

# Implementing the New GASB Lease Standard

Reasonably Certain Criteria



NYS COMPTROLLER

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# Objective

## GASB 87 Implementation Overview

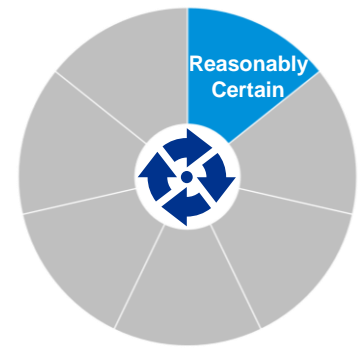
- The New York State Comptroller's Office (OSC) and KPMG delivered a live training session to prepare state agencies for the implementation of GASB Statement No. 87, *Leases* (GASB 87). The training was recorded and can be accessed and viewed at any time via the following website:

[www.osc.state.ny.us/state-agencies/resources/gasb-87-leases-implementation](http://www.osc.state.ny.us/state-agencies/resources/gasb-87-leases-implementation)

- OSC and KPMG have developed a series of recorded mini training sessions to address certain hot topics that have arisen thus far in the implementation process
- On that note lets get started on today's hot topic!

# Hot Topic

## Reasonably Certain Criteria



- What is reasonably certain?
- What factors should be considered when evaluating reasonably certain criteria?
- Complete an example of the reasonably certain template used to document Agency determinations

# What is Reasonably Certain?

- Reasonably certain is a high threshold of probability that must be met to include optional lessee payments in the measurement of lease assets and lease liabilities
- Lessee has a compelling economic reason to exercise the renewal or purchase option (or not to exercise a termination option)
- Consider all economic factors relevant to the assessment



# Reasonably certain factors

## Reasonably Certain Considerations:

- Significant economic incentive (market rates)
- Significant economic disincentive (cost to terminate)
- Abandonment of significant leasehold improvements
- Costs of identifying another suitable underlying asset
- Costs of returning the underlying asset in a contractually specified condition or location
- Condition of the Asset
- History of exercising options to extend or terminate
- The extent to which the asset underlying the lease is essential to the provision of government services

## Lease Factors:

- Option periods
- Cancellation clause
- Bargain purchase option
- Bargain renewal option
- Fiscal Funding Clauses
- Residual value guarantees

# Reasonably Certain Template



Reasonably  
Certain Template

- Utilize a format that includes a structured and documented process

	A	B	C	D	E	F
3					Reasonably Certain Criteria - higher threshold than "more likely than not"	
4	<b>Reasonably Certain</b> Yes - reasonably certain to exercise No - reasonably certain to not exercise	Type	Definition	Lease Component	Market-based factors, i.e. option period amounts are favorable with current market rates	Contract-based factors, i.e. Costs to terminate the lease (negotiation costs, relocation costs, substantial cancellation penalty, etc.) are a disincentive to negotiate another lease)
5						
6	Yes - we are reasonably certain to exercise the option period and extend the lease term beyond the initial period	Option periods	Periods in a lease agreement that extend the lease beyond the initial lease period	Lease term	Rent costs during option period are 50% lower than current market rates	
7	No - we are reasonably certain to stay through the lease term and will not exercise the cancellation clause	Cancellation clause	A clause in a lease agreement that allows termination by either the lessee, the lessor, or both	Lease term		The termination penalty exceeds remaining rent payments owed.

# Key points to remember!

- The implementation will be a large focus of the auditors
- Properly determining the salient lease terms and documenting your conclusions is critical as these determinations will have a significant impact on what is recorded in the financial statements
  - Errors could lead to internal control findings
  - Significant errors could lead to modified audit opinions
- Consistency amongst the Agencies is important

