



Frequently Asked Questions: GASB 87 – Leases
Rev. May 4, 2026

To assist NC local governments with implementing Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* (GASB 87), the North Carolina State and Local Government Finance Division (SLGFD) has issued Memorandum 2021-05, Memorandum 2021-09, and Memorandum 2022-09. SLGFD has also developed two GASB 87 Templates that will help local governments perform their GASB 87 calculations and post various transactions in the general ledger. SLGFD is providing the following frequently asked questions and answers as an additional resource for NC local governments to use in conjunction with the aforementioned resources as the governments implement GASB 87.

Please note: In previous guidance, LGC staff acknowledged that technical budget violations related to GASB 87 and GASB 96 were common in the year of implementation. This was largely due to the requirement that, in the year a lease or SBITA agreement is initiated, the present value of the net minimum payments must be recorded as both an expenditure and an other financing source — both of which must be included in the budget ordinance. However, by this point, units are expected to have incorporated these requirements into their standard budgeting practices, including appropriating the current-year portion of these liabilities. Any overexpenditures occurring now due to GASB 87 or 96 indicate that the budget appropriation was insufficient, which constitutes a statutory violation under G.S. 159, rather than a temporary implementation issue. Accordingly, Financial Performance Indicators of Concern (FPIC) responses attributing budget overexpenditures solely to GASB 87 or GASB 96 will not be considered acceptable.

1. Should we have cancellation clauses added to our leases in order to make them short-term as of July 1, 2021, and therefore exempt from GASB 87 reporting requirements?

We do not recommend that units adopt such an approach to their leases without careful evaluation. Cancellation clauses may not be in the unit's best interest. For example, the inclusion of such a clause in a lease may result in a higher interest rate to cover the lessor's higher risk associated with the lease. Also, if the unit's intentions and needs are to have use of the leased asset for a period of time greater than one year, the lessor's cancellation of the lease could be disruptive to operations. We recommend structuring a lease to meet a unit's business needs rather than to achieve a particular accounting result.

2. We have a rental agreement for which the initial term has long passed. The agreement is now on a month-to-month basis. How do we determine the lease term for GASB 87?

Because the lease is now on a month-to-month basis and can be canceled at any point by either party, it is considered short-term under GASB 87. As a result, the lease is not subject to GASB 87 reporting requirements. Rolling month-to-month periods are excluded from a lease term under the provisions of GASB 87.

3. How are agreements to lease space on a water tower for a cell tower classified under GASB 87?

Cell tower agreements are usually considered leases under GASB 87 if the agreements convey the right to use a government's nonfinancial asset (e.g., space on the water tower) for a period of time in an exchange transaction; however, each agreement must be separately evaluated under the GASB 87 provisions. If the agreements meet the GASB 87 criteria, they are accounted for in the same manner as any other lease agreement.

4. Years ago, our city acquired several houses adjacent to the city hall for purposes of future expansion. Expansion of city hall has yet to occur so in the meantime we are renting the properties. Would these city-owned rental houses be excluded under the investment purpose exception?

As the houses were acquired as a part of a capital asset expansion project, they are considered non-financial assets and would therefore not be excluded from GASB 87 under the investment purpose exception.

The key criterion is for what purpose an asset is acquired. One good indicator of whether a lease is an investment lease is to look at the underlying asset. If the underlying asset is an investment asset on a government's financial statements, the related lease would be an investment lease. If the underlying asset is a capital asset, the lease of that asset normally would be a GASB 87 lease.

5. If you lease an asset that would fall below your capitalization threshold, does it still fall under the new rules? For example, our threshold is \$5,000. If I buy a copier for \$3,500, I will not capitalize it. If I lease it, do I have to apply the new GASB 87 rules?

Materiality should be considered when implementing GASB 87. Please be sure to evaluate the materiality of the leased asset/receivable and of the lease liability/deferred inflows of resources, not the materiality of the fair market value of the underlying asset. Additionally, if you have multiple leases for copiers (or any other asset class) that are immaterial individually but in the aggregate are material, you should apply GASB 87 requirements to all of the leases. Materiality also must be evaluated separately for liabilities that may have a different materiality threshold from assets.

6. If the lease contains termination options, but the options are not exercised, is the lease considered short-term?

If the potential lease term exceeds one year and if the termination options are reasonably certain to not be exercised, then the lease is not considered short-term. The requirements for lease term options are different than the GASB 87 provisions for cancellations. If BOTH the lessee and the lessor have the ability to cancel a lease, then the maximum possible lease term is the noncancelable period when NEITHER the lessee nor the lessor can cancel the lease.

7. We lease water tower space to a cell tower company. Under the lease, the monthly payments increase 3% every year. How are the increases handled under GASB 87?

Since the payment increases are known and are a part of the existing lease agreement, the increase should be factored into calculating the initial lease receivable and deferred inflows of resources. As long as the annual 3% increase occurs as expected, no lease remeasurement will be required.

8. We have a municipal facility that has a naming rights agreement for a 10-year period. Is this agreement considered a lease under GASB 87?

No. Naming rights are considered intangible assets and therefore the agreement is not a lease under GASB 87.

9. Currently in our annual budget, our leases are included in the function/department - Police, Fire, etc. Will the budget/fund accounting for GASB 87 periodic lease payments change? Or will this be considered in the debt service category?

No. GASB 87 does not impact where in your fund statements you budget your lease payments. The payments will be captioned as debt service, but a government can continue to budget the payments in departments or functions. Another option would be to budget and report the payments separately as debt service along with the payments on other debt. Either method is acceptable.

10. We just executed a lease amendment that changes the lease term and/or lease payment amounts. Would we recalculate as of the date of the original lease or the date of the amendment?

You would remeasure the lease asset and lease liability as of the amendment date. Remember that the discount rate will need to be re-evaluated since the lease term is changing.

11. We have a lease agreement that includes the option for additional lease terms. The option may be exercised in the future if agreed to by both parties. Is it a modification when the option is exercised?

If the future modifications are known and are reasonably certain to be made in the future, then they would be built into the original calculation of the lease term. If the future modifications are unknown, or if they are not reasonably certain to be made, then it would be a modification when the option is exercised and not built into the original calculations.

12. How would you handle a lease that was ten years for a building, but 3 months before expiration, it is amended for one additional year (not in the original contract) with no option to renew after? Basically, it starts being a year-to-year lease.

Because this is a change in a lease it is accounted for as a lease modification. This type of lease modification is accounted for as if a new lease were signed. The lease term is the remaining 3 months of the old lease plus the additional 12 months for a new lease term of 15 months. The discount rate would be re-evaluated since this is a lease modification and the lease liability and lease asset would be remeasured as if this was an entirely new lease. Alternatively, if 3 months prior to the expiration of the original lease, a new agreement was signed in which the term was only 12 months long this would be accounted for as a short-term lease under GASB 87.

13. When recording the asset of a lease - do you record the asset at the full amount of the lease initially or do you record it at the value of the 1st year and then add to the value per year?

You would book both the leased asset and lease liability at their full value, then amortize each. The lease liability is calculated first and the leased asset is calculated with the lease liability as a starting point. For budgetary purposes, the entire amount would be budgeted as an appropriation and an other financing source at the inception of a lease. At the implementation of GASB 87, governments will need to budget for the remaining amounts of their outstanding leases as if they had just entered the agreements. Failure to amend the budget for the remainder of existing leases at implementation is technically a budget violation. This specific budget violation occurring during the year of implementation will not be required to be

addressed by the Council/Board as a financial performance indicator of concern. A unit does have the option to show a reconciling item on the budget to actual schedules for capital lease proceeds and payments related to GASB 87 leases. A footnote to explain that the reconciling item is due to the implementation of GASB 87 would be necessary.

14. The county has just entered a 10-year lease for a property. The lease is cancellable at any time by either party with a 30-day notice. What is the lease term? How does the answer change if there is a minimum 1-year term for the lease?

The answer to the first question is 30 days which is the minimum notice period. The answer to the second question is one year. Cancellation notice could be given at least 30 days before the end of the first year so the lease term would be the one-year minimum period. Both of these examples would be considered to be short-term leases under GASB 87.

15. Are we likely to encounter the provisions for regulated leases under GASB 87 in practice? What will be the largest impacts that we will find?

The provisions for regulated leases will most likely be encountered if a government owns or operates an airport or has an airport as a component unit. There could potentially be other situations that were determined to be regulated leases, but we are not aware of any as of the date of this memo. The provisions for regulated leases typically only apply if a government is a lessor and the leases are subject to regulation (for airports this would be by the FAA). Leases in which the government is a lessee or leases for non-regulated purposes are not regulated leases and governments would be required to follow all of the provisions in GASB 87. There are extensive disclosure requirements for regulated leases even though most of the provisions of GASB 87 will not be applicable.

16. Municipalities with electric systems must prepare some reports for FERC. Does this mean that leases by these municipalities are regulated leases and exempt from GASB 87?

For airports, some of the leases are regulated leases because the FAA has specific requirements for some leases with airports as lessors. We have not seen any situations in which FERC has regulations for municipal leases and so to the best of our knowledge the answer is no. Also, keep in mind that the provisions for regulated leases only apply when the government is acting as a lessor and even then, the provisions only apply to some of the leases.

17. If you have implementation costs that are paid upfront this fiscal year, these would not be entered as payments in the Excel GASB 87 Template, correct? If they are not, then the lease asset amount would be different from the lease liability amount, correct?

Correct on both questions. The initial lease asset would be greater than the initial lease liability by the amount of the up-front costs.

18. In the Lease Memo example, the trial balance crosswalk showed an adjustment to cash, and the cash adjustment was a credit. Please explain how the required entries would affect cash.

The cash entries shown in the example represent the monthly lease payments being made during year.

**19. How should we handle lease payments that were missed or not made in the GASB 87 Template?
And any resulting late charges?**

GASB 87 does not specifically address this circumstance; however, from an accounting standpoint missing a payment is equivalent to default, and matured principal and interest amounts will be reflected as liabilities. In Governmental Funds, principal and interest are recorded as expenditures and fund liabilities on the due dates of the payments. If you leave an actual payment blank in the GASB 87 templates, it will generate a credit or negative expense for lessees and a debit or negative revenue for lessors. The GASB 87 Templates are therefore unable to easily accommodate lease payments not being made in accordance with the lease agreement. A possible solution would be to enter the payments in the time period they are due whether they were paid or not. You would then need to determine what additional journal entries are necessary to adjust the lease liability/receivable for unpaid amounts and for any additional interest expense/income.

Late charges will be recorded separately as an expenditure / expense when they occur as they are not lease-related, but a result of the lessee's failure to make payments as they become due.