



# GASB 87 critical success factors to comp

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Phoenix AGA

October 7, 2020

# Learning objectives

- 1 Obtain a general understanding of the current GASB 87 environment and impact
- 2 Communicating the mandates with organization leader
- 3 Discuss key GASB 87 program components and focus areas
- 4 Critical success factors for lease compliance project planning
- 5 Typical project components, approach and timelines



## GASB 87 Overview



# Overview of new GASB standard for leases

Entities impacted by the new standard include **state and local governments**, in addition to state funded **academic** and **healthcare institutions**.

These entities are not only impacted under the new reporting and monitoring requirements but must also consider the change in business processes, procedures, training of staff and technological requirements to maintain compliance.

## Summary of Changes Under GASB 87

- ✓ Leases that extend beyond 12 months will have a balance sheet impact on both the lessee and lessor.
- ✓ For all leases other than short-term, the lessee will recognize a lease liability and the intangible use asset, and the lessor will continue to depreciate and account for the lease asset.
- ✓ Financial statement disclosures and schedules will be required for contracts that do not transfer ownership and are not short-term leases.
- ✓ There will be no disclosure requirement for short-term lease outflows

# Scope of the GASB 87 environment

- There are approximately 30,000 entities that need to comply with the GASB 87
- Expect around 20,000 will be able to comply on their own
- 10,000 organizations will need some form of external assistance



## Communicating To Your Organization



# The GASB 87 bottom line...

Many experts are calling the new lease compliance standards ***“the biggest accounting change ever”***

# Communicating to your organization

*Because they said so...*

- GASB 87 is a new financial reporting requirement impacting all state and local government – ***this is not optional***
- This is the state and local government counterpart to ASC 842
- Many organizations can do this on their own, but *many cannot*.
- This is happening very fast and a limited timeframe to comply
- This is a real and enterprise wide project
- **Software alone will not fix this**
- **This is not a one-time fix, it's new business processes and new accounting methods**
- **Failure to comply will result in an audit finding that may result in credit rating decrease and other negative financial implications**





# Overarching and real business benefits

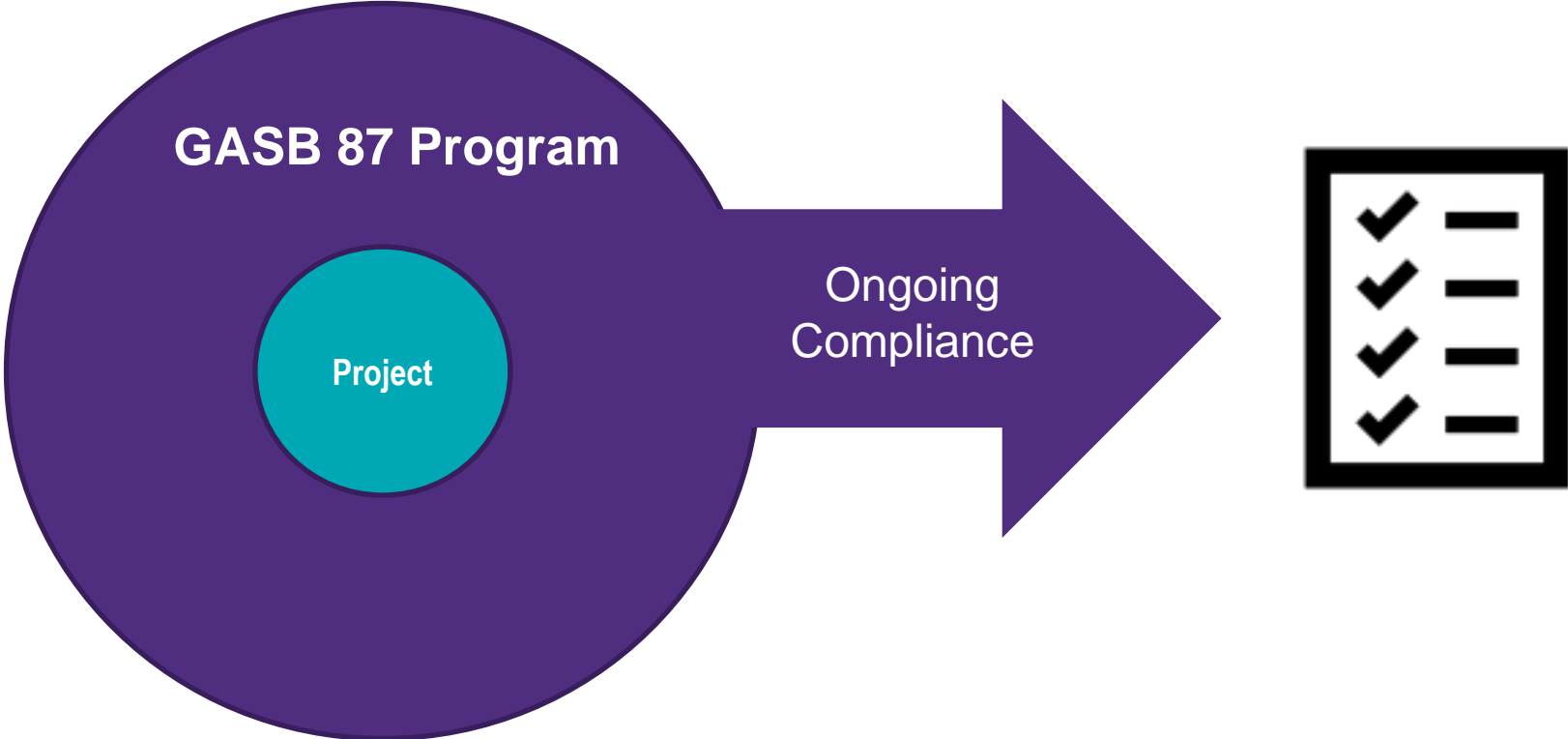
- All leases will now be in a single database/system providing the ability to analyze your lease portfolio and leasing relationships
- Ability to make better lease versus buy business decisions as all purchases are now coming on the balance sheet
- More timely engagement of Accounting personnel in leasing discussions and negotiations
- Ability to standardize leasing pricing and terms and conditions to reduce costs and better manage risk



# The Path Forward



# Think in two dimensions



# Critical program focus areas

- 1 Ensure lease population is complete and accurate.
- 2 Account for leases not previously identified.
- 3 Identify and evaluate contracts that may contain embedded leases
- 4 Select the right lease accounting software
- 5 Design and document implementation controls for ongoing compliance

***Understand and accept internal capabilities and capacity***

## Lease Population Completeness



# Accounting for leases not previously identified

- Many organizations are identifying leases that were previously "unknown leases"
  - Identifying through completeness procedures (inquiries, data analytics, etc.)
- Leases that are not short-term leases will be recognized on the balance sheet
- Lease classification will be assessed for any newly identified leases

# Lease population completeness and accuracy

- Demonstrating confidence that you have identified all leases to include on the balance sheet
  - Inquiry / surveys with operating and administrative departments to identify leases and service provider relationships where a lease may be included
  - Evaluation of current processes and controls associated with lease initiation, negotiation, and management
  - Analysis of expense data, vendor master data and procurement data to identify payments that may be related to a lease not previously identified
- Confirming the data used to calculate your Right Of Use (ROU) asset and lease liability is accurate
  - Addressing discrepancies between data in spreadsheets / accounting systems and contract documents
  - Reviewing extracted lease data to confirm accuracy



## Software and Process





# The role of lease accounting software

- All leases will be in a single database/system providing the ability to analyze your lease portfolio and leasing relationships
- GASB 87 involves complex calculations, which requires the selection of new software packages. These packages perform detailed and complex net present value calculations based on your lease portfolio.
- Configurations allow for streamlining of operations through workflows
- Accounting personnel can have more visibility into leasing data
- Systems provide the ability to standardize and improve controls regarding leasing activities in order to better manage risk

*Understand what the software does not do*

# Selecting a Lease Accounting Software

- Multiple software solutions available at reasonable price points
- Nearly all are cloud-based and integrate with many accounting systems
- Appropriate solution depends on your specific needs
  - Multi-currency
  - Multi-language
  - Full lease administration and workflow
  - Reporting
  - Inclusion of historical leases no longer active
  - Number of users
- Combine service, if needed, with software (separate agreements may be needed)

***Remember that GASB 87 is new***

# Selecting a lease accounting software

## Technical Requirements

- Nearly all are cloud-based
- Confirm the organization's IT/security policies when gathering requirements
- Consider possible integrations with general ledger, A/P, lease administration/billing systems

## Compliance

- Requirements for regulatory compliance with GASB 87:
  - Lease schedules, amortization tables, and journal entries
  - Lessee vs. lessor leases
  - Lease modifications
  - Reporting for disclosures

## Functional Requirements

- Appropriate solution depends on your specific needs
  - Full lease administration and workflow
  - Data structure for master leases
  - Internal reporting
  - Inclusion of historical leases no longer active

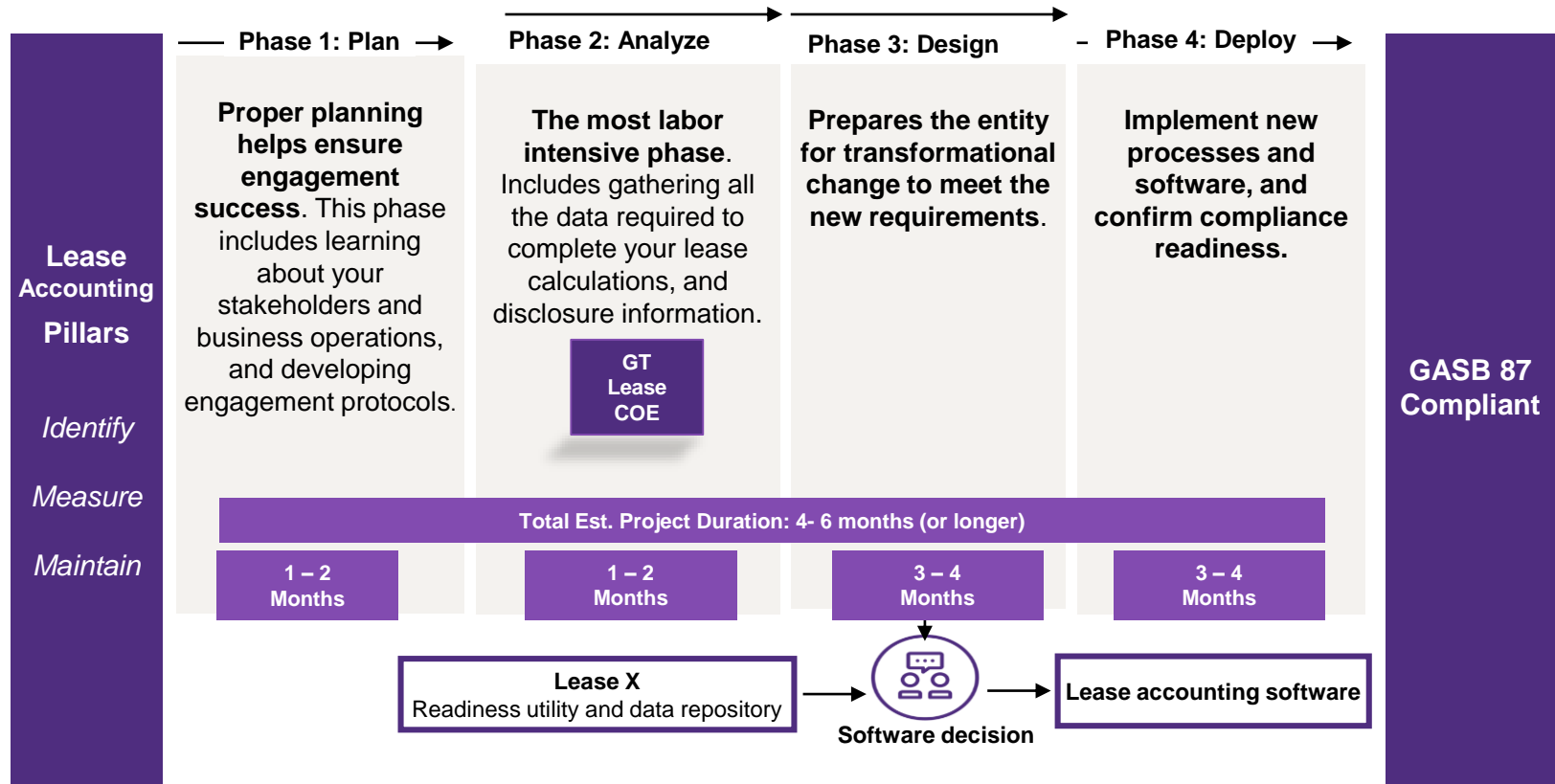
## Implementation Considerations



# Critical project focus planning areas

- 1 Software enables compliance, it does not make you compliant
- 2 Allow your team the time needed
- 3 Talk to your auditor, keep them informed
- 4 Select the right lease accounting software
- 5 Design and document implementation and ongoing compliance controls
- 6 Inform the enterprise, this impacts everyone

# Approach to compliance – example project



# Final thoughts on keys to success

1

Don't underestimate the effort. This is not an accounting policy exercise.

2

Take the opportunity to challenge prior leasing and purchasing behaviors and procedures.

3

Don't wait to start or ask for help.

4

Talk to your auditors and your bankers.

5

Don't underestimate the value of software. Don't overestimate its ability

# Additional questions



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**Thank you!**



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