

OPERATIONAL SERVICES**Lease Capitalization Threshold**

In accordance with GASB 87, a lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

School Districts may establish a lease liability threshold for leases that are clearly insignificant individually and in the aggregate. This threshold defines the dollar amount at which a lease with a maximum possible term of more than one year will be classified as a lease liability. A district may establish a single capitalization threshold for all leases or different capitalization thresholds for different classes of leases. The threshold should be established at a small enough level such that the leases excluded would be clearly insignificant to financial reporting in aggregate. In establishing a threshold, districts should consider the different types and groups of leases they have, and management information needs.

Based on the above guidelines, the district has determined a lease liability threshold of \$150,000. This capitalization threshold applies to all leases with a maximum possible term of more than one year. Equipment leases of similar type will be aggregated together when evaluating if they meet the district threshold. If no explicit rate is stated in an existing lease agreement, the borrowing rate of the Montana Board of Investments as of June 30, 2022, will be used to calculate the lease liability. For future lease agreements with no stated explicit rate, the borrowing rate of the Montana Board of Investments at the time of execution will be used to calculate the lease liability.

Legal References: GASB (Governmental Accounting Standards Board) 87
Accounting for Leases

Cross References:

Policy History:

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Revised on:

Reviewed on: