the effort involved. This article provides some helpful ideas. For a comprehensive overview of Statement 87, see [“GASB 87: Leases, What You Need to Know.”](#)

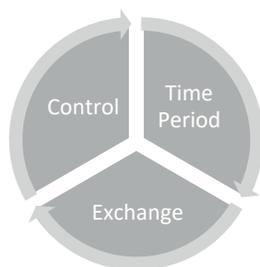


Effective Date
Statement 87
(as amended)

Fiscal years beginning after
June 15, 2021

What Is a Lease?

Statement 87 has an updated lease definition: “A contract that conveys control of the right to use a non-financial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction. Right to use includes both the right to obtain the present service capacity and the right to determine the nature and manner of use.” Statement 87 replaces the term agreement under current guidance with the term contract to require that a lease—whether written or verbal—is legally enforceable.



Contracts for services are not leases. Some governmental contracts transfer the right to use an asset for only a nominal amount, e.g., one dollar per year, in exchange for the right to use the underlying asset. These would be considered a nonexchange transaction, which will continue to be covered by Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions.

Limited exceptions to the guidance are provided for short-term leases (those lasting a maximum of 12 months at inception, including any options to extend), financed purchases, leases of assets that are investments, and certain regulated leases, e.g., between airports and air carriers and other aeronautical users. Additional exclusions include contracts for intangible assets, biological assets, inventory, service concession arrangements, and supply contracts such as power purchase agreements.

Specific Scope Exclusions		
Intangible assets	Biological assets	Inventory
Service concessions	Conduit debt financings	Supply contracts

Statement 87 does not include a quantitative threshold exception for lower-value leases. Under GASB's general materiality guidelines, if the underlying assets are insignificant—individually and in the aggregate—this statement's provisions may not apply. However, entities establishing a lease capitalization policy similar to that of capital assets are cautioned because the significance of asset capitalization is independent of the assessment of the significance of liability recognition.

Finding Leases

Finding leases will require cross-functional effort. Certain staff outside of the accounting department will need a high-level understanding of the rules to assist in population control. To find lease contracts:

- **Review accounts payable data** – Get a report of all invoices paid on a regular basis. Do not only use the prior month's data because some leases may be invoiced on a quarterly, semiannual, or annual basis. The list of recurring payments will include not only what historically have been considered "leases," but also GASB's expanded definition of a lease, which includes some outsourcing and service contracts. Leases in a "rent holiday" period may not appear in accounts payable, so you may need to consider extending the time period in your report.
- **Reach out to accounting/finance/internal audit** – Various finance groups are responsible for ensuring that property taxes are paid, insurance coverage is obtained, and assets are properly reported. Under current guidance, capital leases are reported on the balance sheet and operating leases are included in the note disclosure. Drill down from the note disclosure to the individual leases making up those totals to find out who in your organization is responsible for collecting the lease data and how it is being tracked.
- **Talk to procurement and legal teams** – In general, leases ultimately need to flow through the procurement or legal departments to negotiate pricing and contractual terms; they should know what is being leased and where the contracts reside and be able to provide a list of relevant contracts. Do not only ask for contracts that have the word "lease" in the title. Analyze outsourcing and service contracts as well for possible embedded leases.
- **Contact lessor representatives** – There is another party on the other end of every contract. These parties might include commercial banks, captive finance organizations, independent leasing companies, or other governments. These lessors definitely know what you are leasing because they bill you for each lease on a periodic basis.
- **Consult facilities and IT personnel** – Someone in the organization is accountable for managing the various leased assets. IT manages leased laptops and data center gear, a real estate group manages building leases, and facilities manage equipment. These asset owners would be a good source of information.

Embedded Leases

Do not forget about embedded leases. Governments regularly enter into contracts that cover both the right to use an asset and paying for an asset's maintenance services. Examples of this include leasing a building and paying for maintenance services or leasing copiers and paying for print management services or maintenance services all in one agreement. Identifying and collecting the contracts that may contain embedded leases can be tricky as they likely will not be labeled as a lease.

For embedded leases, governments must determine if the required payments can be broken down between the lease and nonlease components. If not, the entire agreement must be treated as a lease. This likely will be a significant change for many governments as these types of agreements were often treated as operating leases in the past.

Many of these arrangements are not likely to be labeled as a “lease.” Ask if service contracts involve the use of specific assets as part of the service delivery.

Embedded Leases		
Agricultural equipment	Aircraft	Retail equipment
Alarm equipment	Audio visual equipment	Right of ways
Buildings	Business equipment	Scissor lifts
Communication equipment	Computers	Servers
Construction equipment	Containers	Towers
Conveyor belts	Copiers	Transportation equipment
Easements	Exercise equipment	Vehicles
Forklifts	IT equipment	Retail racks and shelving
Janitorial equipment	Land	Semi-trucks
Laptops	Manufacturing machinery	Trucks
Medical equipment	Medical technology	Vessels
Music equipment	Office equipment	
Pallet jacks	Rail cars	
Real estate	Restaurant equipment	

Completeness Check

One way to consider the completeness of the lease population is to compare the accumulated leases identified to the annual rent expense from the most recent audited financial statements. This likely will not catch all items, but it is a start. Another good tool for determining the completeness of the population is the use of data analysis tools that can read general ledger data and search out possible payment streams that might indicate a lease is present. Various organizations, including **FORVIS**, offer data analysis solutions.

Conclusion

For some governments, the adoption of Statement 87 will be complex and likely will require significant hours to implement correctly. Proper documentation throughout the implementation process is critical to a smooth year-end audit. Schedule time with your advisors and/or audit firm to sign off on all key adoption concepts.

FORVIS can help educate your team, provide implementation tools, and assist with analysis and documentation. If you would like assistance complying with the new guidance, please reach out to a professional at FORVIS.

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