

GASB 87 Leases – Year 2 Trials and Tribulations

by Joshua Jumper, CPA, CGFM, Audit Partner

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Let's be honest – implementing GASB 87 for leases was no easy task! From reviewing your organization's agreements, determining incremental borrowing rates, ensuring amortization schedules were accurate for the financial statements and whole host of other things, the process was difficult. Now that the implementation year is in the rear-view mirror, the hard work is done. However, leases is an area that will require time and effort each year going forward to ensure accurate financial statements.

Below are some key items to review as you go to record the lease transactions for year 2, prepare the financial statement footnotes, and review said items before your annual audit gets started. Most (if not all) of these items could be incorporated into an internally developed checklist to ensure nothing is missed.

Review current year transactions for potential new leases

Just like the year of implementation, a process must be in place to ensure all new leases entered into are properly reviewed and recorded.

Check lease agreements recorded in prior year

You may be thinking “Why would I need to check the leases I already reviewed last year?” Well, if there were any changes in the agreement terms for those leases, the lease amortization

schedule will need to be updated appropriately. Check organization-wide for any changes in agreement terms. This should include any of the following: agreements that got extended, agreements that ended, and agreements that had changes in the terms and conditions.

What transactions to record

Be aware that the entries recorded in year 2 will be different than those in year 1. Regardless of utilizing a third-party lease software or utilizing internally developed tracking spreadsheets, the entries to record new leases, changes in leases, and the current year activity will require some adjustments from what was done in year 1. Make sure these adjusting entries are thoroughly reviewed and properly calculate the year-end balances to be what they should be.

Has a lease policy been created?

In the push to get GASB 87 implemented, many organizations did not have the time to create a formal policy for leases and the related right-to-use assets. If this rings true for your organization, creating a comprehensive policy will help ensure consistency and accuracy going forward. This is also an opportunity to ensure dollar thresholds for leases and right-to-use assets are created and followed.

Right to use assets – in the capital asset software

Many entities did not account for right-to-use assets in the capital asset management software in the year of implementation, instead using Excel workbooks for tracking. It is imperative to treat these assets like any other capital asset in order to reduce the likelihood of calculation errors that can often occur in Excel schedules.

Review GFOA/ASBO comments

If your organization submitted the ACFR to GFOA or ASBO for the annual award in Excellence in Financial Reporting, it was reviewed for proper presentation of GASB 87 items. Ensure that the comments are reviewed thoroughly and correct any items noted.

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