Certified Public Accountants
Business & Financial Advisors

Lease Accounting – Ready or Not

August 2022

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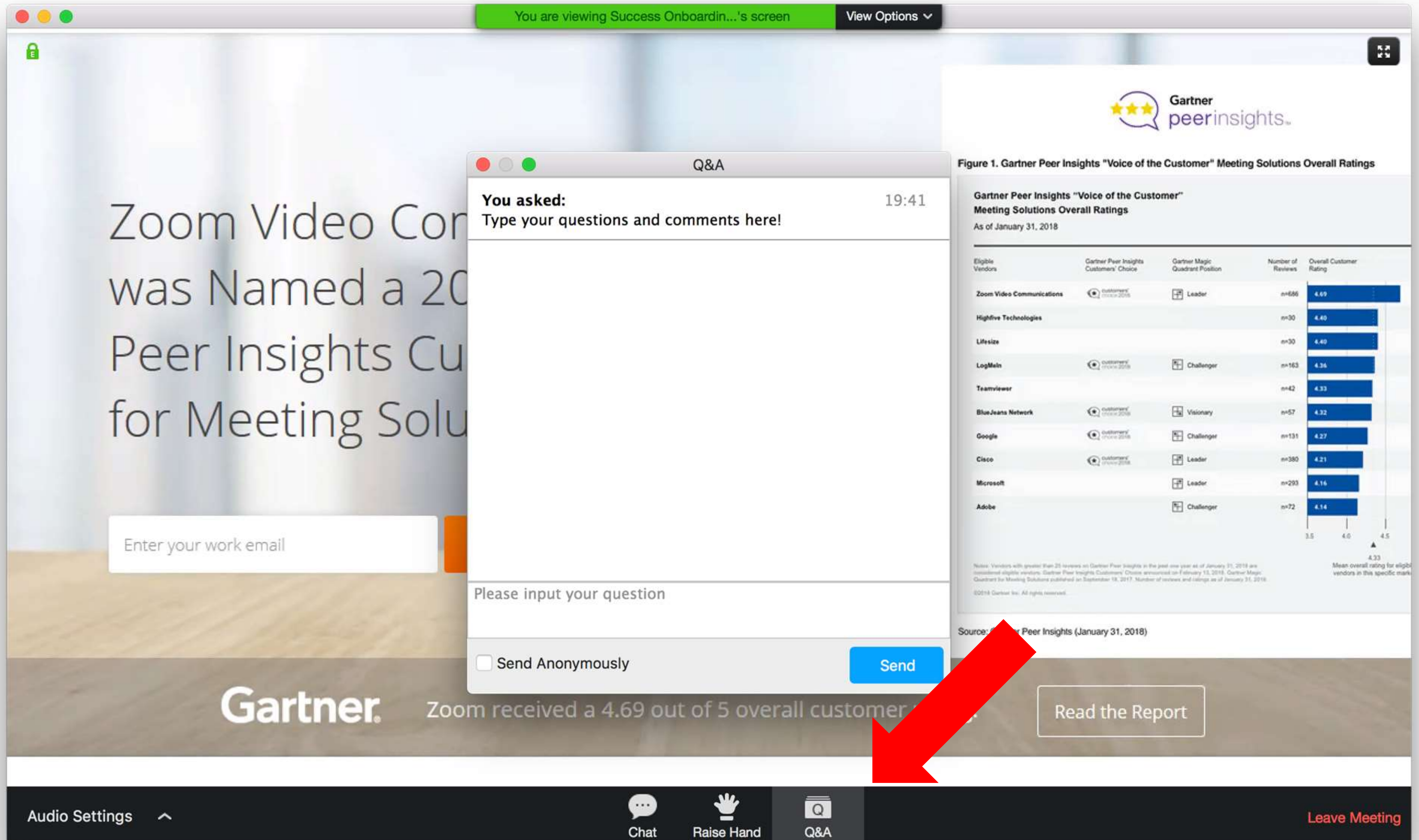

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Figure 1. Gartner Peer Insights "Voice of the Customer" Meeting Solutions Overall Ratings
Gartner Peer Insights "Voice of the Customer"
Meeting Solutions Overall Ratings
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Agenda

- Overview
- ASC 842 – Lessee
- ASC 842 – High level Lessor
- GASB 87 – Differences versus ASC 842
- Next Steps – What you should be doing now, Systems and Help Available

First Polling Question

How far along are you in implementing the new lease standard?

A. What new lease standard?
B. Thought about it, but we have plenty of time, right?
C. Have started the process but not done.
D. Implemented and all entries recorded!

Overview

- The new lease accounting standard is effective for private companies and governments this year.
  - ASC 842 for private companies and non-profits with years beginning after December 15, 2021 (calendar year 2022)
  - GASB 87 for governmental agencies with years beginning after June 15, 2021 (year ends 6/30/22)
- All leases will now be on your balance sheet
- Footnote disclosures are more in-depth
- Contracts not traditionally thought of as a lease – require lease accounting under ASC 842 (Embedded Leases)
- And more…
  - Changes to chart of accounts
  - Implications to debt covenants and financial metrics
  - Modification and reassessment guidance is more complex
  - Accounting requirements can exceed the capabilities of Excel, requiring new software
  - Impairment implications as assets evaluated are higher and can result in additional impairment charges

ASC 842

Application Options

- ASC 842 is applied on a modified retrospective approach with one of two methods
  - Restate comparable periods
  - Apply only to the period of adoption
    - In this case, disclosures are required under the “old way” for the prior years and the “new way” for the current year
    - Most companies DO use this method

Elections & Practical Expedients

- Elect to not reassess lease classification, whether it is a lease and initial direct costs
  - Most companies DO elect this expedient
  - This election does NOT grandfather in leases that were not appropriately assessed prior to ASC 842
- Discount Rate – Private companies can elect to use the risk-free rate instead of the incremental borrowing rate or rate implicit in the lease.
- Elect to use hindsight to determine lease term
  - Most companies DO NOT elect this as it entails reviewing ALL leases to determine the lease term at transition
- Elect to combine lease and non-lease components
  - Election is by class of asset (real estate, type of equipment)
  - Is used when it is difficult to separate the payment between what is for the identified asset and what is a variable or service cost
  - Most Companies for most class of assets – do NOT elect this as it results in larger B/S Impact

Embedded Leases

- Under old lease accounting guidance, service contracts that contained embedded leases were often treated the same as service contracts without an embedded lease. This is because there often was not a P&L impact difference AND none were recorded on the Balance Sheet.
- Now with all leases on the Balance Sheet, these embedded leases need to be identified and recorded.
- Any contract with an identifiable asset and the right to direct the use and obtain all economic benefits is a lease.
- Identifying, evaluating and documenting all contracts and lease implications will be one of the most time-consuming steps at transition.
- Examples: Internet with Modem, Uniform services, Billboards, GPS service.
- Note – Software licenses are specifically EXCLUDED from ASC 842.

Transition –Lessee/Finance Leases

- Capital Leases are now called Finance Leases
- Finance Lease Liabilities are still considered Debt
- Impact is minimal
  - Asset and Liabilities balances should remain the same
  - Continue to record depreciation and interest expense

Transition – Lessee/Operating Leases

- Biggest impact
- All will now be recorded on the balance sheet as "Operating Lease Assets" and "Operating Lease Liabilities"
  - Initial liability will be recorded as the present value of remaining lease payments (*fixed, not variable)*
  - Initial asset is the liability plus/minus the accrued straight-line rent balance at transition.
  - Use discount rate as of transition date
- Need amortization schedules to record monthly entries
  - Expense is recorded as Lease Cost and is similar to current straight line rent cost
  - Liability is reduced using the effective interest method
  - Asset is reduced by the amount of lease cost plus the liability change (i.e. plug)
- Operating lease liabilities are NOT considered debt

Variable Rent Example #1

- On 1/1/2021, the Company entered into 5 year lease for office space.
- Rents at lease inception were $1000/month with CPI increases each year. There is no minimum CPI increase.
- At 1/1/2022 the rent payment was $1100 reflecting the actual CPI increase that occurred at the beginning of year 2.
- The liability and asset would be valued using only the $1100 a month for all remaining months. Any future CPI increase is excluded from the calculation and will be treated as variable rent.

Variable Rent Example #2

- Same facts as before – except there is a minimum 10% CPI increase a year.
- The liability and asset would be valued using only the $1100 a month to start and assuming a 10% increase each year for the remaining term. The PV of payments is $60k.
- The minimum future CPI increase is included in the calculation. Anything over 10% is excluded from the calculation and will be treated as variable rent.

Second Polling Question

Which of the below could be an embedded lease?

A. Software License agreement
B. Purchase of computer with payment in full when received
C. Internet service including modem
D. Outsource labor agreement

Disclosures – Lessee

Balance Sheet

- Finance and Operating lease assets/liabilities must be presented separately from each other and other assets/liabilities either in the Balance Sheet or in the footnotes.
- Combining Finance and Operating leases on the face of the Balance Sheet is specifically PROHIBITED by ASC 842.

Cash Flow

- Finance lease interest will be in the operating section and principal payments in the financing section
- Operating lease cost will be in the operating section

P&L

- In essence no change. There are terminology changes only (rent expense now called lease cost – but still rolls up to the same place on a consolidated income statement)

Disclosures – Footnotes

- Qualitative - General Lease Information
  - Types of leases
  - Options available – those valued (included in the ROU asset) and those not valued
  - Variable payments
  - Discount rate – how determined
  - Assumptions on Lease vs Non-Lease costs
  - Other – Residual values, restrictions
- Quantitative disclosures
  - Finance lease cost interest and amortization, and what line of P&L included on
  - Operating lease cost , and what line of P&L included on
  - Short term and variable lease cost
  - Sublease income, disclosed on a gross basis, separate from the finance or operating lease expense
  - Weighted average lease term and discount rate
  - 5 year undiscounted cash payments (Finance vs Operating) and a reconciliation to the remaining liability
  - Commitments under leases that have not started and are not in the reported liability
  - Amount of reasonably certain renewals are included in the balance sheet
- Additional cash flow disclosures segregated between finance and operating leases
  - Cash paid and what section of CF Statement they are in
  - Supplemental noncash information on lease liabilities arising from obtaining right-of-use assets
- Transition information – elections made, method of application, impact of adoption, etc.

Disclosures – Example

In accounting policy section

Leases

We determine if an arrangement is or contains a lease at inception. We record ROU assets and lease obligations for our finance and operating leases, which are initially based on the discounted future minimum lease payments over the term of the lease. As the rate implicit in our leases is not easily determinable, we have elected to use the risk-free rate for the same period of time as the lease term.

Discount rate – how determined

Lease term is defined as the non-cancelable period of the lease plus any options to extend the lease when it is reasonably certain that it will be exercised. For leases with an initial term of 12 months or less, no ROU assets or lease obligations are recorded on the balance sheet and we recognize short-term lease expense for these leases on a straight-line basis over the lease term.

Certain of our lease agreements include rental payments based on a percentage of sales over specified levels and others include rental payments adjusted periodically for inflation. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants. For the majority of all classes of underlying assets, we have elected to separate lease from non-lease components. We have elected to combine lease and non-lease components for certain classes of equipment. We sublease excess space to third parties.

Discussion of Variable payments

Elected treatment of Lease vs non lease components

Information on Subleases – this would need to be more detailed if material.

Operating lease expense is recognized on a straight-line basis over the lease term and is included in cost of sales or general and administrative expense. Amortization expense for finance leases is recognized on a straight-line basis over the lease term and is included in cost of sales or general and administrative expense. Interest expense for finance leases is recognized using the effective interest method. Variable payments, short-term rentals and payments associated with non-lease components are expensed as incurred.

What lines of P&L costs are included

Disclosures – Example Continued

NOTE 5 – LEASING

We enter into lease agreements for certain office locations and equipment as well as service contracts that are considered leases.

Our leases have remaining lease terms, including renewals reasonably certain to be exercised, of less than one year to approximately 20 years. Most of our leases include one or more options to extend the lease, for periods ranging from one year to 10 years or more.

The components of operating and finance lease cost for the year ended December 31, 2022 is as follows:

		(Dollars in thousands)
Operating lease cost	$	35,500
Finance lease/financing obligations cost:		
Amortization of assets		22,100
Interest on liabilities		19,500
Short term and variable lease cost		1,450
Sublease income		(450)
Total lease cost	$	78,100

As reported under the previous accounting standard, net rental expense and lease amortization for the year ended December 31, 2021 is comprised of the following:

		(Dollars in thousands)
Gross rental expense	$	39,000
Sublease rental income	$	(500)
Rental expense, net	$	38,500
Amortization of finance (capital) lease assets	$	18,000

Supplemental cash flow information related to leases for the year ended December 31, 2022 is as follows:

		(Dollars in thousands)
Cash paid for amounts included in measurement of lease obligations:		
Operating cash flows from operating leases	$	36,800
Operating cash flows from finance leases/financing obligations		20,100
Financing cash flows from finance leases/financing obligations		27,200
Non-cash lease disclosures:		
Operating lease assets obtained in exchange for operating lease liabilities	$	125,000
Finance lease assets obtained in exchange for finance lease obligation		75,100

Types of Leases & Options

Finance & Operating Costs

Prior yr disclosures under ASC 840 (year of transition only)

Cash flow disclosures

Disclosures – Example Continued

The following table summarizes weighted average remaining lease term and discount rates:

	Operating Leases	Finance Leases and Financing Obligations
Weighted average remaining lease term, in years	9.4	9.9
Weighted average discount rate	3.51 %	8.73 %

Weighted average rate/term

Future maturities of our lease liabilities, excluding subleases, as of December 31, 2022 are as follows:

	Operating Leases	Finance Leases and Financing Obligations
	(Dollars in thousands)	
2021	$ 36,500	$ 55,500
2022	35,300	54,250
2023	30,250	53,500
2024	25,800	48,800
2025	21,500	41,100
Thereafter	85,250	210,900
Total undiscounted lease obligations	$ 234,600	$ 464,050
Less: imputed interest	(35,500)	(120,750)
Net lease obligation	$ 199,100	$ 343,300

Undiscounted future payments

Total lease payments include $50.5 million related to options to extend operating leases that are reasonably certain of being exercised, include $95.5 million related to options to extend finance leases that are reasonably certain of being exercised and exclude $4.5 million of legally binding lease payments for leases signed but not yet commenced as of December 31, 2022

Reasonably certain renewals included as well as commitment on leases not started

Disclosures – Example Continued

Recent accounting pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued new accounting guidance related to leases. This guidance establishes a right of use ("ROU") model that requires a lessee to record a ROU asset and lease liability on the balance sheet for all leases with terms longer than twelve months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition. The guidance is effective private companies for financial statements issued for fiscal years beginning after December 15, 2021 and interim periods within those fiscal years. We adopted this standard as of January 1, 2022 using the modified retrospective approach and elected the optional transition relief amendment that allows for a cumulative-effect adjustment in the period of adoption and did not restate prior periods. In addition, we elected the package of practical expedients permitted under the transition guidance, which among other things, allowed us to carry forward the historical lease classification and provided relief from reviewing existing contracts to determine if they contain leases. We did not elect to use hindsight in determining the lease term.

Summary of transition elections

The adoption of this guidance resulted in a $150.5 million increase to total assets and a $155.8 million increase to total liabilities as of January 1, 2022. The Company recognized $150.2 million of operating lease ROU assets, $155.5 million of operating lease obligations, and a $0.3 million finance lease asset and liability related to embedded leases. The difference between the operating lease ROU assets and operating lease liabilities primarily represents the existing deferred rent accruals of $5.3 million resulting from historical operating lease accounting. These were reclassified as operating ROU assets upon adoption. As a result of using the modified retrospective approach, the adoption resulted in a cumulative-effect adjustment to retained earnings, net of tax, of approximately $0.1 million. The adoption of this guidance did not have a material impact to our Consolidated Statements of Comprehensive Income or Consolidated Statements of Cash Flows. At adoption, we reclassified prior year capital lease and financing obligation assets from the Net property, plant and equipment line to the Finance lease and financing obligation assets, net line of our Consolidated Balance Sheet. See Note 5 for additional lease disclosures.

Impact of adoption

Retained earnings impact for any cumulative effect

Disclosures – If you don't use a separate line on the B/S

Leases (millions)	Classification		December 31, 2023		December 31, 2022
Assets					
Operating	Operating Lease Assets	$	2,236	$	1,965
Finance	Buildings and Improvements, net of Accumulated Depreciation [a]		1,180		872
Total leased assets		$	3,416	$	2,837
Liabilities					
Current					
Operating	Accrued and Other Current Liabilities	$	200	$	166
Finance	Current Portion of Long-term Debt and Other Borrowings		67		53
Noncurrent					
Operating	Noncurrent Operating Lease Liabilities		2,275		2,004
Finance	Long-term Debt and Other Borrowings		1,303		968
Total lease liabilities		$	3,845	$	3,191

Third Polling Question

Which of the below is not an option for Balance Sheet disclosure?

A. Include Operating Lease Assets with Other Non-Current Assets
B. Include Finance Lease Assets with PP&E
C. Include Finance Lease Assets and Operating Lease Assets on separate lines on the Balance Sheet
D. Include one line on the Balance Sheet that says Leased Assets

Ongoing – New Leases

- Any new lease needs to be assessed for type of lease and asset/liability recorded as applicable
  - Finance Lease – If meet one of 5 criteria
    - The lease term (with reasonably certain renewals) is more than 75% of remaining economic life
    - The PV of payments over the term (with reasonably certain renewals) is more than 90% of the asset's fair value
    - There is a purchase option that is reasonably certain to be exercised
    - Ownership transfers at the end of the lease
    - The asset is of such a specialized basis that it can not be leased to anyone else
  - Short term if ORIGINAL lease term plus reasonably certain renewals are LESS THAN 12 months
  - Operating lease if none of the above were met
  - Note that ground/land leases MUST now be tested. They are no longer assumed to be operating.
- New lease liabilities are recorded at the PV of payments. New lease assets are the liability less lease incentives plus initial direct costs.

Ongoing – Remeasurements

- Under ASC 840 – it was a “record it and leave it” mentality. No adjustments until the next renewal was signed.
- Under ASC 842 – leases are CONTINUALLY reassessed
- What is a “Reasonably Certain Option” can change throughout the term
- Triggering Events include
  - sign extension or termination
  - lease additional space
  - change timing of payments
  - invest in significant leasehold improvements that make the next renewal term reasonably certain
  - Declining financial performance – can make reasonably certain options that were previously valued NOT reasonably certain

Complexities – Ask for help as these make ASC 842 more difficult…

- Built to Suit (or any lease when building was constructed at lease inception)
- Sale-Leaseback transactions
- Leases with termination options
- Non-renewal penalties
- Lessor Incentives/Loans between lessor and lessee
- Leases acquired as part of a business combination
- Reassessment of lease mid term and classification changes from finance to operating or vice versa
- An ROU asset is impaired
- Leases acquired as part of a business combination

Examples

Operating Lease Example

- Lease for office space started 1/1/2022 for 5 years
- Payments were:
  - 1/1/22 to 12/31/22 $2,500 per month
  - 1/1/23 to 12/31/26 $5,000 per month
- Discount rate at lease inception is 2.5%
- The fair value of the asset was $350,000

Sample Test – Operating

RESULTS

Your Building - 1234 OP TEST RD, Rochester, New York lease is an **Operating Lease**. Here are the results of the test:

HERE ARE THE RESULTS OF THE TEST:	
1st Test: Ownership Transfer at Lease End No	Title to the asset does not transfer at lease end.
2nd Test: Bargain Purchase option No	There is no purchase option.
3rd Test: Lease Term No	The lease term is 60 Months while the Useful life is 468 Months. The lease term is less than 351 Months (75% of the remaining useful life).
4th Test: Fair Value No	The Present Value of the minimum lease payments is 252,661.58 while the fair value of the asset is 350,000.00. The present value of the minimum lease payments is less than 315,000.00 (90% of the fair value).
5th Test: Specialized Use No	The asset is not of a specialized nature and the landlord has other uses for the asset after the lease term.

Operating Lease Example – Amortization

Year	Month	Cash	"interest" portion of payment	Liability Reduction	Total Liability	ST Lease Liab.	LT Lease Liab.	Asset reduction	Net Asset Balance	Lease Expense
Initial values at lease inception					**252,662**				**252,662**	
2022	January	2,500	514	1,986	250,676	26,576	224,100	3,986	248,676	4,500
2022	February	2,500	476	2,024	248,652	29,131	219,520	4,024	244,652	4,500
2022	March	2,500	523	1,977	246,675	31,698	214,976	3,977	240,675	4,500
2022	April	2,500	502	1,998	244,677	34,268	210,408	3,998	236,677	4,500
2022	May	2,500	514	1,986	242,691	36,846	205,845	3,986	232,691	4,500
2022	June	2,500	494	2,006	240,685	39,427	201,258	4,006	228,685	4,500
2022	July	2,500	506	1,994	238,691	42,016	196,675	3,994	224,691	4,500
2022	August	2,500	502	1,998	236,692	44,610	192,082	3,998	220,692	4,500
2022	September	2,500	481	2,019	234,674	47,207	187,467	4,019	216,674	4,500
2022	October	2,500	493	2,007	232,667	49,812	182,855	4,007	212,667	4,500
2022	November	2,500	473	2,027	230,640	52,420	178,221	4,027	208,640	4,500
2022	December	2,500	485	2,015	228,625	55,036	173,589	4,015	204,625	4,500
2023	January	5,000	475	4,525	224,100	55,153	168,947	4,025	200,600	4,500
2023	February	5,000	421	4,579	219,520	55,247	164,273	4,079	196,520	4,500
2023	March	5,000	456	4,544	214,976	55,365	159,612	4,044	192,476	4,500

Reduction of asset is the lease cost less the "interest" portion of payment – so for February 2022 it is $4,500 less $476 of $4,024

Finance Lease Example

- Lease started 1/1/2022 for 5 years
- Payments were:
  - 1/1/22 to 12/31/22 $2,500 per month
  - 1/1/23 to 12/31/26 $5,000 per month
- Discount rate at lease inception is 2.5%
- The fair value of the asset was $150,000

Sample Test – Finance

RESULTS

Your Building - 1234 CAP TEST RD, Rochester, New York lease is a Finance Lease because of the 4th test. Here are the results of the test:

HERE ARE THE RESULTS OF THE TEST:	
1st Test: Ownership Transfer at Lease End No	Title to the asset does not transfer at lease end.
2nd Test: Bargain Purchase option No	There is no purchase option.
3rd Test: Lease Term No	The lease term is 60 Months while the Useful life is 468 Months. The lease term is less than 351 Months (75% of the remaining useful life).
4th Test: Fair Value Yes	The Present Value of the minimum lease payments is $225,662 while the fair value of the asset is 150,000.00. The present value of the minimum lease payments is greater than or equal to 135,000.00 (90% of the fair value).
5th Test: Specialized Use No	The asset is not of a specialized nature and the landlord has other uses for the asset after the lease term.

Finance Lease Example – Amortization

Year	Month	Cash	Interest Expense	Liability Reduction	Total Liability	ST Capital Lease Liab.	LT Capital Lease Liab.	Amortization Expense	Net Asset Balance	Accumulated Amortization
Initial values at lease inception					**252,662**				**252,662**	
2022	January	2,500	514	1,986	250,676	26,576	224,100	4,211	248,451	4,211
2022	February	2,500	476	2,024	248,652	29,131	219,520	4,211	244,240	8,422
2022	March	2,500	523	1,977	246,675	31,698	214,976	4,211	240,029	12,633
2022	April	2,500	502	1,998	244,677	34,268	210,408	4,211	235,817	16,844
2022	May	2,500	514	1,986	242,691	36,846	205,845	4,211	231,606	21,055
2022	June	2,500	494	2,006	240,685	39,427	201,258	4,211	227,395	25,266
2022	July	2,500	506	1,994	238,691	42,016	196,675	4,211	223,184	29,477
2022	August	2,500	502	1,998	236,692	44,610	192,082	4,211	218,973	33,688
2022	September	2,500	481	2,019	234,674	47,207	187,467	4,211	214,762	37,899
2022	October	2,500	493	2,007	232,667	49,812	182,855	4,211	210,551	42,110
2022	November	2,500	473	2,027	230,640	52,420	178,221	4,211	206,340	46,321
2022	December	2,500	485	2,015	228,625	55,036	173,589	4,211	202,129	50,532
2023	January	5,000	475	4,525	224,100	55,153	168,947	4,211	197,918	54,743
2023	February	5,000	421	4,579	219,520	55,247	164,273	4,211	193,707	58,954
2023	March	5,000	456	4,544	214,976	55,365	159,612	4,211	189,496	63,165

Fourth Polling Question

Which of the below would indicate the lease is a finance lease?

A. Present value of payments is less than 90% of fair value
B. Asset can be used by other industries
C. Lease term is 90% of the remaining economic life
D. Ownership does not transfer at the end of the lease

Lessor Accounting

Lessor Accounting

- The practical expedients discussed above are applicable to Lessors as well
- Sales Type or Direct Finance Leases – Meet same 5 criteria Lessee has for Finance Lease
  - Classification between Sales Type and Direct Finance lease is dependent on lessee having control of the asset (versus under ASC 840 depending on profit). This may increase the number of sales type leases.
  - Need to consider collectability of payments as well
  - Lessor removes the asset and records a lease investment instead
  - If there will be value of the asset at the end of the lease, under Sales Type Lessor will also record a residual value (PV of the value at end of lease)
  - Sales Type – profit is recorded at lease inception – P&L impact during the term is interest income and accretion on the residual asset
  - Direct Finance – Record interest income and profit throughout the lease term
- Operating Leases
  - Assets remain on the lessor books
  - No additional assets/liabilities are recorded.
  - Revenue is recorded on straight line basis (difference between cash collected and straight line goes to unbilled revenue)
- Definition of direct costs is narrower – so some costs deferred prior to 842 must now be expensed (legal fees, evaluation of lessee credit, general overheads)

Lessor Disclosures

- ASC 842 increased disclosures for Lessors as well
- Qualitative disclosures are similar to Lessee but also include:
  - Discussion of how lessor manages residual asset risk
  - Significant accounting judgments and estimates
- Quantitative disclosures
  - 5 year maturity analysis – separating Sales Type/Direct Finance and Operating
  - Information on unguaranteed residual asset, deferred sales profit and lease receivable
  - Profit, interest income and variable lease income recognized must also be disclosed

GASB 87

Comparison to ASC 842

- Much of GASB 87 is consistent with ASC 842
  - Definition of the lease term and payments
  - Calculation of lease liability and asset
  - Most of disclosures are similar
- But there are differences
  - There is only one class of lease for Lessees (Finance). Expense is interest expense and asset amortization.
  - Leases that transfer ownership to the Lessee should be recorded as a financed purchase (not lease).
  - Discount rate is the rate implicit in the lease or the lessee's incremental borrowing rate. No practical expedient to use risk free rate
  - GASB 87 requires a FULL Retrospective adoption
  - GASB 87 does not allow the combination of lease and non-lease components
  - GASB 87 requires disclosure of future payments for the 1st 5 years and in 5 year increments thereafter
  - GASB 87 requires disclosure of residual value guarantees and termination penalties
  - Embedded leases exist even if the use of the asset is interrupted (say 2 days a week)
  - Lessors do NOT remove the asset under lease. They record a lease receivable. Income is interest income and inflow of resources.

Systems, Next Steps, Lessons Learned

System Options

- Use Excel to create amortization schedules
  - Ok if less than 5 leases; otherwise, entries and disclosures become inefficient
- Purchase a software package
  - Many other offerings out there
  - Most charge per lease
  - Expect 90-180 day implementation period
  - Ask for recommendations
- Outsource Accounting
  - Insero can do the accounting for you utilizing our software license

Next Steps

- Start the process now to avoid delays and issues at audit.
  - Create an inventory of all "leases"
    - Start with leases already recorded on the balance sheet or included in prior year footnote disclosures
    - Review recurring payments and review all current contracts to identify embedded leases
  - Document the review payments and contracts and the determination of lease vs non lease
  - Calculate the initial Day 1 impact as well as impact to interim periods since transition date
  - Document implementation memo – Policies, elections, process to identify leases, key assumptions
  - Draft financial statement disclosures
- Determine how you will track leases and calculate financial entries
  - Chose and implement software package
- Ask for help! Use outside sources to assist or lead the implementation.

How Insero can help?

- Help create an inventory of leases
  - Review documents and payments and make determination of lease vs non-lease
  - Do classification tests and create amortization schedules
  - Summarize current leases
  - Determine Day 1 impact as well as any catch-up entries needed
- Document your policies and implementation process
  - Provide guidance on transition options and document elections
  - Review current policies and recommend changes
  - Document on going controls and procedures surrounding leases
- Draft your new disclosures
- All of the above need to be done for your year end audit – so let us help you get it done now!
- Reach out to Ann at Ann.Montgomery@Inserocpa.com

Lessons Learned

- Getting a list of all contracts – takes patience and time. Use a checklist, keep copies and document everything so you don't have to go back again.
- This impacts more than leases. It could change fixed asset depreciation rules or impact decisions on buy versus lease. You need senior management input in determining whether renewals or termination agreements are "reasonably certain".
- The "reasonably certain" phrase really can impact the terms you value.
- Give thought to your chart of accounts.
- Expect everything to take twice as long as you thought.
- Get your auditors involved early. If you are done now – ask them to review it now.
- Software – ask for access to a sandbox version of the software before you commit
- Ask for Help! The guidance is not clear on everything. Ask others how they interpret it to avoid the rework.

Questions?