GASB 84

Fiduciary Activities

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GASB 84 Agenda

- Background
- Identifying Fiduciary Activities
- Reporting Fiduciary Activities
- Implementation Guide

Background

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Why address Fiduciary Activities?

- Previous guidance did not sufficiently define fiduciary responsibilities and what constitutes fiduciary activities
- GASB 84 developed to enhance consistency and comparability by establishing specific criteria for identifying and reporting fiduciary activities
- Effective for fiscal years beginning after December 15, 2018

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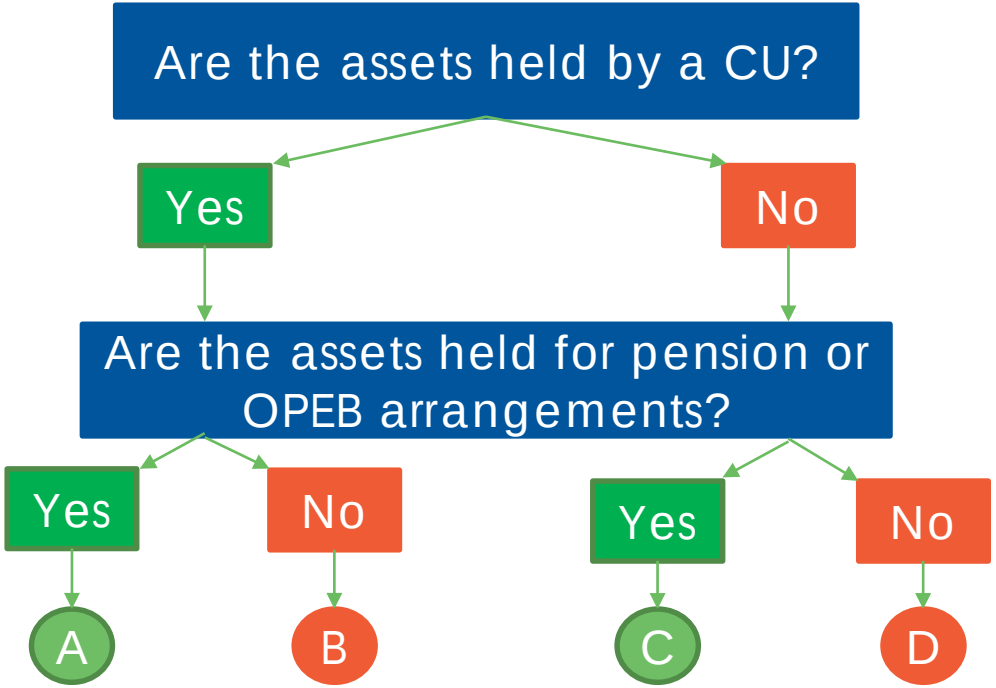
Identifying Fiduciary Activities



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A

CUs that provide post-employment benefits are fiduciary if they are one of the following arrangements:

- A pension or OPEB plan administered through a trust that meets the criteria in paragraph 3 of Statement 67 (pension) or 74 (OPEB)
- Assets from entities that are not part of the reporting entity are being accumulated for pensions or OPEB as described in paragraph 116 of Statement 73 (pensions) or paragraph 59 of Statement 74 (OPEB)

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A

CUs that provide post-employment benefits - continued

Note: In determining whether a pension or OPEB plan is a CU, GASB 84 indicates that a PG is considered to have a *financial burden* if it makes contributions to a pension or OPEB plan….

Therefore, it's like that the key criteria in determining whether a plan is a CU will be whether the PG appoints a voting majority of the pension or OPEB board.

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B

CUs that DO NOT provide post-employment benefits are fiduciary if they have at least one of the following characteristics:

- Assets are held in a trust or equivalent arrangement in which the government itself IS NOT a beneficiary; must be dedicated to providing benefits to recipients in accordance with the benefits terms; and legally protected from creditors
- Assets are for the benefit of individuals and the government DOES NOT have **administrative involvement** or **direct financial involvement** with the assets
- Assets are for the direct benefit of organizations or other governments that ARE NOT part of the reporting entity

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Administrative involvement?

- **Monitors compliance** with requirements of the activity that are established by the government or by a resource provider that does not receive direct benefit of the activity
- **Determines eligible expenditures** that are established by the government or by a resource provider that does not receive direct benefit of the activity
- Has ability to **exercise discretion** in how assets are allocated

Direct financial involvement?

- **Provides matching resources** for the activity

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C

Post-employment benefits that are not CUs are fiduciary if:

*The government **controls** the assets AND the arrangement is one of the following:*

- A pension or OPEB plan administered through a trust that meets the specified criteria of Statement 67 (pension) or 74 (OPEB)
- Assets from entities that are not part of the reporting entity are being accumulated for pensions or OPEB under specified criteria of Statement 73 (pensions) or Statement 74 (OPEB)

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What is Control?

A government controls the assets of an activity if the government:

- **Holds** the assets or
- Has ability to **direct the use, exchange, or employment** of the assets in a manner that provides benefits to the specified or intended beneficiaries

***Note:* external restrictions on the use of assets do not negate the government's control**

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D

All other non-CU activities are fiduciary <u>if all 3 criteria are met</u>:

1. The government controls the assets
2. The assets are not derived either:
   - Solely from the government's ***own-source revenues***
   - From government-mandated or voluntary non-exchange transactions (exception: pass-through grants)
3. The assets are one of the following:
   - Administered through a trust or equivalent agreement and the government itself is not a beneficiary; dedicated to providing benefits to recipients in accordance with benefit terms and legally protected from creditors
   - For the benefit of individuals and the government does not have administrative involvement or direct financial involvement
   - For the benefit of organizations or other governments that are not part of the financial reporting entity

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D

All other (non-CU) activities - continued

Own-Source Revenues:

- Generated by the government itself
- Include exchange and exchange-like revenues as well as investment income
- Also include derived tax revenues (i.e. sales taxes) and imposed non-exchange revenues (i.e. property taxes)

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Reporting Fiduciary Activities – 4 Types

- Pension & Other Employee Benefit Trusts
- Investment Trust Funds
- Private Purpose Trust Funds
- Custodial Funds

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Fiduciary fund types

- **New definitions** for pension trust funds, investment trust funds, and private purpose trust funds
  - Trust agreement or equivalent arrangement should exist
- **No more "agency" funds;** new "**Custodial funds,**" which report fiduciary activities for which there is no trust or equivalent arrangement
  - i.e. Student activity funds
  - Unlike agency funds, custodial funds have a *measurement focus* and will have a statement of changes in fiduciary net position in the basic financial statements

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	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Custodial Funds
Statement of Fiduciary Net Position	■ Assets ■ Deferred Outflows ■ Liabilities ■ Deferred Inflows ■ Fiduciary Net Position	■ Assets ■ Deferred Outflows ■ Liabilities ■ Deferred Inflows ■ Fiduciary Net Position	■ Assets ■ Deferred Outflows ■ Liabilities ■ Deferred Inflows ■ Fiduciary Net Position	■ Assets ■ Deferred Outflows ■ Liabilities ■ Deferred Inflows ■ Fiduciary Net Position
Statement of Changes in Fiduciary Net Position	■ Additions ■ Deductions	■ Additions ■ Deductions	■ Additions ■ Deductions	■ Additions ■ Deductions

From "The Key Guidance in GASB Statement No. 84" in Government Finance Review, April 2017

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Statement of Fiduciary Net Position

When to report a liability to beneficiaries? (except for pension or OPEB trust funds which follow GASB 67/74)

- Event occurs compelling the government to disburse resources:
  - Demand has been made; or when
  - No further action, approval or condition is required to be taken by beneficiary
  - Example – County records liability when it collects taxes on behalf of cities –no further action required
- Liabilities other than those to beneficiaries – recognize in accordance with existing standards

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Statement of Changes in Fiduciary Net Position

If resources are generally held 3 months or less **(except for pension or OPEB trust funds)**, report:

- Single aggregated amount for additions; and
- Single aggregated amount for deductions

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Implementation Guide No. 2019-2, Fiduciary Activities

- Issued June 2019
- Contains 52 new Q & A's related to GASB 84 and amendments to 3 previously issued Q & A's

Let's look at some examples from the guide…

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4.11

Q—A city hires a contractor to construct a new city building. The contractor provides the city with a cash deposit to be held by the city as an assurance that the project will be completed on schedule and in accordance with the plans and specifications. If the contractor does not complete the project satisfactorily, the deposit will be forfeited to the city. If the contractor does complete the project satisfactorily, the city will refund the deposit. Should the city report the contractor deposit in a fiduciary fund?

A—No. Although the control criteria in paragraph 12 of Statement 84 are met because the city is holding the cash, the deposit is the result of an exchange transaction between the contractor and the city. The city is holding the cash for its own benefit and the criteria in paragraph 11c are not met. Therefore, the cash deposit and a related liability would be reported in the city's governmental or enterprise fund financial statements.

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4.15

Q—A government uses a clearing account to accumulate resources from withholding of employee payroll deductions and accrued employer payroll taxes that will be submitted to the appropriate taxing bodies when due. Should the government report the clearing account in its fiduciary fund financial statements?

A—No. Although the government has control of the assets because it has custody of the cash withheld, the unremitted amounts in the clearing account are a liability of the government. When the deductions are withheld from an employee's pay, the amounts withheld and accrued by the employer become a present obligation to sacrifice resources that the government has no discretion to avoid and, therefore, are liabilities of the government. As a result, the government is holding the amounts for its own benefit and the criteria in paragraph 11c of Statement 84 are not met.

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4.20

Q—A school district holds the funds raised by various student clubs, which are not legally separate from the school district. The funds are used to pay for various club activities during the year. There is no school board or school administration policy related to how the resources of the club can be spent. The disbursements from the aggregated club account are approved by the faculty advisor (who is representing the school district) assigned to each club. Approval, rejection, or modification of the spending is strictly at the discretion of the faculty advisor. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—Yes. The school district does have administrative involvement. The school district's role is considered to be substantive because in the absence of an approved policy, the faculty advisor (who is acting in the capacity of a school district representative) has the ability to reject, modify, or approve how the resources are spent. The faculty advisor's approval is more than just a formality and is analogous to the example provided in footnote 1 of Statement 84 regarding the determination of eligible expenditures that are established by the government.

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4.32

Q—The Touchdown Club is a legally separate 501(c)(3) association that has its own board comprised of parents of high school football players and other program supporters. The club is not a component unit of the school district. The funds raised by the club are not held in an account of the school district. Spending of the funds is at the sole discretion of the club's board. In that scenario, is the school district controlling the assets of the club, as described in paragraph 12 of Statement 84, and if not, should the school district still report the club's activities?

A—No. The control criteria in paragraph 12 of Statement 84 are not met because the school district is not holding the funds, nor do they have the ability to direct the use, exchange, or employment of the funds. Because the school district does not have control of the assets and the club is not a component unit, the club's activities would not be reported in the financial statements of the school district.

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4.38

Q—A county collects property taxes on behalf of the other tax-levying governments within its jurisdiction. The county collects a fee, equal to 1 percent of the amount billed, from the other governments to provide this service. The taxes are deposited into the county collector's property tax distribution account, a custodial fund. Should the county report the fees in the custodial fund with the taxes collected?

A—No. The county is obligated to provide the collection service for which a fee is charged to the other taxing governments. The nature of that transaction is exchange or exchange-like, resulting in own-source revenues of the county. Paragraph 11b(1) of Statement 84 states that an activity is not fiduciary if the assets are derived from the government's own-source revenues. Therefore, the county should report the fees in its governmental fund financial statements.

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4.47

Q—A city's parks department sponsors a youth soccer program from April through July each year. Registration is free, but each participant is encouraged to provide resources to the uniforms and equipment fund. Uniforms and equipment are acquired by volunteer coaches who are not employees of the city. The city has determined that the resources meet the criteria in Statement 84 to be accounted for in a custodial fund. Should the city recognize a liability in the custodial fund for those expected purchases when the resources are received at registration?

A—No. Liabilities should be recognized when the uniforms and equipment are acquired by the coaches. At that point, the city is compelled to disburse the resources. The city will report net position in the fund for the difference between the resources held and the liabilities incurred.

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Planning for implementation:

Walk through the flowchart with existing fiduciary funds to determine if they meet the new definitions; if not, they are presented in fund financial statements

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Statement No. 87

Leases

Statement No. 87 – Leases

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Overview

- Unified Reporting Model for Leases — no more capital vs. operating
- Underlying assumption that leases are financings
- Exceptions are a) short-term leases and b) leases that transfer ownership and do not contain termination clauses
- **Retroactively applied, restatement likely**
- A lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources

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Definition of a Lease

Lease (n):

A contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction.

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Control is manifested by:

- The right to obtain the present service capacity from use of the underlying asset, AND
- The right to determine the nature and manner of use of the underlying asset

Control applied to the right-to-use lease asset (a capital asset) "specified in the contract"

Control criteria NOT limited to contracts that convey substantially all of the present service capacity from the underlying asset

- Right-to-use lease assets include rights to use underlying assets for portions of time, such as certain days each week or certain hours each day

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Scope Exclusions

- Intangible assets (mineral rights, patents, software, copyrights)
- Biological assets (including timber, living plants, and living animals)
- Service concession arrangements (see GASB Statement 60)
- Assets financed with outstanding conduit debt unless both the asset and conduit debt are reported by lessor
- Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying power generating facility)
- Inventory
- Short-term leases – see next slide
- Contracts that transfer ownership – transfers ownership of the underlying asset to the lessee at the end of the contract and has no termination options (except for fiscal funding or cancellation that is not reasonably certain)
- Regulated Leases– one in which external laws, regulations, or legal rulings establish lease rate rules and lessor cannot deny potential lessees right to enter into leases if facilities are available (GUIDANCE uses aviation leases as an example)
- Lease of an asset that is an investment (contract that leases an asset that has been reported at fair value on GASB Statement 72)

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Scope Exclusions continued

- Short term leases

Definition: A lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised.

- Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

- 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.

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Lease Term

Starts with the noncancelable period, plus periods covered by a lessee's or a lessor's option to:

- Extend the lease, if the option is reasonably certain of being exercised
- Terminate the lease, if the option is reasonably certain of NOT being exercised

Excludes "cancelable" periods

- Periods for which lessee and lessor each have the option to terminate
  - Rolling month-to-month leases, or right-to-use asset during a holdover period

Fiscal funding/cancellation clauses ignored unless reasonably certain of being exercised

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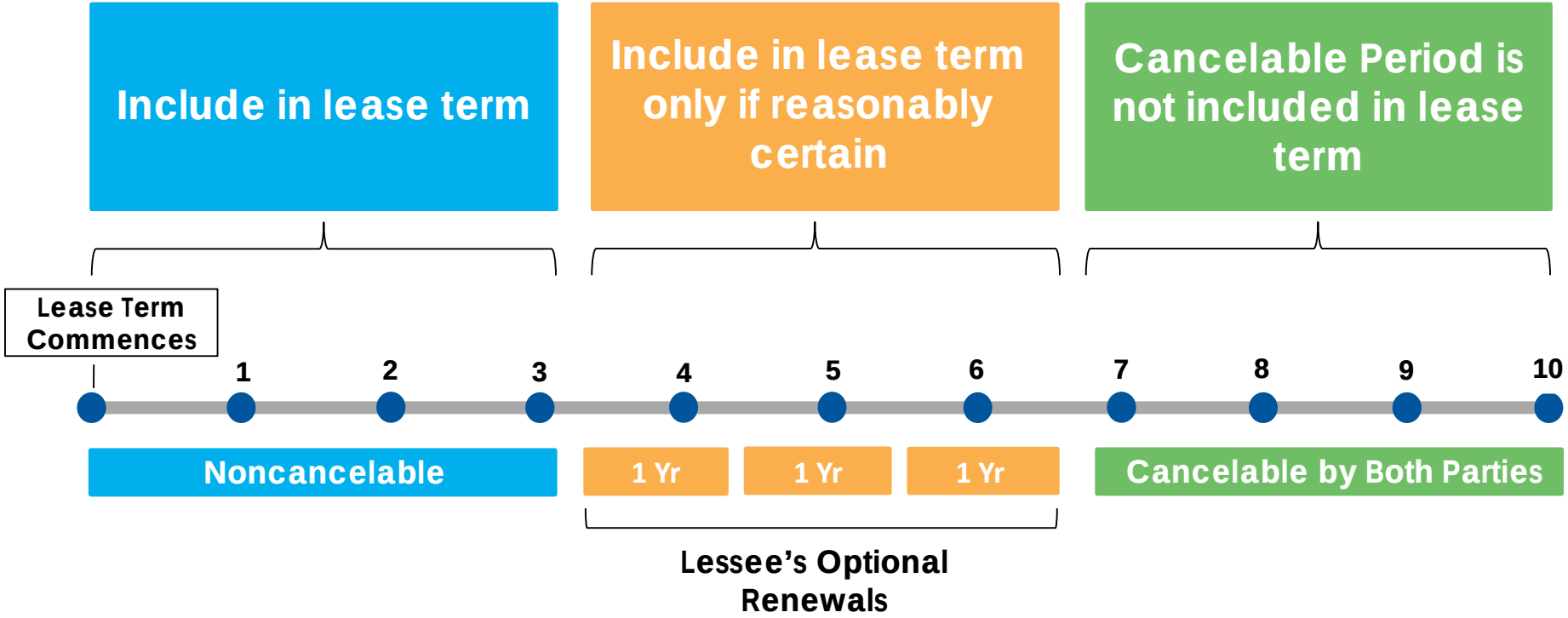
Lease Term continued



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Reassess the lease term if:

- The "reasonably certain" determination was incorrect, and lessee or lessor exercised an option that was not expected to be exercised or vice versa
- An event in the contract that requires an extension or termination of the lease takes place

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Lease Types Recap

Types of Leases

Lease	Short-Term	Contracts that Transfer Ownership	Asset is an Investment (Lessor)	Regulated Leases (Lessor)
Follow new accounting rules	Account for this similar to operating a lease	Account for this as a financed purchase or sale of the asset	No recognition, but some disclosures	Recognize revenue based on contract with some disclosures

Reporting for Leases- Initial Year

	Asset	Liability	Deferred Inflow
Lessee	Intangible asset recorded at the value of lease liability plus prepayments and any costs to place into service	Present value of future lease payments	None
Lessor	Lease receivable	None	Equal to lease receivable plus any cash received up front that relates to future periods

Reporting for Leases- Subsequent Years

	Asset	Liability	Deferred Inflow
Lessee	Amortize asset over the shorter of the useful life or lease term	Reduce liability by lease payments excluding interest expense	None
Lessor	Reduce receivable by lease payments	None	Amortize over the lease term in a systematic manner and recognize revenue

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Modified Accrual Accounting for Leases (Governmental Funds)

Lessee –

- Recognize an expenditure and an other financing source in the period the lease is initially recognized
- Lease payments should be recognized in a manner consistent with debt service payments on long-term debt (principal vs interest)
- NOTE: Will add new conversion entries between fund level and government wide financial statements

Lessor –

- Account for lease in the same manner as you would in full accrual accounting

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Accounting for Leases: Example for long term lease-lessee (non-ownership-transferring)

Discounting lease receivables (lessor) and lease liabilities (lessee)

- Use the interest rate charged to the lessee (could be implicit and need to be imputed)
- Rent payments will be applied first to accrued interest receivable/payable and then to the lease receivable/liability, resulting in a portion being reflected as interest income/expense

EXAMPLE: 3 year lease, begins 1/1/ year 1. Annual lease payments of $10,000 on 12/31. Interest rate 5%. Shorter of useful life and least term is 3 years. See ILLUSTRATIVE TABLE BELOW:

Period	Cash	Interest Expense	Liability Reduction	Present Value - Liability Balance	Asset Balance
0				$ 27,232	$ 27,232
1	$ 10,000	$ 1,362	$ 8,638	$ 18,594	$ 18,155
2	$ 10,000	$ 930	$ 9,070	$ 9,524	$ 9,077
3	$ 10,000	$ 14	$ 9,524	$ 0	$ 0

Accounting for Leases: Example for long term lease-lessee (non-ownership-transferring) Continued

Accrual Accounting

1/1/ year 1	Right-of-use asset	$27,232	
	Lease liability		$27,232

To record the right-of-use asset and related lease liability

12/31/year 1	Amortization expense: Right-of-use asset	$9,077	
	Accumulated amortization: Right-of-use asset		$9,077

To record the first year's amortization of the right-of-use asset equal to one-third of the asset value of $27,232 each year

12/31/year 1	Lease liability	$8,638	
	Interest expense	$1,362	
	Cash		$10,000

To record the first year payment on the long-term lease liability

Accounting for Leases: Example for long term lease-lessee (non-ownership-transferring) Continued

Modified Accrual Accounting

1/1/ year 1	Expenditure: Lease right-of-use asset	$27,232	
	Other financing source: Lease liability		$27,232

To record the lease agreement at the present value of the minimum lease payments

12/31/year 1	Expenditure: Lease liability	$8,638	
	Expenditure: Interest		$1,362
	Cash		$10,000

To record the first year payment on the long-term lease

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Accounting for Leases: Example for long term lease-lessee (non-ownership-transferring) Continued

Statement of Net Assets 12/31/year 1

Property, plant, and equipment:	
Right-of-use asset	$27,232
Less: Accumulated amortization: Right-of-use asset	9,077
Right-of-use asset (net)	$18,155
Current Liabilities:	
Lease liability	$9,070
Long-term liabilities:	
Lease liability	$9,524

NOTE – Total lease liability (current and long-term) = the $18,594 on illustrative table on previous slide

Accounting for Leases: Example for long term lease-lessee (non-ownership-transferring) Continued

Statement of Activities For the year ended 12/31/year 1

Operating expense:

Amortization expense: Right-of-use asset	$9,077
Interest expense	1,362
Rent expense	X,XXX *

* This would include any short-term lease payments not subject to GASB 87.

Accounting for Leases: Example for long term lease-lessee (non-ownership-transferring) Continued

Statement of Revenues, Expenditures, and Changes in Fund Balances For the year ended 12/31/year 1

Expenditures:

Expenditure: Lease right-of-use asset	$27,232
Expenditure: Lease liability	8,638
Expenditure: Interest	1,362
Expenditure: Rent	X,XXX *

- This would include any short-term lease payments not subject to GASB 87.

Other financing sources:

Other financing source: Lease liability	$27,232

Accounting for Leases: Emphasis Points

Variable payments

- Lease receivable (lessor) or lease liability (lessee) includes variable payments that:
  - Depend on an index or rate (like CPI or market interest rate)
  - Variable payments that are fixed in substance

- Lease receivable/liability does <u>not</u> include variable payments based on future performance of the lessee or usage of the underlying asset

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Lessee Disclosures (Does not apply to Short-Term Leases):

- ❑ A general description of leasing arrangements
- ❑ Basis, terms, and conditions, for variable lease payments
- ❑ Existence, terms, and conditions, of residual value guarantees provided by the lessee
- ❑ Total amount of assets recorded under leases, and the related accumulated amortization, disclosed separately from other capital assets
- ❑ Lease assets disaggregated by major classes of underlying assets, disclosed separately from other capital assets
- ❑ Variable lease payments recognized during period but not previously included in lease liability

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Lessee Disclosures (Does not apply to Short-Term Leases) Continued:

- Other payments recognized during the period but not previously included in the lease liability (such as residual value guarantees or penalties)
- A maturity analysis of all future lease payments – payments for each of the first 5 years, then 5-year increments thereafter, principal and interest separately
- Lease commitments for which the lease term has not begun
- Components of any impairment loss(impairment loss and related change in lease liability)
- Collateral for leases (unless it is the underlying asset itself)

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Lessor Disclosures (Does not apply to Leases of Investments, Short-term Leases, or Regulated Leases):

- General description of leasing arrangements
- Basis, terms, and conditions on which variable lease payments not included in the lease receivable are determined
- The total amount of inflows (for example, lease revenue, interest revenue, and any other lease-related inflows) recognized in the reporting period related to leases if not displayed on the face of financials

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Lessor Disclosures (Does not apply to Leases of Investments, Short-term Leases, or Regulated Leases) Continued:

- The lease inflows related to variable lease payments, residual value guarantees, termination penalties, and other payments not previously included in the lease receivable
- If lease payments secure lessor's debt, the existence, terms, and conditions of options by the lessee to terminate a lease or abate lease payments

If government's **principal ongoing operations** consist of leasing to other entities:

- Schedule of future lease payments included in lease receivable
- For each of subsequent five years and five-year increments thereafter
- Show both principal and interest

Other Lease Topics

GASB's standard also addressed the following lease topics:

- Lease modifications and terminations
- Leases with multiple components
- Contract combinations
- Subleases
- Sale-leasebacks
- Lease-leasebacks
- Related party leases
- Intra-entity leases

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Noteworthy:

- Currently, GASB's existing lease rules were **derived from the FASB's** original lease accounting rules
- After implementation of FASB and GASB Lease Standards, FASB and GASB entities will **apply different accounting for operating-type leases.** This may add complexity when comparing financial statements of entities in sectors comprised of both GASB and FASB reporters, such as higher education and health care.
- Although assets and liabilities will be measured similarly for GASB and FASB reporters on "day 1," the **"day 2" amounts** reported for the right-of-use asset and the resulting impacts on the performance and cash flow statements **will differ**

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Audit Tips

- Consider the **implementation team:** aside from finance personnel, is there anyone else to include, such as procurement, IT, legal staff?
- Start **gathering existing leases** and make a spreadsheet; include terms (interest rate, payments) and start and end dates, including renewal options
- **Implement controls** to identify leases and lease modifications
- **Develop accounting policy statements** to outline the process for making judgements with a significant impact on measurement, etc.
- Consider your **capitalization policy** and its impact
- Consider **complicated contracts** with multiple components
- Consider your **chart of accounts** and how departments currently record financing arrangements
- Consider **effects of reporting lease liabilities** on your debt limitations, bond covenants and grant agreements

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