



To Financial Statement Preparers:

We are pleased to present the services MGO offers to help you successfully navigate the provisions of Governmental Accounting Standards Board Statement No. 87, *Leases* (GASB 87). The provisions of GASB 87 will dramatically change how state and local governments report leases in their financial statements, both as a lessor or a lessee. This document provides an overview of our service plan to assist state and local governments in the implementation of GASB 87.

### **What impacts will GASB 87 have on our financial reporting requirements?**

One of the principal changes established by GASB 87 is the use of a single model for lease accounting rather than the historical approach of classifying leases as either operating or capital leases. This approach is based on the principle that leases are financings of the right to use an underlying asset. The more significant impacts will be the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and the recognition of receivables and deferred inflows of resources for leased assets.

### **What changes in accounting should we be aware of due to GASB 87?**

Lessees generally will recognize a lease liability and a lease asset representing the right to use the asset at the start of the lease term, unless it is a short-term lease or the lease transfers ownership of the underlying asset. Lessees will also recognize amortization expense for using the lease asset over the shorter of the lease term or the useful life of the asset, interest expense on the lease liability, and note disclosures about the lease. Note disclosures include a general description of the leasing arrangement, the amount of lease assets recognized, and a schedule of future lease payments.

Lessors will continue to record the actual leased asset after lease inception. Lessors will recognize a lease receivable and a deferred inflow of resources at the start of the lease term, with exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. Lessors will also recognize lease revenue and interest revenue on the receivable, and provide note disclosures about the lease. Note disclosures include a general description of the leasing arrangement and the total amount of inflows of resources recognized from leases.

### **What is the effective date of GASB 87?**

GASB 87 was issued in June 2017 and is effective for reporting periods beginning after December 15, 2019. However, due to the COVID-19 pandemic, the GASB is considering a postponement of the effective date for one year to be decided by June 30, 2020. While the potential postponement provides some relief in the preparation of GASB 87 implementation, it is only delaying the inevitable. Therefore, we believe the preparation of GASB 87 implementation should continue to be a high priority for this complex change in accounting standards.

The sections that follow describe the levels of service we could provide as your GASB 87 experts. We are confident that MGO can play a vital role in implementing or serving you under the new lease standards. We appreciate this opportunity to present our service plan. If you have any questions, or if we can be of assistance to you, please contact us.

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MGO’s project approach includes an experienced team trained in the requirements of lease accounting and reporting with active involvement of our partners and managers in the day-to-day project oversight. The assigned MGO personnel will be available to assist you every step of the way. Because each government is unique, we have developed a spectrum of services from which you can select the options that best meet your organization’s service needs.

<b>Spectrum of Services</b>			
<b>Advisory</b>		<b>Accounting Support</b>	
Level 1	Level 2	Level 3	Level 4
Providing general guidance over the application of accounting principles related to leases.	Participate in the government's task force by advising on technical lease matters.	Lead the government's task force and assist with decisions involving lease implementation and technology.	Provide outsourced accounting services for government, including providing lease schedules, reports journal entries and disclosures.
Action: Training and Education Action: Technical guidance Tool: Decision Tree Tool: Questionnaires	Includes Level 1, plus: Action: Key task force member Action: Provide insights and research technical issues	Includes Level 2, plus: Action: Task force leader Action: Provide guidance for technology solution	Includes Level 3, plus: Action: Perform lease accounting services Action: Provide lease reporting

Based on an initial consultation with your decision makers, MGO will identify the appropriate assistance plan to meet your unique and individual needs. We will customize our proposal to deliver the level of service requested by you, which can be modified as the implementation plan progresses. Where we use the term “lease”, we are referring to agreements where you own an asset that is being leased to a third party (i.e., as a lessor) or where you have an intangible right to use another entity’s asset (i.e., as a lessee).

### Level 1

1. Conduct a 30 minute presentation to executive management, explaining the impacts of GASB 87 at a level appropriate for decision makers that are non-accountants.
2. Conduct a 1.5 - 2 hour presentation to accounting and lease management staff, explaining the impacts of GASB 87 at a level appropriate for those performing accounting and reporting of leases and those managing the lease records.
3. Provide a decision tree model, to assist with the evaluation of leases.
4. Customize questionnaires for internal departments and reporting units, to identify the population of leases and other agreements meeting the definitions in the Standard that are subject to the scope of GASB 87.

### Level 2

5. Provide guidance and materials in developing a complete and responsive task force to manage the implementation of GASB 87.
6. Attend task force meetings to provide insights on lease matters and, when necessary, perform research on specific matters in order to recommend a solution for complex issues.
7. Conduct research on specific matters that are unique to your organization.
8. Coordinate meetings with GASB for technical inquiries, as necessary.
9. Provide accounting templates designed to meet the accounting and reporting needs under GASB 87, including software applications.
10. Provide best practice guidance for lease accounting.
11. Provide any other planning assistance for implementation of GASB 87.

### Level 3

12. Lead the task force as the project manager by developing a detailed project implementation plan that is at a level necessary to ensure the proper implementation of GASB 87.
13. Assess lease accounting software needs and assist with identifying a technology solution. For example, determine reporting needs, cost/benefit analysis, access controls, ensure GASB 87 compliance.
14. Assist with the government's procurement process in acquiring a software solution, including the evaluation of proposals.
15. Provide any high level assistance for implementation of GASB 87.

### Level 4

16. Provide accounting services, including but not limited to:
  - a. Read lease agreements and accumulate relevant data.
  - b. Assess leases for modifications, terminations, reassessments.
  - c. Provide recommendations for key management decisions affecting accounting treatment of lease clauses.
  - d. Develop schedules and reports.
  - e. Provide journal entries for your reporting entity.
  - f. Maintain records using lease software.
17. Provide month-end or quarter-end reports for management and accounting staff.
18. Provide the necessary records within your financial statement closing process.
19. Provide assistance with financial statement note disclosures and analysis to support changes in lease balances for purposes of supporting management's discussion and analysis.
20. Provide MGO access throughout the year to update lease records and provide routine follow up on questions, including year-end support for accounting entries and note disclosures.