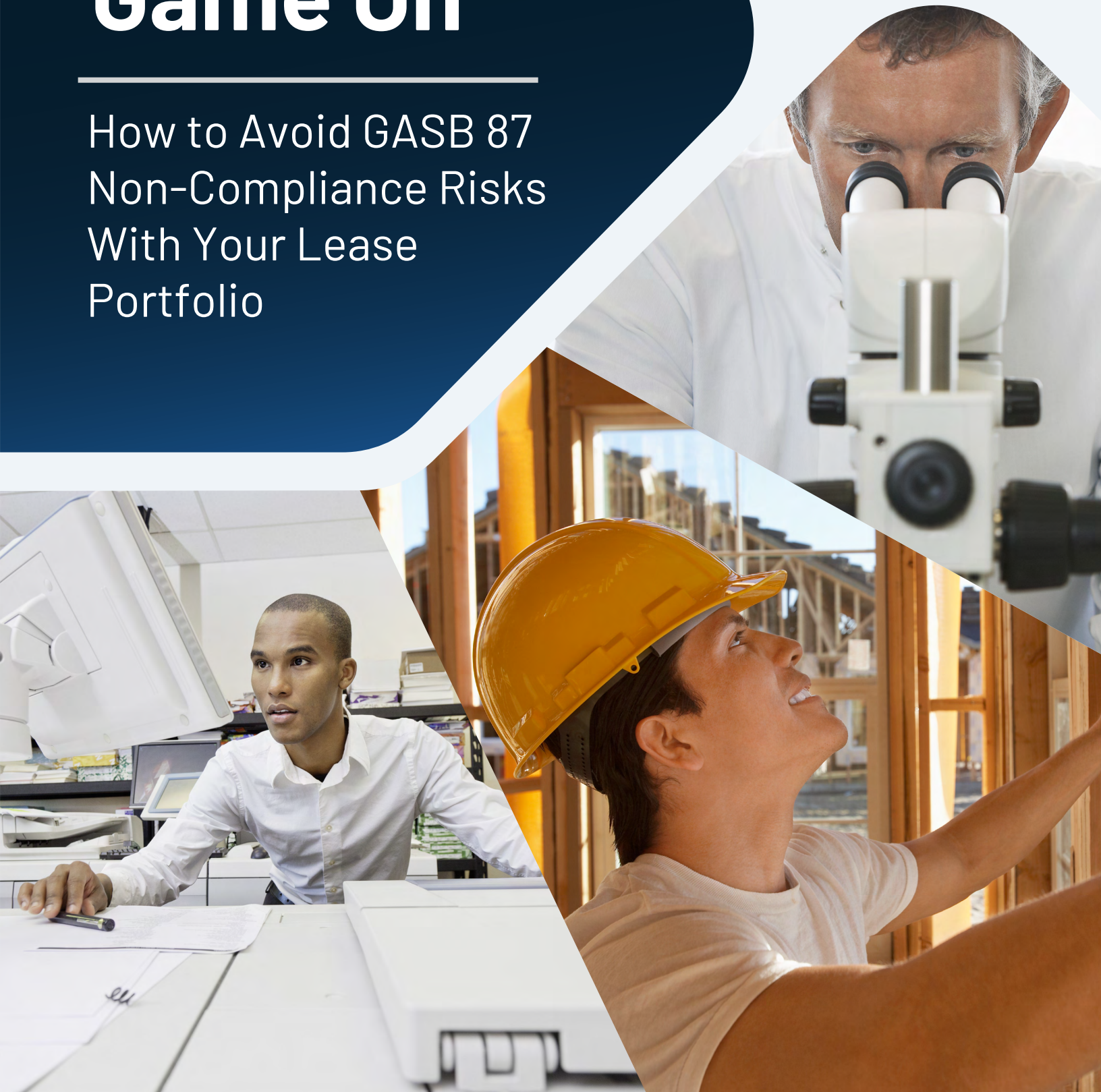




GASB 87 Game On

How to Avoid GASB 87
Non-Compliance Risks
With Your Lease
Portfolio





GASB87 Game On

Happy Birthday **GASB87** – effective June 15, 2021, government agencies and supporting government service providers are required to begin treating lease and lease liability, according to the latest **GASB87** guidance.

GASB87 fundamentally changes accounting treatment with a new **GASB** statement for lease recognition, a new method for lease measurements, and the necessary disclosure reporting when a government entity is a lessee or lessor. The critical difference between **GASB87** and **ASC842** is the treatment of real estate and equipment leases. **GASB87** is a comprehensive standard covering leases and replaces both **GASB62** and **GASB13**. Lessees are reporting under **GASB87** are required to recognize a right-of-use asset and a liability for each lease agreement, which provides government entities the right to capitalize leases from a reporting and asset treatment perspective.

GASB 87 Risk Overview



Many government entities are leveraging excel as a platform for building out their lease abstractions, generating journal entries, creating lease payment schedules, and transmitting disclosures. Although excel is capable of supporting these lease accounting activities, it is a manual process that is punishing from a lease accounting, lease management, and reporting perspective. Reconciling the entirety of the lease portfolio is a daunting task that significantly increases lease accounting modifications and leases reclassifications.

What is not understood about the excel platform is the risk associated with this highly manual process, as excel is not a commercial real estate lease management software and using it as such creates the following procedural vulnerabilities:

- ➔ **Spreadsheet management and controls** – Risk issues include: human entry errors, lack of data parameters on inputs, inability to validate data, insufficient date validation accuracy controls, and lease reclassification interpretations errors.
- ➔ **The volume of transactions increases exponentially** – Whether it's a financial lease or the reclassification of an existing operational lease, achieving **GASB87** compliance thresholds requires significant re-work. Re-calculating the interest expense across your lease records, updating schedules, and reclassifying leases is purely unbudgeted time and labor. The burden to your lease accounting staff, system modifications, and manual updates is a bi-product of **GASB87** compliance.

GASB 87 Risk Overview




- **IBR calculations are complex** – Without proper controls and due to the data accuracy required, you will be generating significant audit expense and introducing potential lease accounting issues that could create cost containment problems around your lease portfolio.
- **SOX controls** – Proper signoffs, segregation of duties, and approval processes around HR and Financial payment processes are key challenges around achieving **GAAP** compliance. There are significant compliance requirements in meeting these minimal compliance objectives. Having a solution managed by experts and built under **GASB87** is a recommended first step in making this compliance capability.
- **The audit procedure is long and tedious** – Reviewing historical lease and reclassifying lease structures to achieve compliance is a costly proposition, not to mention the disruption to daily lease accounting activities. Auditors are expensive, and improper auditing controls, systems, and resources create an expensive proposition for lease accounting leadership.
- **SOC1 reporting** – Manual system processes create manual system reports, which expose risks in two areas: Data Accuracy and Compliance reporting. Lease accounting practitioners need help. A reliable and automated system is required as the alternative is expensive hourly auditors.
- **Disclosure reporting** – Probably the biggest challenge in achieving **GASB87** compliance is restructuring all disclosure reports to meet compliance. Aligning with a partner with the appropriate lease management tools to support your compliance initiatives is key to achieving the disclosure compliance component.

GASB 87 Risk Overview



➔ **Additional head count and payroll expenses** – The components mentioned above provide insight into the workload impact on lease accounting teams in achieving **GASB87** compliance. Whether it be financial lease restructuring or lease reclassification, the lease accounting teams supporting these processes struggle to provide the reporting, controls, or data integrity required to meet compliance requirements. The additional process burden exacerbates the challenge, so not only do teams lack the tools for success, they are inundated by the extensive manual processes new to the new lease accounting standards.

The team at Leaseology understands the struggle internal lease accounting teams face. We have built an end-to-end solution that allows customers to divert resources, remove costs, increase accuracy, and locate cost savings opportunities while achieving compliance via an outsourced lease management process.



GASB87 is an Uphill Battle

GASB87 introduces changes to lease accounting for lessors. For each lease, the standard requires lessors to recognize a deferred inflow of resources as well as a lease receivable.

Like **ASC842** and **IFRS16**, **GASB87** allows both lessees and lessors an exemption for short-term leases (those with a lease term equal to or less than 12 months) and a few more exemptions, including leases which ownership of the leased asset is transferred.

Many firms are unprepared to support the changes of **GASB87**, so we thought we would help identify critical areas that are being under scoped from an effort, labor, and complexity perspective:

1. Re-classification and potential reclassification of existing leases
2. Audit of controls supporting 'Lease Exchange' attestation
3. Ownership Provisioning – discerning Operational versus Finance lease classification
4. ROU controls assessment interpretation
5. All leases are classified as finance leases, and the lease liability is classified as long term debt, thus influencing interest expense in EBITDA reporting

The changes brought about by **GASB** are extensive and begs the question – Are there any alternatives to this time-intensive, mundane process for achieving compliance?

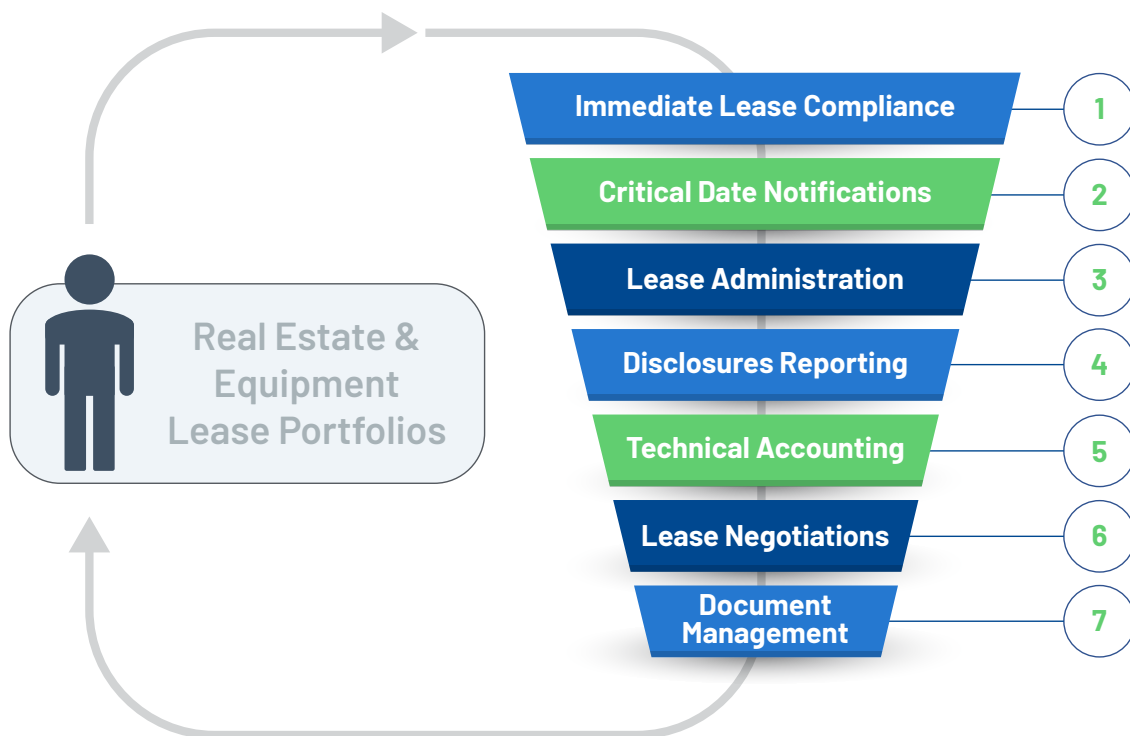
The perfect answer is to retain a Lease Accounting/Management firm because of the vast breadth of skills and spurts of activity required for compliance. In addition to an enormous workforce management issue, attempting to achieve **GASB87** compliance in-house is wrought with risk, fines, and penalties. People performing compliance tasks have the added burden of relearning their jobs every month, resulting in ineffective human capital spend.

These new standards have created a significant burden for lease accounting professionals across the nation. As a result, achieving **GASB87** compliance is an arduous task that is labor-intensive, highly manual (mainly excel spreadsheets), and requires extensive effort from an audit entry and tracking perspective.



Lease Portfolio Onboarding

The diagram below is the Leaseology service funnel, and we will use this model to help our clients understand the breadth of the complex challenge ahead. The compliance mandate touches every department in every government agency and every company providing services to the government. We feel that a visual representation of what is involved gives our customers and future customers a fighting chance to plan appropriately. The overview from a task perspective is listed below, and we will identify areas of risk exposure to help customers looking to achieve and understand the complexities and benefits of compliance:



The differences between Leaseology and a standard lease administration service offering are significant in the quality, breadth, and expertise required to deliver the offering that Leaseology provides. Please review the following details on why our comprehensive lease management service satisfies the needs for all customers seeking compliance, avoiding business distractions that add zero value, and avoiding audits, fines, and penalties for not getting the lease accounting correct:

- 1.** We can handle all of your data from a data cleansing, data validation, and integrated test perspective.
- 2.** We handle all of your cybersecurity data backups and provide GL/AP data extracts for your financial platform. Do not burden your IT department with this responsibility – the pace of advancement in cybersecurity well outpaces an IT resource trying to wear three hats – the risk and cost of a breach are far too extreme not to have experts, like Leaseology, Inc.
- 3.** We manage your compliance certifications so that you don't have to and ensure that you are aligned with the latest legislative mandates to avoid fines, penalties, or audit re-work costs associated with being out of compliance.
- 4.** We manage critical date alerts for each lease so that you never miss an opportunity to renegotiate a lease, miss a payment, or have a meaningful business lease accidentally terminates.
- 5.** We build a reporting calendar for you to ensure your monthly reporting requirements and that you're in line with compliance guidelines.
- 6.** We analyze your lease for ROU (Right of Use) to ensure that expert technical accountants validate your leases and that your interpretation aligns with FASB Guidance.
- 7.** EBITDA – We leverage our technical accounting team to perform in-depth SEC reporting analysis on your balance sheet to ensure that your ROU calculations align with FASB guidance.
- 8.** We design disclosure reports for each of your lease portfolio to provide the correct lease data to FASB in the expected format.
- 9.** We create and manage your lease portfolio documentation repository, so there is never any disruption or business distraction searching for dates, leases, or contracts.
- 10.** We perform portfolio audits to ensure accuracy and prevent evergreen leases, saving you money, keeping you compliant, and providing the freedom to focus on what truly benefits your organization.





Comprehensive Lease Portfolio Offering

Additionally, we offer full lease lifecycle professional services.

- 1.** We have a team of market analysts that help you understand the FMV of each business geography and leverage our network of agents that can help you negotiate.
- 2.** CAM – we have a team of experts that performs audits for annual CAM true-ups.
- 3.** We have a legal team to help you understand the legal implications of any changes you wish to make to a lease or help if you need legal advice from a lease management perspective.
- 4.** We have a team of lease experts that will help you draw up a lease portfolio guidance to maximize your spending on your lease and achieve maximum business flexibility on terms.
- 5.** We have lease abstraction experts to extrapolate important lease data to manage your lease portfolio effectively.

There are apparent differences in what we offer versus a standard lease admin service. Still, we have found that our subscription, coupled with professional services, is all you will ever need to avoid hunting for resources, interviewing vendors, or dealing with auditors. Our team is vast, with deep expertise, so that you can focus on growing your company, which is why our offering meets all potential needs - because that's what 20+ years has taught us.



Leaseology makes lease management simple. We offer a complimentary 1-on-1 Lease Assessment. [Schedule yours today](#) and let's see if we can help.

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