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| Lease Accounting Policy (GASB 87) |  |

Before implementing ***GASB 87, Leases***, determine the following policy elections.

For convenience, the policies below contain a ☑ next to the most likely policy election based primarily on practical expedience. Where no obvious choice for expedience exists, the elections boxes remain blank (☐). Check with your CPA Firm for additional guidance.

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| Policy 1: Components |  |

(GASB 87: Paragraphs 63-67, B92-B96): Elect to account for individual components as a single combined lease component if it is not practicable to determine a best estimate for price allocation for some or all components in the contract.

**Note 1:** Components of a contract include only those items or activities that transfer a good or service to the lessee. Examples of nonlease components include common area maintenance, parking expense or annual maintenance on a lease asset.

**Note 2:** Allocation of the consideration in the contract (i.e., payments) should occur on a relative standalone price basis to the separate lease and nonlease components of the contract. If observable standalone prices are not readily available, estimate the standalone prices, maximizing the use of observable information.

**Policy Election:**

 [ ]  Elect to combine lease and nonlease components for the following class(es) of underlying asset(s) in which it is not practicable to determine a best estimate for price allocation for the following components: [\_\_\_\_\_\_]

Comments: [\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_]

**Advantage:** If this election is made, the lessee or lessor will not have to allocate between lease and nonlease payments, which will save time.

Common Area Maintenance (CAM) is a nonlease component often paid as part of an office lease. If this election is made, treat CAM as a lease payment.

**Disadvantage:** Impracticable is a high threshold. Choosing to apply to all periods presented will reduce the scrutiny by auditors and users of your financial statements.

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| Policy 2: Initial Application Date  |  |

(GASB 87: Paragraphs 92-93, B127): Application of the Lease Standard is required for all reporting periods presented, unless it is deemed not practicable. Reasonable efforts should be employed before a government determines that restatement of all prior periods presented is not practicable. In other words, *inconvenient* should be considered equivalent to *not* *practicable*.

**Policy Election:**

[x]  \* Elect to apply Lease Standard retrospectively to all prior reporting periods with the cumulative impact reported in beginning net position of the first year presented

[ ]  Elect to apply Lease Standard only to the most recent period without restating prior periods presented, with the cumulative impact reported in beginning net position (i.e. no comparative restatement, instead cumulative adjustment to beginning net position in the year of adoption)

Comments: [\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_]

**\*Advantage:** Impracticable is a high threshold. Choosing to apply to all periods presented will reduce the scrutiny by auditors and users of your financial statements.

**\*Disadvantage:** Additional year(s) of compliance with the Lease Standard.

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| Policy 3: Capitalization Threshold |  |

(GASB 87: Paragraphs B99, Implementation Guide 2019-3 Paragraph 4.23, Implementation Guide 2015-1 Questions 7.4.1 & 7.9.8): Lessee may elect a capitalization threshold for lease assets.

**Policy Election:**

[x]  \* Elect to not apply a capitalization threshold

[ ]  Elect to apply the following capitalization threshold [\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_]

Comments: [\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_]

**\*Advantage:** The capitalization policy for lease assets may not be applicable for their related liabilities, as liabilities that are significant individually or in the aggregate should be recognized. Therefore, a capitalization policy might exempt certain lease assets but still require accounting for the related lease liabilities, which would add complexity to implementation.

**\*Disadvantage:** Reduce the number of leases to apply the Lease Standard.