

**GUARDIANS  
OF THE FINANCE  
GALAXY**  
THE 2019 CSMFO ANNUAL CONFERENCE

# **GASB 87 and Lease Accounting: It's Coming, How to Prepare**

*David Bullock, CPA, Partner, MGO*

*Craig Boyer, CPA, Assistant Controller, County of Alameda*



# *Top 10 Preliminary Implementation Issues to Consider.*

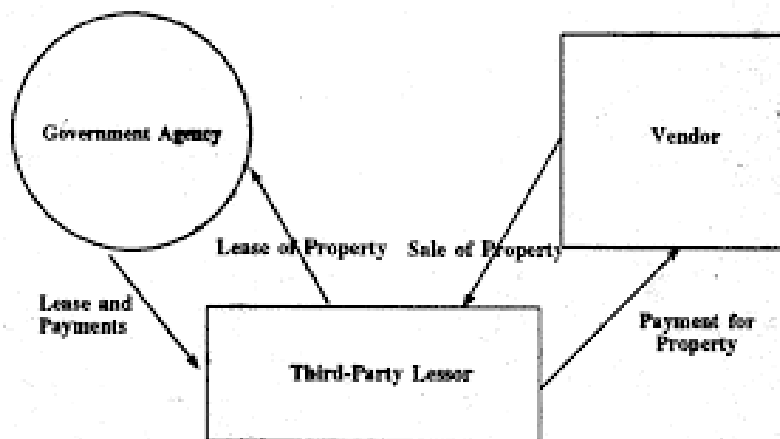
## Let's talk scope.



# IMPLEMENTATION ITEM #1

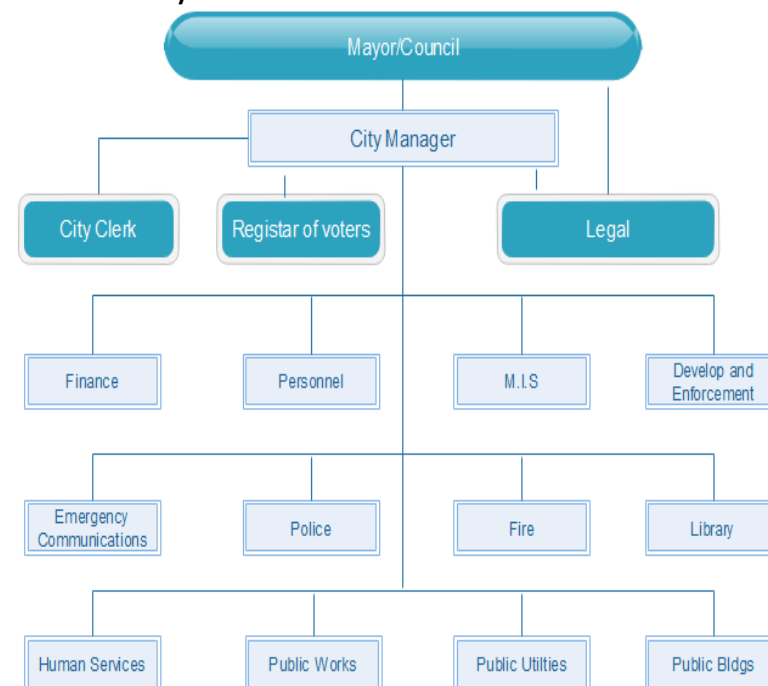
*Know where to find your leases.*

How does your government manage leases?



Leases that were expensed under the current standards may need to be accounted for differently under the new lease standards

Where are your leases?



## IMPLEMENTATION ITEM #2

*Identify the plan for lease data collection.*



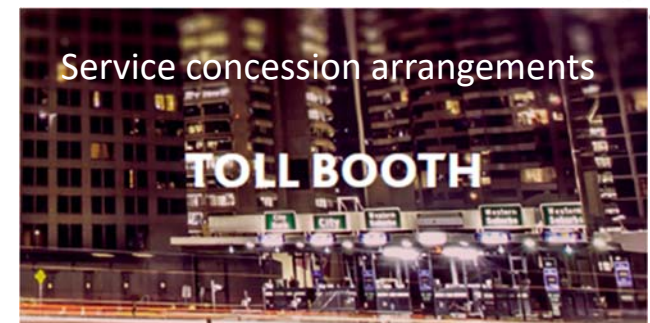
Paper lease agreements

How will you convert your lease agreement data?



# IMPLEMENTATION ITEM #3

Understand what types of leases do NOT apply under GASB 87.



## IMPLEMENTATION ITEM #4

*Understand what criteria to use when evaluating leases.*



Leases that transfer ownership



Investments that are leases of assets



Regulated leases



# IMPLEMENTATION ITEM #5

*Define the threshold for recording leases in the financial statements.*

## GASB Guidance?



B99. Some stakeholders questioned whether a government would be permitted to set a policy establishing thresholds for capitalization of its leases, similar to those commonly used for capital assets. The Board views capitalization policies as methods to operationalize materiality; that is, those policies allow governments to specify amounts that they consider to be significant, individually or in the aggregate. The Board believes that a policy similar to those that establish capitalization thresholds could be used for leases. However, establishing such a policy is within the province of management and, accordingly, is not addressed in this Statement. The Board noted, however, that the assessment of the significance of liabilities is independent of capitalization policies.

Establish an appropriate threshold



## IMPLEMENTATION ITEM #6

*How to account for month-to-month holdover leases?*

### **Lease Term**

GASB 87, Paragraph 12

For example, a rolling month-to-month lease, or a lease that continues into a holdover period until a new lease contract is signed, would not be enforceable if both the lessee and the lessor have an option to terminate and, therefore, either could cancel the lease at any time.

### **Short-Term Leases**

GASB 87, Paragraph 16

For a lease that is cancelable by either the lessee or the lessor, such as a rolling month-to-month lease or a year-to-year lease, the maximum possible term is the noncancelable period, including any notice periods.



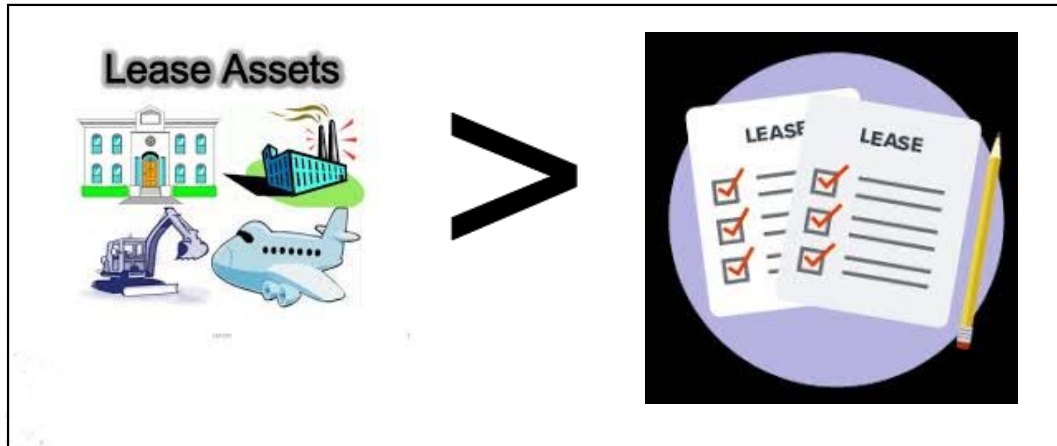
***GASB 87 implementation is not just  
about scope considerations.***

Let's talk about the calculation  
of the lease liability.



## IMPLEMENTATION ITEM #7

*Identify the fair value of the leased asset.*



Proprietary information



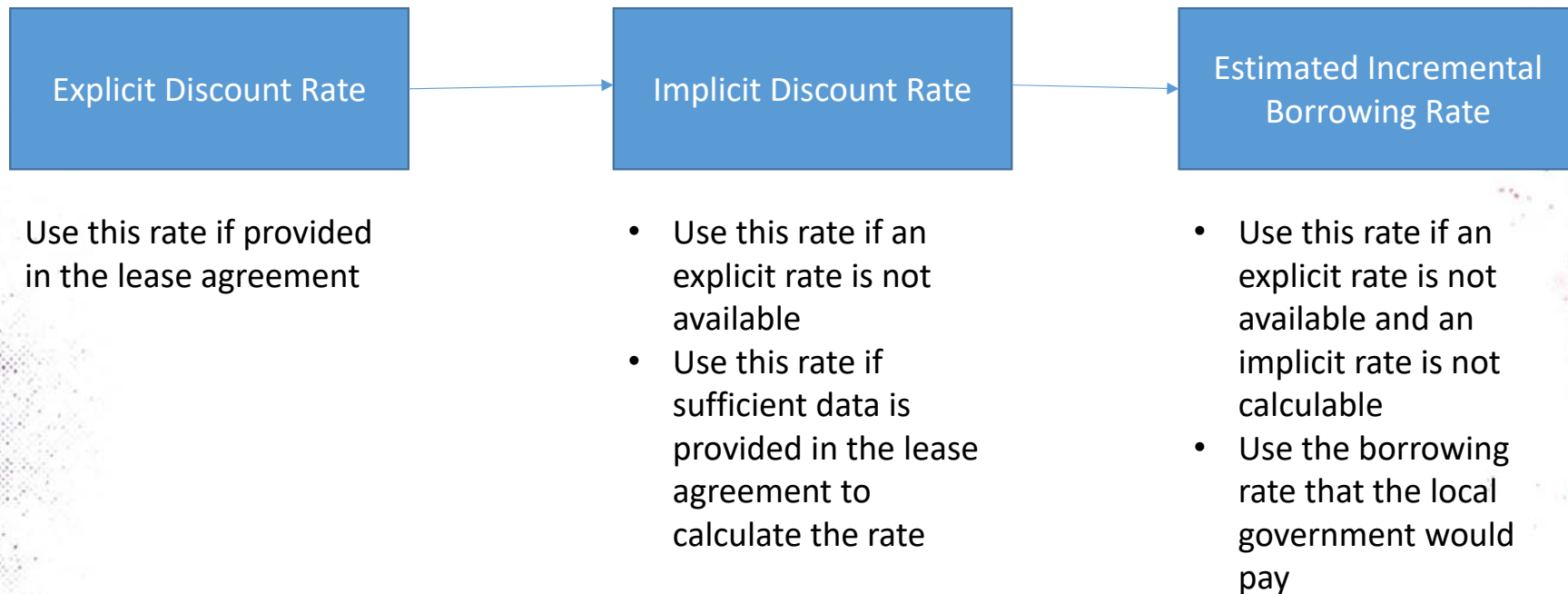
Identify comparable assets

Ask the experts in your organization



## IMPLEMENTATION ITEM #8

*Determine the discount rate for future cash flows.*



## IMPLEMENTATION ITEM #9

*Consider how to calculate the lease liability for building leases that include utilities and common area maintenance charges.*

What if a building lease has utilities and common area maintenance costs?



Contracts with Multiple Components

GASB 87, Paragraph 64

If a lessee or lessor enters into a contract that contains both a lease component (such as the right to use a building) and a nonlease component (such as maintenance services for the building), the government should account for the lease and nonlease components as separate contracts unless the contract meets the exception in paragraph 67.

*Now that we understand the scope  
considerations and lease liability  
calculations ...*

Let's talk about the first step to  
implementation.



## IMPLEMENTATION ITEM #10

*Take the first step to implementation: Assemble a Lease Implementation Task Force.*

- Identify people who are critical to a successful implementation.
- Consider including operational people.
- Consider including legal people.
- People who need people.

