

# Deeper Dive

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Fiduciary Activities and Leases



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# Statement No. 84

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## Fiduciary Activities

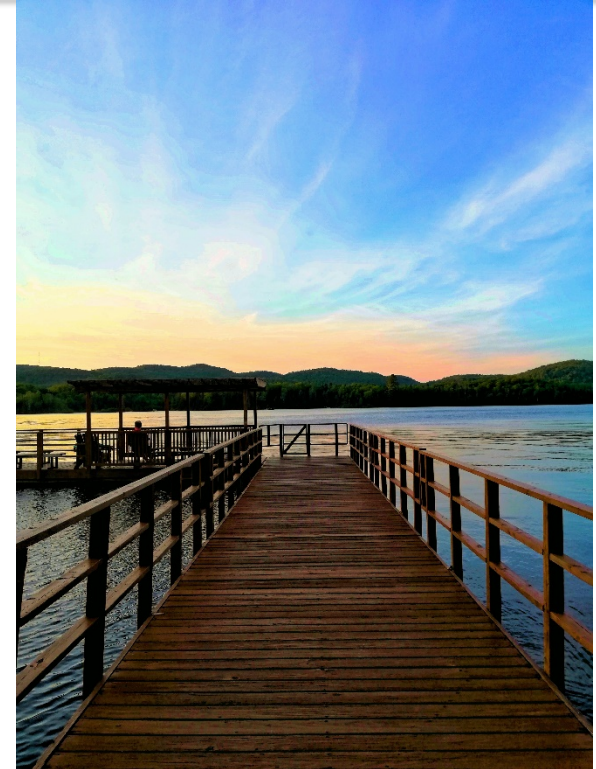
# Agenda

- Background
- Identifying Fiduciary Activities
- Reporting Fiduciary Activities
- Implementation Guide (throughout)
- Implementation Considerations and Game Plan

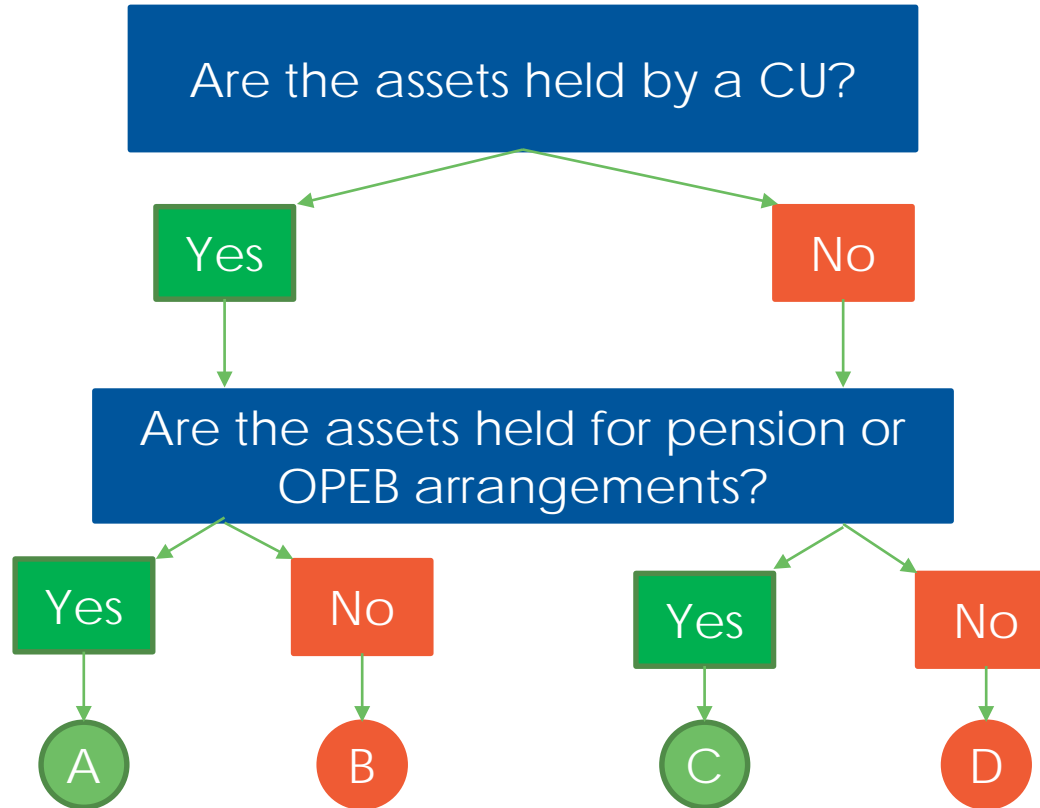
# Background

## Why address Fiduciary Activities?

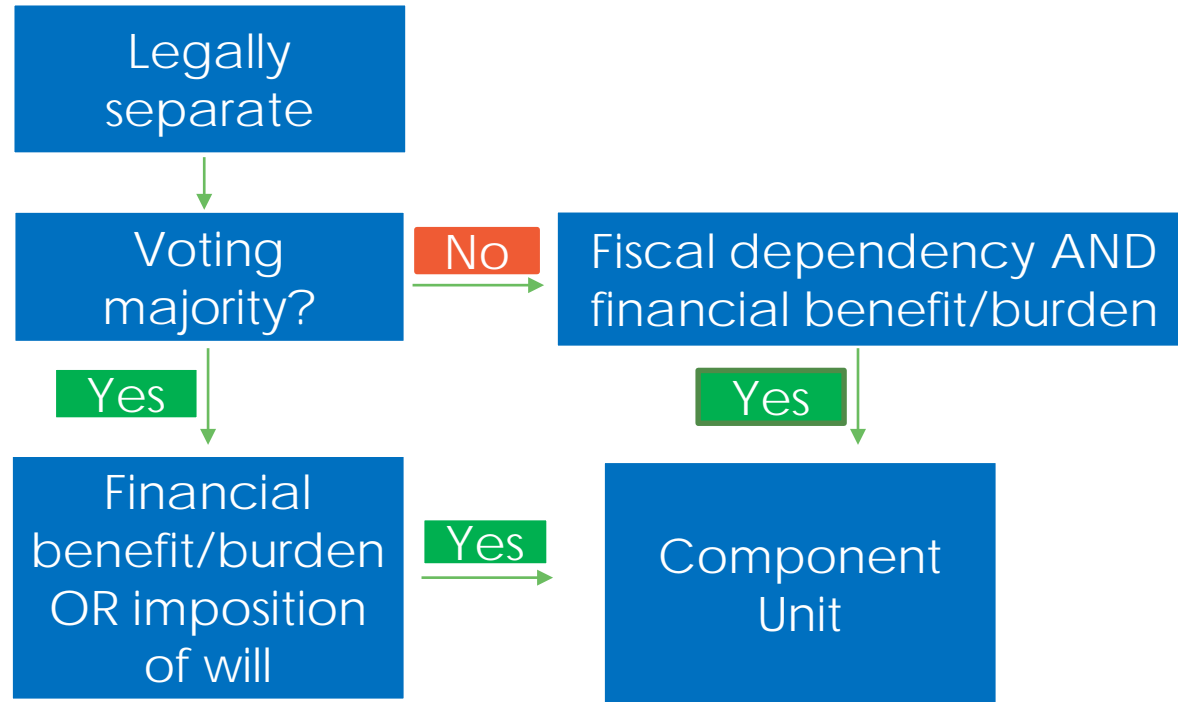
- Previous guidance did not sufficiently define fiduciary responsibilities and what constitutes fiduciary activities
- GASB 84 developed to enhance consistency and comparability by establishing specific criteria for identifying and reporting fiduciary activities
- Effective for fiscal years beginning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



# Identifying Fiduciary Activities



# Evaluating Component Units



# Pension and OPEB Arrangements

Pension /OPEB  
Administered through trusts

Irrevocable contributions

Plan assets dedicated to  
providing benefits

Plan assets legally  
protected from creditors

Resources accumulated  
for Pension/OPEB benefits  
for other governments



## Component units 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)



## Example 1:

City establishes (Single-employer) Defined Benefit Pension Plan:

- Plan assets are held in a qualifying trust
- Employer makes contributions per agreements

Is it considered to be a CU?

Is it a fiduciary activity?

# Fiduciary CU's – Pension / OPEB



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## Example 1:

Is it considered to be a CU?

- Legally separate? **Yes – it is held in a qualifying trust**
- Appoint voting majority? **Hmm....there is no board!?!**
- Financial Benefit / Burden? **Yes**

Conclusion:

- Component Unit? **Yes – see IG Question 4.5**
- Fiduciary Activity? **Yes**



## Example 2:

City establishes (Single-employer) Defined Benefit Pension Plan:

- 7 – member board
  - 5 appointed by the City
  - 1 elected by retired plan members
  - 1 elected by active plan members
- Plan assets held in a qualifying trust
- Employees and employer both contribute

Is it considered to be a CU?

Is it a fiduciary activity?

# Fiduciary CU's – Pension / OPEB



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## Example 2:

Is it considered to be a CU?

- Legally separate? **Yes – held in a qualifying trust**
- Appoint voting majority? **Yes**
- Financial Benefit / Burden? **Yes – City contributes to the Plan**

Conclusion:

- Component Unit? **Yes**
- Fiduciary Activity? **Yes**



## Component Units 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

# Administrative/Direct financial involvement

## 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





# Post-employment benefits that are not component units



## Are fiduciary activities 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)

## 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*







## All other (non-pension and non-OPEB) non – component unit activities



### Are fiduciary if all 3 criteria are met:

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

# Own – Source Revenues

- Generated by the government itself
- Include exchange (i.e. water and sewer charges) 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)

# All Other Fiduciary Activities



## Example 3:

- City uses clearing account to accumulate withholdings of employee payroll deductions and accrued payroll taxes
- The withholdings are recorded as liabilities in the City's clearing account (a payroll withholding fund)

Can the City consider the fund a fiduciary activity and report it in its fiduciary funds FS?

# All Other Fiduciary Activities



## Example 3:

- Control? **Yes**
- Not derived from own-source revenues? **Yes**
- Not derived from government-mandated or voluntary nonexchange transactions? **Yes**
- Held for whose benefit? **Being held for the benefit of the government**

## Conclusion:

- Fiduciary Activity? **No** – report in governmental or enterprise funds

IG Question # 4.15

# All Other Fiduciary Activities



## Example 4:

- County has custody of resources pursuant to a non-trust agreement with an NFP to provide accounting and treasury services to the NFP
- NFP is legally separate and does not meet criteria to be a CU of the County
- Should the accounting and treasury activity provided to the NFP be included in the County's fiduciary fund FS?

See IG Question 4.29

# All Other Fiduciary Activities



## Example 4:

- Control – yes, County has custody of resources
- Not derived from own-source revenues? Yes
- Not derived from government-mandated or voluntary nonexchange transactions? Yes
- For the benefit of organizations and not part of the financial reporting entity? Yes

Conclusion – Yes, it should be reported in the County's fiduciary fund FS

# All Other Fiduciary Activities



## Example 5:

- County collects property taxes on behalf of other governments
- Taxes are deposited into property tax distribution fund ( a custodial fund)
- County also collects a fee (1% of amount billed) for providing the service

Can the County report the fees in the property tax distribution fund?

# All Other Fiduciary Activities



## Example 5:

- Control? **Yes**
- Not derived from own-source revenues? **No**

## Conclusion:

- Fiduciary Activity? **No** – the fees should be reported in governmental funds

IG Question 4.38



# All Other Fiduciary Activities



## Example 6:

- Weaver University (WU) was given \$20,000 by an alumnus to establish a scholarship fund
- WU holds the assets in a bank account in WU's name
- WU selects the scholarship recipient and monitors compliance with scholarship requirements
- WU is allowed to spend the corpus and interest

Can WU report the scholarship fund as a fiduciary fund?

# All Other Fiduciary Activities



## Example 6:

- Control? **Yes**
- Not derived from own-source revenues? **Yes**
- Not derived from government-mandated or voluntary nonexchange transactions? **No**
- Assets held for benefit of individuals and gov't does not have admin or direct financial involvement? **No – WU has admin involvement**

## Conclusion:

- Fiduciary Activity? **No – should be reported in governmental funds**

# Reporting Fiduciary Activities – 4 Types

## Pension and OPEB Trust Funds

-Includes those administered through trusts under 67/74 AND other employee benefit plans for which resources are held in trust and contributions are irrevocable

A

C

## Investment Trust Funds

- Includes external portion of investment pools held in trust

B

D

## Private-Purpose Trust Funds

-All fiduciary activities held in trust not required to be reported in the 1<sup>st</sup> two categories

B

D

## Custodial Funds

-Used to report fiduciary activities not held in trust

B

D

# Reporting Fiduciary Activities

## Fiduciary fund types

- **New definitions** for pension and OPEB 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, County clerk funds not in trust, City fundraising for NFPs, etc.
  - 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

# Reporting Fiduciary Activities

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Custodial Funds
Statement of Fiduciary Net Position	<ul style="list-style-type: none"> <li>■ Assets</li> <li>■ Deferred Outflows</li> <li>■ Liabilities</li> <li>■ Deferred Inflows</li> <li>■ Fiduciary Net Position</li> </ul>	<ul style="list-style-type: none"> <li>■ Assets</li> <li>■ Deferred Outflows</li> <li>■ Liabilities</li> <li>■ Deferred Inflows</li> <li>■ Fiduciary Net Position</li> </ul>	<ul style="list-style-type: none"> <li>■ Assets</li> <li>■ Deferred Outflows</li> <li>■ Liabilities</li> <li>■ Deferred Inflows</li> <li>■ Fiduciary Net Position</li> </ul>	<ul style="list-style-type: none"> <li>■ Assets</li> <li>■ Deferred Outflows</li> <li>■ Liabilities</li> <li>■ Deferred Inflows</li> <li>■ Fiduciary Net Position</li> </ul>
Statement of Changes in Fiduciary Net Position	<ul style="list-style-type: none"> <li>■ Additions</li> <li>■ Deductions</li> </ul>	<ul style="list-style-type: none"> <li>■ Additions</li> <li>■ Deductions</li> </ul>	<ul style="list-style-type: none"> <li>■ Additions</li> <li>■ Deductions</li> </ul>	<ul style="list-style-type: none"> <li>■ Additions</li> <li>■ Deductions</li> </ul>

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

# Reporting Fiduciary Activities

## 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
- **BTAs** – may report assets and corresponding liability rather than reporting in custodial fund if the assets are normally expected to be held 3 months or less

# Reporting Fiduciary Activities

## 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

**BTAs** – if assets held 3 months or less -> separately report additions/deductions as cash inflows/outflows in statement of cash flows (if significant)

# 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





# Planning for Implementation

## Things to Consider:

- Funds that were previously fiduciary could now be considered governmental or enterprise
- Funds that were previously governmental or enterprise could now be considered fiduciary
- Potential general ledger / financial reporting impact
- Potential budgetary impacts

# Planning for Implementation

## Game Plan:

- Read GASB 84 and the Implementation Guide No. 2019-2
- Identify activities / funds requiring analysis
  - Gather needed documents (i.e. trust agreements, contracts, originating documents)
- Analyze activities / funds and make determinations based on GASB 84 criteria
- Make necessary changes in GL / financial reporting system

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# Statement No. 87

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## Leases

# Statement No. 87 – Leases

Effective FYE December 31, 2020, and later

## 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)

# Statement No. 87 – Leases

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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

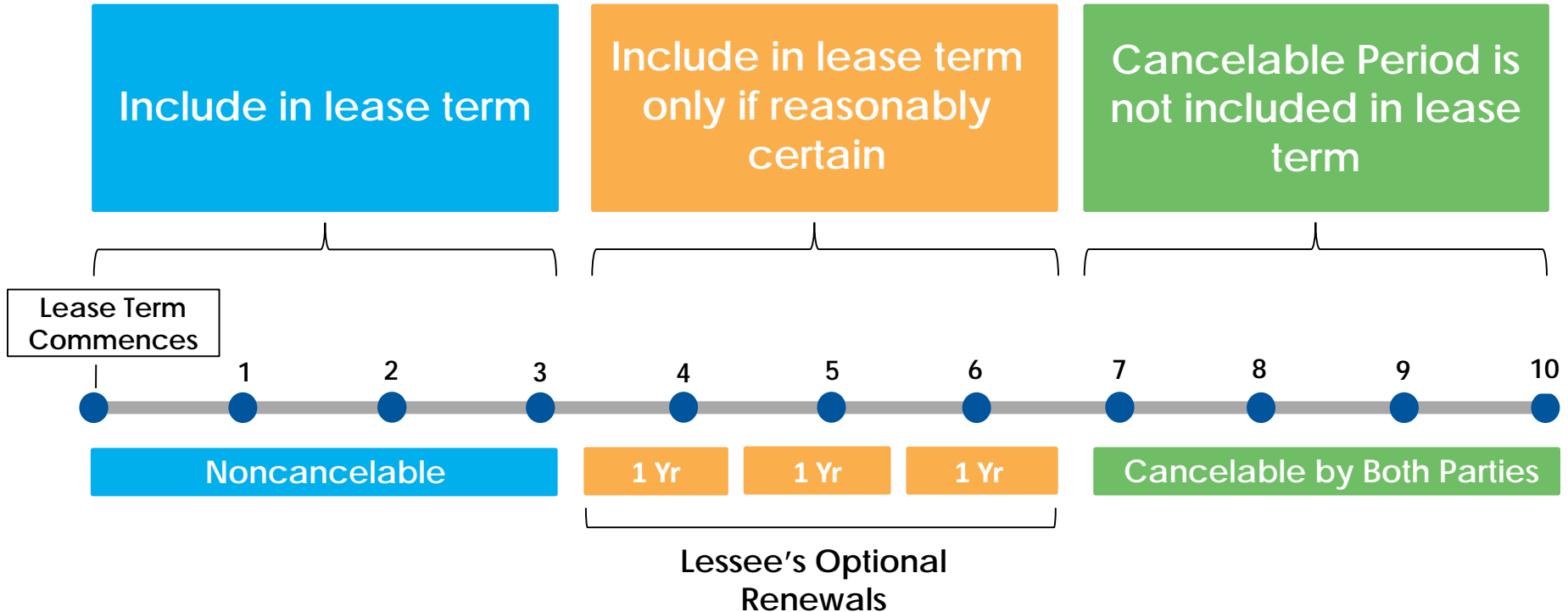
- Periods for which lessee and lessor each have the option to terminate
  - Rolling month-to-month leases, or right-to-use asset during a holdover period

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:

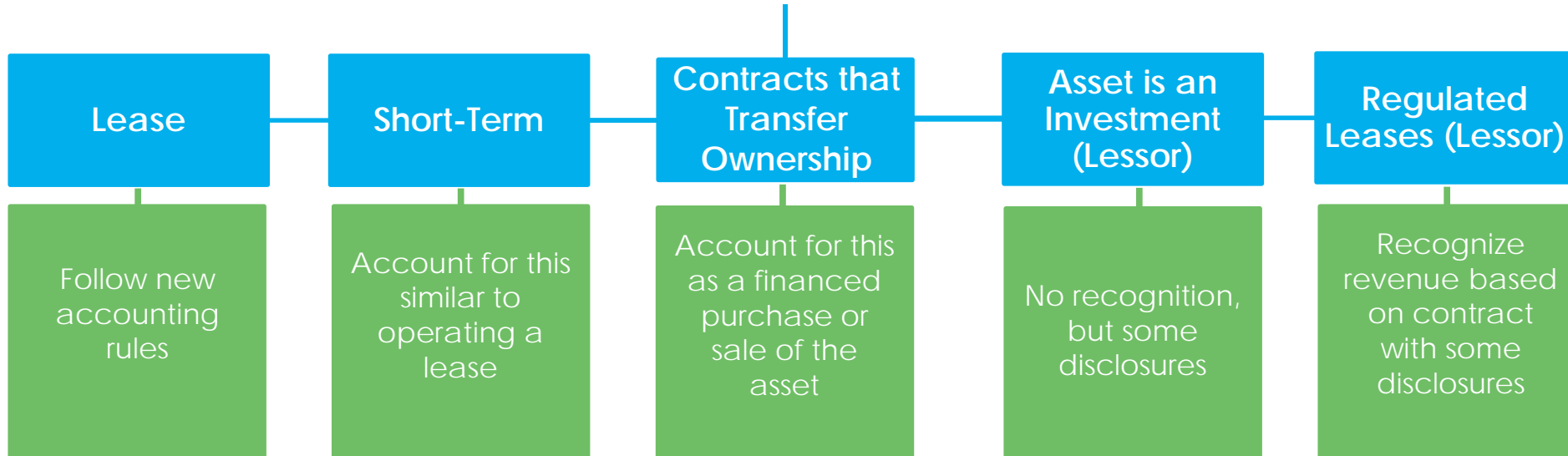
- The “reasonably certain” determination was incorrect, and lessee or lessor exercised an option that was not expected to be exercised or vice versa
- An event in the contract that requires an extension or termination of the lease takes place

# Statement No. 87 – Leases

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## Lease Types Recap

### Types of Leases



# Statement No. 87 – Leases

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## 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

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## 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

# Statement No. 87 – Leases

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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



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## 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*

# Statement No. 87 – Leases

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## 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*

# Statement No. 87 – Leases

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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	<u>9,077</u>
Right-of-use asset (net)	\$18,155

#### Current Liabilities:

Lease liability	\$9,070
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#### Long-term liabilities:

Lease liability	\$9,524
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NOTE – Total lease liability (current and long-term) = the \$18,594 on illustrative table on previous slide

# Statement No. 87 – Leases

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## 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.

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## 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
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# Statement No. 87 – Leases

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## 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 not include variable payments based on future performance of the lessee or usage of the underlying asset

# Statement No. 87 – Leases

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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

# Statement No. 87 – Leases

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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

# Statement No. 87 – Leases

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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

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## 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**

# Statement No. 87 – Leases

Effective FYE December 31, 2020, and later



## 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



**For more information, contact:**

**Laura Lambert, CPA**

Partner, Assurance Services

832.320.3222

[Laura.Lambert@weaver.com](mailto:Laura.Lambert@weaver.com)

**Greg Peterson, CPA**

Partner, Assurance Services

936.494.4126

[Greg.Peterson@weaver.com](mailto:Greg.Peterson@weaver.com)