

# GASB 87 & 96 Leases & Subscription Based IT Arrangements

- GASB 87-LEASE OVERVIEW
- GASB 96-SBITA OVERVIEW
- LEASE EXAMPLE
- NOTE DISCLOSURE EXAMPLE



# GASB 87 – Leases

- When is the Standard Effective?
  - Reporting period beginning after June 15, 2021
  - i.e., year-ends June 30, 2022
- Definition of a Lease
  - “A lease is defined 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 land, buildings, vehicles, and equipment





# Key provisions - GASB 87 Leases

- Single model for lease accounting
- Foundational principle: Leases are financing of the **right-to-use** an underlying asset
- Lessees recognize
  - Intangible right-to-use lease asset and Lease liability
- Lessors recognize
  - Lease receivable and Deferred inflow of resources

# Lease overview – Initial Reporting

	Asset	Liability	Deferred Inflow
<b>LESSEE</b>	Intangible asset (right to use underlying asset)- value of lease liability plus prepayments and initial direct cost that are ancillary to place asset in use	Present value of future lease payments (included fixed payments, variable payments based on index or rate reasonable certain residual guarantees, etc.)	N/A
<b>LESSOR</b>	-Lease receivable (generally including same items as lessee liability) -Continue to report leased asset	N/A	Equal to lease receivable plus any cash received up front that relates to a future period

# Lease overview – Subsequent Reporting

	Asset	Liability	Deferred Inflow
LESSEE	Amortize the intangible asset over shorter of useful life or lease term	Reduce by lease payments (less amount for interest expense)	N/A
LESSOR	-Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition) Reduce receivable by lease payments (less payment needed to cover accrued interest)	N/A	Recognize revenue over the lease term in a systematic and rational manner

# GASB 96 – Subscription-based Information Technology Arrangements



Effective for periods beginning after 6/15/2022



SBITA results in right-to-use subscription asset- an intangible asset – and corresponding subscription liability



SBITA's are based on standards established for GASB 87 - Leases

# GASB 87/96 Implementation

- Retroactive Restatement of all prior years presented
- If not practical – Restatement of beginning net position/fund balance
- Recognized and measured using the facts and circumstances that existed at the beginning of the period implementation
- Restatement footnote disclosure – Reassessment of prior capital leases



# GASB 87/96 Implementation

## Effective Date and Transition of Statement 87

4.76. Q—For leases that were reported as operating leases prior to the implementation of Statement 87, should a government determine what the lease asset would have been on the date of implementation if it initially had been recognized and amortized in prior periods as a lease under the provisions of Statement 87?

A—No. Paragraph 94 of Statement 87 states that leases should be measured using the facts and circumstances that existed at the beginning of the period of implementation. The government is not required to estimate what the lease asset would have been if it initially had been recognized and amortized in prior periods as a lease under the provisions of Statement 87. The lease liability should be measured using the remaining lease term and discount rate as of the beginning of the earliest period restated. The right-to-use asset should be measured based on the lease liability at that date and no restatement of beginning net position would be required because the lease asset and the lease liability would be the same.

# GASB 87/96 Implementation

4.77. Q—In a period prior to the implementation of Statement 87, a government entered into a capital lease with an interest rate of 5 percent and recognized a capital asset and a liability of \$45,600. At the beginning of the earliest period restated, the carrying value of the capital asset is \$20,900, and the liability (principal outstanding) is \$21,500. The government determines that the liability at that date should be \$22,500 under Statement 87 due to a change in the assessment of the lease term. For leases that were reported as capital leases prior to the implementation of Statement 87, can the government use the carrying value of the capital lease asset at the beginning of the earliest period restated as the measure of the lease asset?

A—Paragraph 94 of Statement 87 states that leases should be measured using the facts and circumstances that exist at the beginning of the period of implementation. This allows for use of the carrying value of the existing capital lease asset, adjusted to the new carrying value of the lease liability under Statement 87. In this example, the government should report a \$1,000 increase in the lease liability to \$22,500 due to the reassessment of the lease term. Accordingly, the lease asset should be increased by \$1,600 to \$22,500. The \$600 difference should be included in the restatement of beginning net position.

# QUESTIONS

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