

New Lease Accounting Statement Makes Its Debut at State Colleges and Universities

By Joseph N. Russell, CPA, Partner

With the implementation of Statement No. 87 of the Governmental Accounting Standards Board (GASB 87) — **Leases** — on the horizon, many state colleges and universities are assessing its impact and looking to implement procedures to identify all leases and contracts to which the new lease Statement will apply. Although the new standard is not effective until reporting periods beginning after December 15, 2019, many institutions are taking a campus-wide inventory of all contracts and leases in order to evaluate whether they meet the criteria of a lease as defined in the Statement.

Lease Defined

As defined in GASB 87, a lease is:

“a contract that conveys control of the right to use another entity’s nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction.”

Thus, while state colleges and universities may be able to readily identify capital and operating leases as currently presented in their financial statements, it is important to note that any contract that contains the characteristics defined will be subject to the provisions of GASB 87.

Implementation Considerations

At inception, both lessees and lessors will measure and recognize leases at their respective values on the Statement of Net Position at the beginning of the period of implementation. Lessees will recognize a liability and corresponding intangible right-to-use lease asset. Lessors will recognize a lease receivable and a deferred inflow of resources.

In subsequent years, lessees will amortize the intangible asset over the shorter of its useful life or the lease term while the liability will be reduced by lease payments less interest expense. Lessors will depreciate leased assets in accordance with their capitalization policies and will reduce receivables by the lease payments received. In addition, lessors will recognize revenue over the lease term thereby reducing the deferred inflow of resources.

Practical Considerations

In recent years, accounting governing bodies have sought to establish a single standard for the reporting of lease transactions. At the same time as the need for financing alternatives evolves, lease transactions continue to grow in complexity. Subleases, leaseback transactions, contracts with multiple components, lease modifications and terminations are all addressed in the Statement but will require significant evaluation and consideration by college and university personnel to be able to identify, measure and record these right-to-use assets on the financial statements of the institution.

We recommend that representatives from each state college and university reach out to their auditors to begin the process of developing procedures to identify all leases and contracts to which the GASB 87 may apply and plan for future implementation.

Effective Date

The requirements of GASB 87 are effective for reporting periods beginning after December 15, 2019. Early application of the provisions of the Statement are permitted.

Contact Us

If you have any questions regarding GASB 87 and its impact on your institution, please contact your PKF O'Connor Davies engagement partner or Joseph N. Russell, CPA, Partner, Higher Education Practice at jrussell@pkfod.com or 551-249-1155.

About PKF O'Connor Davies

PKF O'Connor Davies, LLP is a full-service certified public accounting and advisory firm with a long history of serving clients both domestically and internationally. With roots tracing to 1891, nine offices in New York, New Jersey, Connecticut and Maryland, and more than 700 professionals, the Firm provides a complete range of accounting, auditing, tax and management advisory services. PKF O'Connor Davies is ranked 29th on *Accounting Today's* 2018 "Top 100 Firms" list and is recognized as one of the "Top 10 Fastest-Growing Firms." PKF O'Connor Davies is also recognized as a "Leader in Audit and Accounting" and is ranked among the "Top Firms in the Mid-Atlantic," by *Accounting Today*.

PKF O'Connor Davies is the lead North American representative in PKF International, a global network of legally independent accounting and advisory firms located in over 400 locations, in 150 countries around the world.

Our Firm provides the information in this e-newsletter for general guidance only, and it does not constitute the provision of legal advice, tax advice, accounting services, or professional consulting of any kind.