COMPTROLLER’S MEMORANDUM NO. 2021-12

TO: Department Heads
FROM: Curt T. Otaguro, Comptroller
SUBJECT: GASB 87 Leases

The Government Accounting Standards Board (GASB) issued Statement 87 – Leases, originally effective for reporting periods beginning after December 15, 2019; however, the GASB postponed the implementation of GASB 87 and related Implementation Guide 2019-3 for 18 months, because of the COVID-19 pandemic. For the State of Hawaii, GASB 87 is now effective for the fiscal year beginning July 1, 2021. The purpose of this memo is to inform all state departments and agencies of a change to the method of accounting for leases and to provide notice of a lease information gathering initiative for the collection of lease data in preparation of GASB 87. This data collection memo and questionnaire will be distributed to the departmental Fiscal offices soon.

GASB 87 changes the accounting and financial reporting for all leases and establishes a single model for lease accounting by defining leases as a contract that conveys 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. Beginning July 1, 2021, agencies are required to record, as a Lessee, the underlying asset and present value of payments as a liability of a lease. As a Lessor, the entity will record a lease receivable and a deferred inflow of resources. The State will no longer distinguish leases as capital or operating leases. GASB 87 requires leases to be recorded as either long term or short term. To prepare for this change, every department will have to identify and review their current lease agreements and any existing contracts that may have embedded leases. Some types of leases specifically excluded from the scope of GASB 87 are: service contracts, inventory, supply contracts, leases for intangible and biological assets, and interagency leases. In addition to the listed exceptions, short term leases with a minimum possible term of 12 months may be accounted for by the lessee as expenditures or revenues by the lessor. A contract that transfers ownership at the end of the contract is a financing purchase, not a lease. Additional details of this Statement can be found at GASB’s website, in the Official Statement No. 87 pronouncement text and in Implementation Guide No. 2019-3, Leases.

If you have any questions, please call Ladea M. Nash, Accounting System Manager, Uniform Accounting and Reporting Branch, Accounting Division, at 586-0599.