RSM & VISUAL LEASE

Your Lease Accounting Solution for GASB 87 Compliance

February 12, 2020
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Today’s Speakers

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Learning Objectives

• Explain why lease management is so important
• Communicate the lessons learned from ASC 842 and IFRS 16 implementations
• Detail tips for prioritizing system requirements and selecting the proper solution for your business
• Describe the benefits of automating lease accounting
• Articulate the steps to prepare for adopting technology to handle the new standard
• Technology functionality differences between GASB 87 and 842 or IFRS
• Discuss why it is important to work with a partner while implementing GASB 87
GASB STATEMENT NO. 87
GASB 87 at a glance

• In June 2017, GASB issued Statement No. 87, Leases
  - Changes required will affect nearly all governmental entities and related GASB reporting organizations who operate as lessees, lessors or both
  - GASB 87 will require a significant shift in how organizations account for leases for fiscal years beginning after Dec. 15, 2019

• Organizations will likely require system, administrative and organizational process enhancements to sustain compliance with the new standard

• On Aug. 15, 2019, the GASB published its “Leases Implementation Guidance.” The guide provides clarification and examples to assist organizations adopt the new standard

• It is important to be aware of key accounting considerations with GASB 87 and the implementation guide, and the potential impacts for your organization
Key considerations and impact

- **Fundamental changes in accounting** — Requires the recording of all leases for all governmental and related GASB reporting organizations that have a maximum possible lease term in excess of one year.

- **Effective date** — Annual periods beginning after Dec. 15, 2019, with retroactive restatement of prior year financial statements presented.

- **Disclosures** — Significant incremental and enhanced disclosures will be required, which may require additional information that is not currently accumulated or tracked.

- **Adoption** — Changes adopted should be applied retroactively by restating financial statements, if practicable, for all prior periods presented.
Key considerations and impact (cont.)

- **Other financial implications** — Financial metrics, key performance indicators and capital structure impacts (e.g., return on assets, debt and liquidity ratios, and debt covenants) may need to be considered.

- **Lease system** — Organizations with a significant number of leases may want to look to technology to support the new accounting rules.

- **Other key impacts** — Changes in definition of a lease, evaluation of lease term, determination of lease classification, and separation of lease and non-lease components will also have to be addressed.
GASB 87 Timeline

• Issued – June 2017
• Effective - Fiscal periods beginning after December 15, 2019
  - Retroactive implementation
  - No deferral!
• Implementation Guide No. 2019-3, Leases
• Implementation Guide No. 2020-1
  - Exposure draft; comment period ends January 31, 2020;
  - Estimated final release 2nd QRT, 2020
THE NEED FOR A TECHNOLOGY SOLUTION
GASB 87 implementation phases – selecting a technology solution

RSM will work with you to set up your project management office and strategy; develop strategy for data collection and abstraction; implement your selected technology; develop accounting, business process and controls; assess tax needs; and provide training on the standard, technology and new controls.

- **Strategy and planning**
  - Develop a project management plan to implement the new standard

- **Data collection**
  - Find, prepare and centralize lease documents, abstract lease documents and perform validation procedures

- **Technology solution**
  - Implement a technology solution to help comply with the new standard and manage lease portfolio

- **Accounting and financial reporting**
  - Prepare calculations, adjustments, disclosures required with transition to the new standard; preparation of memos such as policies, transition memo etc.

- **Business processes and controls**
  - Develop new or update current business processes and controls for the new requirements

- **Training**
  - Train various stakeholders across the company on the new standard, technology solution and new controls
Need for a Technology Solution

A technology solution can help centralize all leases onto a single platform, perform calculations, assist with lease administration and provide necessary information for reporting:

- **Calculate future lease liability** based on net present value (NPV) of future payments based on interest rates which could differ by contract. Systems will store appropriate data and calculate the liability.

- **Calculate the right of use (ROU) asset** with adjustments, which can vary based on lease classification.

- **Separately account for lease & non-lease components** for accounting purposes, but make payments and record expenses in aggregate or as appropriate.

- **Track terms including renewals, options, expirations, etc.**; terms can be stored within the system and notifications can be generated.

- **More comprehensive disclosure reporting** and systems can help with the quantitative disclosures – readily available reporting.

- Lease software can also be used to **centralize and store lease information**, process payments and assist in establishing controls over lease procurement.

- **Generate journal entries**, including transition, ongoing, and remeasurement entries (e.g. modifications, terminations, impairments).

- **Report in parallel** under ASC 842, IFRS 16 and GASB 87.
LEASE MANAGEMENT

Why is Lease Management Important?
 Lease Management

Managing company leases for legal, accounting and operational purposes.

Lease Administration + Lease Accounting
Ongoing management and enforcement of lease documents.
Why is Lease Management Important?

Benefits lease accounting in the following ways:

- Simplifies complex, time-consuming efforts
- Increases control of lease data to ensure accurate lease financials
- Make better-informed decisions regarding leases
- Automate lease accounting processes within a centralized location

Legal

- Keep track of lease critical dates and obligations

Financial

- Meet accounting compliance standards (GASB 87)

Operational

- Improve overall performance when dealing with leased asset portfolios
Post Compliance (Day 2)

- Shift thinking
- A continual methodology
- Not just a one time compliance
- Activities, Changes, and Overall Business Needs
- Direct client solutions, managed services provided on behalf, and various flavors in-between
GASB 87

Ensure GASB Compliance using Visual Lease’s Lease Accounting Software
New guidance around lease accounting by the Governmental Accounting Standards Board (GASB)

Changes the way you account for leases, especially balance sheets and income statements.

Requires all leases that meet the criteria to be accounted for as finance leases.

In some instances, entities will have to comply with both ASC 842 and GASB 87.
What Does GASB 87 Mean For You?

Balance Sheet Changes

• All leases are now considered finance leases, unless they meet certain exceptions (i.e. short-term leases).
• Leased assets and liabilities are presented separately.
• Key financial metrics are influenced through new assets and liabilities.
GASB 87 impacts governmental entities commonly within the following industries:

- State, local or municipal governments
- Hospitals / Healthcare (state/locally owned)
- Housing authorities
- Commercial entities (state/local funded)
- Higher education (publicly funded)
- Public utilities
- Native American Tribes
GASB 87: Timeline

June 28, 2017
GASB 87 Issued

Today
Preparation and Implementation

January 1, 2020
Reporting periods after December 15, 2019

Preparing for GASB: Best Practices

✓ Plan ahead of the deadline
✓ Review and organize leases, contracts
✓ Implement lease accounting software
✓ Develop your lease management process
GASB 87 DEMO

Preview of the Visual Lease GASB 87 Platform
HOW TO APPLY

A Look at How to Apply New Guidance
Lease Lifecycle

Lease Events

Lease Commencement → Lease Operation → Lease Amendment(s) & Options

Accounting Events

Initial Classification & Measurement → Transition to the New Standard → Reassessment(s)
Other Lease Costs

Variable Components – Are separated from lease payments

Initial Direct Costs - Include initial direct costs in the initial measurement of the right-of-use asset. Examples include fees paid to other tenants, allocation of time or legal fees.

End of Lease Obligations – Must be included and discounted
Reassessment Triggers

Reassess the lease term only upon the occurrence of a significant event or a material change in circumstances that are within your control.

- Modification of lease term, size or payment obligations
  - Could occur through extension or expansion
  - Exercising a lease option

- Lease contractions
  - Through abandonment or termination (partial or full)
  - Abandoned space is often sublet out
  - Subleasing out space causes abandonment of primary asset

- Impairment of a lease (partial or full)

- Changes in variables (CPI, borrowing rates)
# Remeasurement Types

<table>
<thead>
<tr>
<th>Remeasurement Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modification</td>
<td>Modification of lease term (i.e. change in payment terms, extension of lease term, etc.)</td>
</tr>
<tr>
<td>Full Impairment</td>
<td>Due to some event, the asset no longer has any value, but client still has obligation under the lease</td>
</tr>
<tr>
<td>Partial Impairment</td>
<td>Due to some event, the asset still has a value, but value has been reduced by some amount or percentage</td>
</tr>
<tr>
<td>Full Termination</td>
<td>Tenant has ended the lease contract and no longer has the lease liability or asset on their books</td>
</tr>
<tr>
<td>Partial Termination</td>
<td>Tenant reduces the use of some portion of the asset (ex. reduces total square footage of lease by terminating some portion) which reduces the amount of liability or asset on their books</td>
</tr>
<tr>
<td>Full Abandonment</td>
<td>Tenant decides to no longer use the entire asset as of some specific date; the lease contract is still in place and the asset remains as a liability on their financials.</td>
</tr>
<tr>
<td>Partial Abandonment</td>
<td>Tenant decides to no longer use a portion of the asset as of some specific date; the asset remains as a liability on their financials.</td>
</tr>
</tbody>
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Disclosures

Nature of leases (and subleases)

The basis and terms and conditions on which variable lease payments are determined

The existence and terms and conditions of options to extend or terminate the lease

The existence and terms and conditions of options for a lessee to purchase the underlying asset.

Leases that have not yet commenced but that create significant rights and obligations for the lessee.

Significant assumptions and judgments made

Terms of any sale and leaseback transactions
LESSONS LEARNED

From ASC 842 and IFRS 16 Implementations
Key Tips for Success

- Take a Lease Inventory
- Determine Crucial Lease Data
- Build a Core Lease Accounting Team
- Be Educated
- Build a Timeline
- Ensure Sharp Communication
- Get Started ASAP
Take a Lease Inventory

- Gather and review all leases
- Identify tools holding lease information
- Reconcile lists across business
- Don’t forget about embedded leases
  - Do you have any service contracts that give you control of an asset?
Determine Crucial Lease Data

- Work together with different departments
  - Identify data points for compliance and future operational needs

- Assess any overlapping data

- Determine how data points affect other ones

- Test data integrity
  - Fix errors, ensure accurate lease data
Build a Core Lease Accounting Team

- Identify individuals managing leased assets
- Define roles & responsibilities for the project
- Assign a Project Manager for implementation
- Assign various Power Users for platform
- Determine if you need an Accounting Advisor
Be Educated

- Become familiar with guidance
- Determine how guidance will impact your lease portfolio
- Build test scenarios
- Ask Accounting Advisor for help
- Take Platform Trainings as soon as possible
Build a Timeline

- Evaluate potential roadblocks
- Determine internal meetings needed outside of Platform Implementation meetings
- Estimate time for Project segments
- Set a deadline ahead of final deadline
Sharpen Communication

- Actively participate on Implementation calls
- Ask questions
- Be honest about how you feel
- Provide feedback to strengthen configuration
- Meet internally to make decisions
- Involve Accounting Advisors and Partners in calls
It’s Not Too Soon To Start

- Have time on your side
- Concurrently collect lease data collection, continue to validate data as you go, etc.
- Connect with peers about the impact of missteps and learn from the public companies that have gone before you
- Do it right: A failed implementation is ultimately more expensive and incredibly disruptive
After You Implement Your Platform, Now What?

Ongoing Data Maintenance
- Keep your data integrity strong to ensure accuracy

Maintain Accounting, Operational, and Legal Processes
- Manage ongoing user roles & responsibilities
- Set regular cadence to avoid panic at end of reporting period

Leverage Product Support, Training and Resources
- Get help when you need it
- Influence future product and services
- Engage in valuable industry activities

Stay Current
- Take advantage of new functionality to meet additional needs
- Follow news on guidance changes
MOVING FORWARD

RSM 3 Paths to Compliance
RSM 3 Paths to Compliance

1. Lease Accounting Services (LAS)
   - RSM to manage lease accounting needs

2. RSM Compliance Toolkit
   - Compliance through pre-configured database
   - Optimization when ready

3. Implementation
   - System Activation
   - RSM Advisory Services
   - RSM Full Services
How To Contact Us

For more information, please contact:

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