NEWS RELEASE 02/08/16

GASB PROPOSES TO ESTABLISH A SINGLE APPROACH FOR REPORTING LEASES OF STATE AND LOCAL GOVERNMENTS

Norwalk, CT, February 8, 2016—The Governmental Accounting Standards Board (GASB) today issued a proposal to establish a single approach for state and local governments to report leases based on the principle that leases are financings of the right to use an underlying asset. Limited exceptions are provided in the draft guidance, including short-term leases (12 months or less) and financed purchases.

The proposed Statement would provide guidance for lease contracts for nonfinancial assets—including vehicles, heavy equipment, and buildings—but exclude grants, donated assets, and leases of intangible assets (such as patents and software licenses).

Under the Exposure Draft, *Leases*, a lessee government would be required to recognize a lease liability and an intangible asset representing its right to use the leased asset. A lessor government would be required to recognize a lease receivable and a deferred inflow of resources.

A lessee also would report the following in its financial statements:

- Amortization expense related to the lease asset (recognizing the asset amount as an expense over the term of the lease)
- Interest expense related to the lease liability, and
- Note disclosures with information about the lease, including a general description of the leasing arrangement.

A lessor also would report the following in its financial statements:

- Lease revenue (and a corresponding reduction in the deferred inflow systematically over the term of the lease)
- Interest revenue related to the receivable, and
- Note disclosures with information about the lease, including a general description of the leasing arrangement.

“This proposal would more closely align the accounting and financial reporting for leases with the substance of these arrangements,” said GASB Chair David A. Vaudt. “Establishing a single model for reporting governmental leasing agreements should result in greater transparency and usefulness for financial statement users and reduced complexity in application for state and local government preparers and auditors.”

Other issues addressed in the Exposure Draft include accounting for lease terminations and

modifications, sale-leaseback transactions, nonlease components embedded in lease contracts (such as service agreements), and related-party leases.

The Exposure Draft—and a high-level GASB in Focus overview—is available on the GASB website, www.gasb.org. Stakeholders are encouraged to review and provide comments by May 31, 2016. The GASB will host a public hearing on the Exposure Draft on June 29, 2016. Additional details, including instructions for registering to participate or observe, are highlighted in the document.

About the Governmental Accounting Standards Board

Established in 1984, the GASB is the independent, private-sector organization based in Norwalk, Connecticut, that establishes accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles (GAAP). These standards are recognized as authoritative by state and local governments, state Boards of Accountancy, and the American Institute of CPAs (AICPA). The GASB develops and issues accounting standards through a transparent and inclusive process intended to promote financial reporting that provides useful information to taxpayers, public officials, investors, and others who use financial reports. The Financial Accounting Foundation (FAF) supports and oversees the GASB. For more information, visit www.gasb.org.