

Bond Case Briefs

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GASB: What You Need to Know About Accounting for Leases.

Governments regularly enter into leases for any number of reasons. Leasing can often be an attractive option for governments to have the benefit of certain necessary items—including vehicles, heavy equipment, and buildings—without having to purchase them outright.

Leasing also can offer greater flexibility to governments who do not need the items for their entire useful lives, or to governments who do not wish, at least initially, to take on the burden of ownership. Some governments also lease assets of their own to others.

In the lease accounting area, the existing GASB guidance is nearly identical to the Financial Accounting Standards Board's (FASB) guidance. Because the FASB has an active lease accounting project underway, it makes sense for the GASB to look at its existing lease accounting standards to consider whether changes would be appropriate.

The Board is very much engaged in deliberating lease accounting issues viewed through the governmental lens, but is closely monitoring the FASB's leases project and the approaches the FASB has elected to take thus far.

Last summer, as the GASB was preparing to begin deliberations on its lease accounting project, the FASB project staff presented an education session to GASB members to brief them on the FASB leasing proposals. Since then, the GASB and FASB project teams have been meeting periodically to discuss project issues and tentative decisions made by the respective Boards.

A major area of consideration in the GASB project on lease accounting relates to the manner in which leases are shown in the financial statements (and disclosed in the notes) that would meet essential financial statement user needs. The project is considering the following issues:

- The types of leases entered into by state and local governments
- The information users need regarding governmental leases
- Whether current accounting and financial reporting standards are appropriate to meet those needs
- Whether there should be a distinction in how different types of leases are accounted for
- If current standards are not found to be adequate, whether additional potential requirements should be considered.

Based on deliberations to date, the Board has tentatively decided to propose a new accounting model for both lessees and lessors that would eliminate the current distinction between operating and capital leases.

All lessee governments would report in their financial statements:

- An intangible asset that represents the government's right to use the leased asset (rather than the leased asset itself), and
- A corresponding liability for lease payments.

This would apply for all leases except those that meet the definition of a short-term lease. During the

lease term, government lessees would report a lease expense that is composed of:

- The amortization of the lease asset (recognizing the asset amount as an expense over the term of the lease), and
- Interest on the lease liability.

Government lessors would recognize a receivable for the right to receive payments and a corresponding deferred inflow of resources. Over the lease term, the deferred inflow would be systematically reduced and reported as lease revenue. Lessors would not remove the leased asset from their financial statements.

The GASB is scheduled to release its initial lease proposal later in 2014.