

# New Lease Accounting Rules Make Automation a Must for State and Local Organizations

## MARKET TRENDS REPORT



# Introduction

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The Governmental Accounting Standards Board's Statement No. 87 (GASB 87) drastically changes the way government organizations should be thinking about leases.

For fiscal years beginning after June 15, 2021, state and local government organizations must change the way they describe certain lease assets and liabilities in their financial statements. The goal is to create a single model of lease accounting based on the principle that leases are financings of the right to use an underlying asset, according to GASB.

The new guidance applies both to situations where government is the lessee and the lessor. On the lessee side, GASB 87 requires organizations to recognize and record lease liabilities and intangible assets that represent their right to use the leased asset. On the lessor side, it requires agencies to recognize lease receivables and a deferred inflow of resources. The earliest first full fiscal year of reporting will be for those whose fiscal year ends June 30, 2022.

**While organizations might be aware of the change and understand that compliance is critical to demonstrating good financial stewardship, they likely underestimate the time, commitment and effort it requires.** Leases are complex, lengthy documents – and no two are the same. In addition, organizations often have hundreds of leases that need to be reported on under GASB 87. Keeping track of all applicable data points across hundreds of leases can be cumbersome and subject to error. To be successful, organizations need to bring order to the process and ensure all leases are accounted for, all details are accurately tracked and all asset types and payment scenarios are represented.

To help you learn more about meeting the requirements of GASB 87, GovLoop teamed up with Visual Lease, whose software is used by more than 1,000 organizations for lease accounting, management and reporting under the new lease accounting requirements. This report discusses strategies for both boosting compliance and reducing risk.

# By The Numbers

# 2017

The year the Governmental Accounting Standard Board issued [Statement No. 87](#), which goes into effect for fiscal years beginning after June 15, 2021. (It was originally slated for compliance by Dec. 15, 2019, but was delayed 18 months due to the COVID-19 pandemic.)

# 47%

of respondents to a GASB survey of users have evaluated government financial statements that [contained a going concern note disclosure](#).

***GASB 87 “establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.”***

- GASB

# 36%

of [senior finance and accounting professionals](#) say their organizations don't have the right people, technology and tools in place for effective lease accounting and management.

# 100%

of surveyed senior finance and accounting professionals [recognize](#) that complying with lease accounting will provide more transparent valuation of the organization, cost savings, easier preparation for audits and the ability to make strategic lease decisions.

## WHAT IS A LEASE TERM?

Under GASB 87, organizations must determine the lease term applicable to a given lease. Here is how GASB spells that out:

The lease term is defined as the period during which a lessee has a noncancelable right to use an underlying asset, plus the following periods, if applicable:

- Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option

- Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option
- Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option
- Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option

# How to Manage the Complexities of GASB 87

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## The Challenge: Overwhelming New Requirements

GASB 87 requires more tracking, updating, calculating and reporting on lease information than ever before. It also requires new internal procedures, cross-functional collaboration, education and comprehensive controls.

Key challenges include:

**Leases can be anywhere, and they aren't always digital.** Prior to GASB 87, leases were typically managed by different stakeholders, processes and systems, which made it difficult to ensure completeness and accuracy. Lease-related transactions can have hundreds of permutations and calculations to be captured in reports and throughout the year.

**Leases are dynamic contracts.** Terminations, renewals and exercised options must all be accounted for and remeasured under GASB 87.

**Leases can introduce risk.** When lease negotiations, decisions and change aren't managed by accounting teams, it can mean that critical dates, options and changes aren't managed properly, or that the finance department can't reconcile invoices against contract terms. It's important to balance the need to maintain controls and data integrity without interrupting the day-to-day workflows or teams in the trenches.

**Accounting for leases under GASB 87 is new and different.** Lease liabilities and assets are now measured and calculated, while lease asset amortization rules have changed and more reports with more information are required. It can also be difficult to determine which leases meet the definition of a lease under GASB 87. Organizations are scrambling to understand all these changes.

Handling all of the data collection, tracking, analysis and reporting manually – typically with the help of an Excel spreadsheet – isn't feasible, and leads to inaccuracies and time issues. Spreadsheets aren't designed to handle the dynamics and complexity that impact the hundreds of permutations and required calculations.

"The rules have gotten a lot more complicated," said Paul Wolf, Senior Director at Visual Lease. "The

lease accounting rules have changed; even third-party contracts with vendors that act like leases are considered leases."

## The Solution: Centralization and Automation

While spreadsheets and manual data collection may have worked well enough in the past, that's no longer the case. The only way to ensure that everything is accounted for and compliant is by ensuring standardization, automation, checks and balances and enough flexibility to handle agencies' unique scenarios. An effective solution should be purpose-built for lease financials, acting as a single source of truth.

"Before diving in, it's important to ensure the information will be compatible with the way your organization conducts business," Wolf said. "Everything from organizational department charts to role-based permissions should be taken into account."

A dedicated lease accounting platform optimized for GASB 87 centralizes all leases, automates complex reports and surfaces clauses, obligations and critical effective and implementation dates. Technology makes it easy to collect and stay on top of all data points needed for lease calculations and ensure that data is properly abstracted. The solution also should be able to connect to other critical agency applications and to handle the permutations and calculations required by the standard, including Day Two accounting (remeasurements and controls as leases change).

After all lease information, financial information and associated documents are entered into the solution, all relevant data points can be identified and important data that may be missing can be flagged. When information is loaded, the system should check for common errors, such as loading the same lease twice or unusual characters that don't make sense. But beyond that, organizations should still check their own entries, Wolf said.

Standardizing lease information within a centralized platform also helps both lessees and lessors stay on top of any changes, like adding a new lease, amending an existing lease or capturing asset changes.

# Best Practices in GASB 87 Compliance



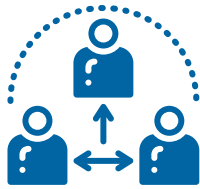
## Implement Education, Planning Before Tech

When considering an investment in DCaaS, examine the total cost of owning and operating your current data centers. That includes acquisition costs for buying new technologies and operations and maintenance costs. Reviewing this data will give you a better understanding of what your agency spends on IT and potential savings from moving to a DCaaS model. Some of those savings will come from reducing your data center footprint and promoting energy efficiency.



## Plan Data Flows Carefully

Take advantage of the speed and innovation that DCaaS provides to address your agency's mission objectives faster. Investing in DCaaS frees you to more easily move applications to different environments, such as public or private clouds. Having this flexibility allows your agency to better track the cost of running applications and their location. DCaaS gives agencies more options for managing their workloads in a way that best serves citizens.



## Build On Third-Party Integrations

DCaaS simplifies and accelerates the process for deploying new technologies in your data center, which leads to far less downtime. The nature of how these technologies operate changes the response to downtime for maintenance or unscheduled outages. If a disruption occurs, the natural protections that are built into the technologies allow these workloads to continue to run, which means you're less dependent on any one technology or system.



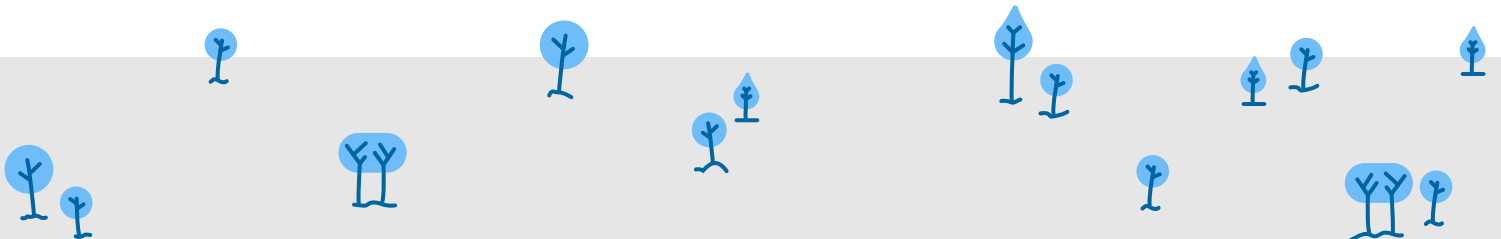
## Don't Skip Testing

Technology is a great enabler, but only if it works for your specific situation. Instead of thinking about this from a Day One perspective, develop lease scenarios specific to your activities that will address the types of modifications you typically see on your leases, along with lease types. In addition, examine the types of reports you can get, such as disclosure reports, roll forward reports and journal entry reports. And be thorough.



## Get Ready for GASB 96

In May 2020, GASB issued Statement 96, which provides guidance around the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government organizations. GASB 96 was based on GASB 87, and classifies a software subscription as a "right of use" asset. The difference is that instead of referring to tangible assets like real estate, equipment or land, it refers to software and associated fees or underlying assets. It will become effective for fiscal years beginning after June 30, 2022.







## Case Study: A Tribal Government Entity Gets Ahead of GASB 87

With the goal of getting ahead of GASB 87, the Poarch Creek Band of Creek Indians in 2019 began searching for a platform that could help with financial reporting and other balance sheet impacts the new requirements would bring. At the same time, the tribal government, located near Atmore, Alabama, wanted to create a centralized, reliable repository for its leases. It was an ambitious goal; each of the tribal nation's 28 departments has its own leases, most tracked on spreadsheets.

“Even if GASB 87 wasn't coming down the line, it was still important for us to find a way to keep all leases in one

place. It solved a very big internal issue,” said Dominic Cromartie, assistant CFO for the Poarch Creek Bank of Creek Indians.

After selecting and implementing Visual Lease's lease accounting and management platform, the departments quickly began to see the value of being able to easily access lease information to determine when terms were ending so they could evaluate the next step for that lease. And with the help of Visual Lease, Poarch Creek Bank of Creek Indians was ready to adopt GASB 87 in time for its goal of June 30, 2022.

### HOW VISUAL LEASE HELPS

Visual Lease provides lease accounting and lease administration software to help organizations manage, analyze and report on their leased asset portfolios, including real estate, equipment and more. Developed by industry-leading lease professionals and CPAs, the easy-to-use SaaS platform provides GASB-compliant lease accounting controls, along with easy, flexible and automated

lease management processes. More than 1,000 organizations globally, including government organizations, rely on Visual Lease's cloud-based SaaS platform.

Visual Lease is committed to helping public organizations with GASB 96 compliance in the same way it has with GASB 87. For more information, visit [visuallease.com](https://visuallease.com).

# Conclusion

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All public sector entities must find a way to adopt GASB 87 within the next year, yet many are still not prepared. There is plenty to do. In addition to developing an overall plan, organizations must find the best ways to collect and organize leases, track ongoing changes, make sure that every action taken complies with approved workflows and access authorizations, and generate audit-ready journal entries, disclosure and other reports.

An automated, centralized, cloud-centered approach to GASB compliance ensures organizations not only get compliant but stay compliant. It's a rare project with a real return on investment; with all leases in one place and powerful analytics tools, government organizations can save money through automation and streamlined workflows.



## ABOUT VISUAL LEASE

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Visual Lease is the #1 lease optimization software provider. We help organizations become compliant with FASB, IFRS and GASB lease accounting standards, while simultaneously improving the financial, legal and operational performance of their leases. Our easy-to-use SaaS platform is embedded with more than three decades of best practices from major corporations and leading industry professionals. Committed to ongoing innovation and unparalleled customer service, Visual Lease helps organizations transform their lease compliance requirements into financial opportunities.

[www.visuallease.com](http://www.visuallease.com)



## ABOUT GOVLOOP

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GovLoop's mission is to "connect government to improve government." We aim to inspire public-sector professionals by serving as the knowledge network for government. GovLoop connects more than 300,000 members, fostering cross-government collaboration, solving common problems and advancing government careers. GovLoop is headquartered in Washington, D.C., with a team of dedicated professionals who share a commitment to connect and improve government.

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