

PHASED APPROACH FOR REVIEWING GASB 87 IMPLEMENTATION



CPAs & BUSINESS ADVISORS



PHASE 1 PRE-IMPLEMENTATION
REVIEW OF INTERNAL
CONTROLS



PHASE 2 WALK-
THROUGH



PHASE 3 ONGOING
CONTROLS

PHASE 1



PRE-IMPLEMENTATION REVIEW OF INTERNAL CONTROLS

Review internal controls that ensure the completeness of the lease contract inventory

- Key personnel should be trained to ensure the contract inventory includes:
 - Leases that are currently recorded as capital leases.
 - Leases that are currently recorded as operating leases.
 - Leases that need special attention, including subleases, sale-leasebacks, lease-leasebacks, related party leases, leases involving component units, leases subject to regulations and where the District is a lessor.
 - Reconcile listing of leases to GL.
 - Completeness of the initial inventory could be assisted by using data analytic techniques
 - Analyze recurring monthly payments for embedded leases
 - Review coding of expenditures to ensure they have been properly included or excluded
- Policy decisions may need to be made concerning
 - Record keeping
 - Whether laws, regulations, ordinances, bond covenants, continuing disclosure and debt limits need to be updated due to the reporting of leases as a liability,
 - Capital asset threshold policies (which may be different from when liabilities are recognized),
 - Organizational placement and structure (centralized versus decentralized leasing administration)
 - Acquisition of lease accounting software

PHASE 1



PRE-IMPLEMENTATION CONTINUED

Review the methodology for computing and reviewing the lease liability and the lease asset for existing leases. This would include:

- Developing a list of authorized signatories on lease contracts,
- Reviewing the determination of the lease term,
- Reviewing the determination of the noncancelable period,
- Determining who authorizes the execution of options for renewals, extensions or terminations,
- Reviewing the calculation of components, incentives and other critical clauses, and
- Developing an implicit interest rate(s) determining the sources and elements to be used.

Document key policy decisions

PHASE 2



WALK-THROUGH

Select a contract(s) where the government acts as a lessee and a contract where the government acts as a lessor. Recompute the lease liability and lease asset for the lessee contract or the Lease Receivable and Deferred Inflow of Resources for the lessor contract considering:

- The eligibility of the contract for exemptions
- The meeting of the control – right to use criterion
- The transfer of ownership of the underlying asset
- Whether the underlying asset qualifies as an investment
- Critical dates:
 - Lease execution date
 - GASB implementation date
 - The lease termination date
- Remaining useful life of the underlying asset
- Exercise period for an option to extend the lease and the probability it will be exercised
- Exercise period for an option to terminate the lease and the probability it will be exercised
- The annual interest rate used for discounting

PHASE 2



WALK-THROUGH CONTINUED

- Fixed Payments and escalation
 - Pattern of escalation (e.g., 3% per year on lease anniversary date)
- Variable payments based on an index
- Variable payments fixed in substance
- Payment frequency
- Lease incentives paid prior to the start of the lease
- Lease incentives paid after to the start of the lease
 - Period in which lease incentive is to be paid
- Non-lease components included in lease contract document should be excluded:
 - Utilities
 - Janitorial
 - Common Area Maintenance (CAM)
 - Property taxes
- Installation costs of the underlying asset (excluded in PV calculations, Included in depreciation calculations)
- Residual value guarantees if reasonably certain they will be assessed
- Exercise price of purchase option if reasonably certain it will be exercised
- Termination penalties if reasonably certain they will be assessed
- Renewal escalation of payments
- Other payments reasonably certain of being required include in final period
- Any special conditions including:
 - Subleases
 - Sale-Leaseback transactions
 - Lease-Leaseback transactions
 - Intra-Entity leases
 - Leases between related parties

Document testing processes and testing results

PHASE 3



YEAR-OVER-YEAR CONTROLS

Document the following on-going processes:

- Procedures for tracking and reporting new contracts.
- Procedures for annually updating the valuation and reporting.

This would include, but not be limited to:

- Reassessment of the lease term
 - Status of renewal and cancellation options
 - Events causing termination or extension
- Changes in the likelihood of paying residual value guarantees
- Changes in the discount rate
- Exercise of purchase options
- Realization of contingencies
- Changes in the estimated amounts for payments included in the measurement of the lease liability