1. **When is GASB 87 effective?**

   A. GASB 87 is effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter. For schools this will be fiscal year 2022 and for entities with a December 31st year end, this will be calendar 2022.

2. **What is a GASB 87 lease?**

   A. For purposes of applying GASB 87, a lease is defined as a contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. (GASB 87 ¶4)

3. **What is a financed purchase?**

   A. A financed purchase is similar to capital leases where ownership of the asset transfers at the end of the lease. GASB explains financed purchases:

   A contract that (a) transfers ownership of the underlying asset to the lessee by the end of the contract and (b) does not contain termination options (see GASB 87 ¶ 12), but that may contain a fiscal funding or cancellation clause that is not reasonably certain of being exercised (see GASB 87 ¶13), should be reported as a financed purchase of the underlying asset by the lessee or sale of the asset by the lessor. (GASB 87 ¶19)

4. **Will regulatory and OCBOA filers need to implement GASB 87, Leases?**

   A. GASB 87 requires the recognition of certain lease assets and lease liabilities for leases that meet the GASB 87 definition. This definition may include contracts that were previously classified as operating leases.

   These lease assets and liabilities will not be recognized on regulatory statements or on OCBOA cash basis; therefore, regulatory and OCBOA cash filers will only need to incorporate changes to their Notes to the Basic Financial Statements. When preparing the Notes to the Basic Financial Statements, for both regulatory and OCBOA cash basis, the following note disclosures should be made:

   - the summary of significant accounting policies should describe the accounting treatment for leases (leases as defined by GASB 87)
   - the debt note should include disclosures for financed purchases (as defined by GASB 87)

For OCBOA modified cash, modifications for lease assets/liabilities should only be made when the transaction follows a cash transaction, there is substantial support in GAAP or other accounting literature, and the modification is logical. Since not all OCBOA modified cash prepares will elect to make this modification for leases, note disclosures should be made as follows:
If a local government is electing to make a modification for GASB 87 because the GASB 87 lease follows a cash transaction, the corresponding disclosure requirements from GASB 87 should be made.

If an OCBOA modified cash preparer is electing not to make the GASB 87 modifications, the OCBOA cash basis disclosures identified above should be made.

5. **How do I know if a lease follows a cash transaction?**

A. The signing of an agreement when the seller and lender are the same party does not constitute a cash transaction; however, the signing of a note and the purchasing of an asset can be a cash transaction:

   … with regard to equipment purchasing and financing, a government entity may acquire some equipment by merely signing a note with a financial institution and having the financial institution directly pay the vendor for the purchase of the equipment. This single-step transaction or event, although not directly resulting in a cash inflow or outflow to the government entity signing the note and purchasing the asset, may be recorded as an in-substance two-step cash transaction or event as a cash receipt resulting from the note proceeds and a cash disbursement for the purchase of the equipment. However, care should be taken in applying this in-substance two-step cash transaction or event concept to other noncash transactions or events that do not involve an in-substance cash transaction, such as the donation of noncash assets or the signing of a capital lease agreement when the seller and lender are the same party. (From: Applying Special Purpose Frameworks in State and Local Governmental Financial Statements, practice pointer, page 11-12)