



ACCOUNTING

Timely Tidbits

GASB 98 and a First Peek at *Leases* in ACFRs

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GFOA's Certificate Program began receiving ACFRs from a few courageous governments that had implemented GASB Statement No. 87, *Leases*, for FYE 2019, but there were too few to recognize much in the way of patterns. With some additional governments having taken the plunge, we now have enough examples to eke out some early lessons learned. Most early implementers appear to have made the transition quite well; nonetheless, we will focus on the few signs of trouble to help others avoid the pitfalls.

Benefiting from the bravery of a few pioneers

Let's start with some issues related to display. If leases are the new kids in school, they have not quite found their friend groups to sit with. On the statement of net position, lessee governments generally have lease assets as well as long-term lease liabilities. Several lessee governments have reported lease assets—the new, intangible right-to-use assets introduced in GASB 87—as a separate category of capital assets on the face of their statements of net position. While

this isn't necessary, it is not prohibited by generally accepted accounting principles (GAAP). However, lease assets are capital assets and are subject to the same reporting requirements as governments' owned *capital* assets.

If a government displays all owned capital assets in only two categories, those not being depreciated and those being depreciated—which is the minimum required by GAAP—then leases should be included in, or displayed as a subset of, one or both of those categories.¹ If a government reports its owned capital assets by major classifications on the face of their statement of net position, leases assets would be included within those classes. For example, if a government owns some buildings used in providing services and leases others, the rights to use leased building space play the same economic and operational role as the government's owned buildings, and would ideally be reported with them.

A similar issue shows up on the liability side of some lessee governments' statements of net position. If a government displays its long-term liabilities using the order of liquidity format, all long-term liabilities must be displayed as part of either (1) long-term liabilities due within one year or (2) long term liabilities due in more than one year. If a government

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wishes to separately display its lease liabilities, they must be reported as subsets within those portions, as should other long-term liabilities.²

Regarding disclosures for capital assets, GASB 87 requires that lease assets be disclosed separately from other assets, both in total and by major classes of underlying assets. Some governments have grouped all lease assets together and disaggregated them by major asset class, while others have interspersed them within the major classes of owned assets, but separately identified them as lease assets. Either is acceptable, but a single line for lease assets, without any indication of which class(es) of assets are being leased, is not. While there is no specific requirement that lease liabilities be included in a disclosure of long-term liabilities, their absence can make that note seem incomplete. Of course, GASB 87 requires lease principal and interest payment schedules similar to debt service tables, as well as many other lessee and lessor disclosures.

A few issues

While not at the level of patterns per se, there are a few miscellaneous issues that we've seen in one or more

governments' disclosures that are worth mentioning:

- For governments that are both lessees and lessors, include—and clearly distinguish between—lessee and lessor note disclosures. If the increase in both lease liabilities and lease receivables becomes significant enough to display on a statement of net position, a full set of disclosures from each perspective should be included.
- Capitalization thresholds alone should not be used to determine whether the significance (materiality) of leases requires accounting for and reporting them in accordance with GASB 87 and should not be mentioned as the sole criteria for inclusion of leases in a government's summary of significant accounting policies. It is possible for a lease liability to be significant even if the related asset is not, in which case lease accounting would need to be followed.
- Lease and nonlease components of contracts should only be combined and treated as leases if it is not practicable to make estimates for price allocation. While few governments may want to gross-up long-term liabilities by including nonlease components, those that are not subject to debt covenants of the like may be tempted to just account for all periodic payments under a contract that contains lease provisions as lease payments, but that is not in accordance with the guidance.

We are most grateful to the brave governments that have led the way into leases, and we will keep using GFOA's source of our accounting and financial reporting insight superpowers—ACFRs reviewed by our professional staff—for good by helping all who follow.

GASB 98 and the ACFR

On October 11, 2021, the Governmental Accounting Standards Board (GASB) unanimously approved the issuance of GASB Statement No. 98, *Annual Comprehensive Financial Report*. GASB 98 officially changes the name *comprehensive annual financial report* to *annual comprehensive financial report* and the acronym to ACFR

throughout the authoritative accounting literature that GASB has promulgated or carried forward from prior standard setters. For those who have not yet heard GASB or GFOA speakers or others using the new acronym, it is being pronounced “ACK-fur.”

This recommendation is the result of increasing professional awareness that the old acronym, when pronounced aloud, sounds the same as a derogatory term historically used in other parts of the world, particularly in South Africa, where it has ties to apartheid and is used as a racial slur towards Black South Africans. For more information, see gfoa.org/eta.

GASB 98 becomes effective for reporting periods ending after December 15, 2021, and both GASB and GFOA encourage early implementation. In fact, in anticipation of the name change, GFOA's Certificate of Achievement for Excellence in Financial Reporting Award Program has already been receiving applications with renamed ACFRs attached. 📄

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¹ Most lease assets are amortized and would therefore be properly reported as capital assets being depreciated (some governments report this portion of their capital assets being depreciated or *amortized*). An exception would be when land or other nondepreciable assets are leased through a contract that offers a purchase option, and that option is deemed reasonably certain to be exercised; in this case, the lease asset would be reported with capital assets not being depreciated (GASB 87, paragraph 32).

² Governments also sometimes forget that pension and other postemployment benefit (OPEB) liabilities should be so categorized. For most governments, those should be subsets of long-term liabilities due in more than one year, as a pension or OPEB liability would only be considered due within a year if the level of a plan's assets held in trust were less than the amount of benefits expected to be paid within one year. Lease liabilities will generally fall into each portion.