



Anticipating the New Lease Standard Under GASB

New Guidance on Lease Accounting

In June 2017, the GASB released its much anticipated lease standard, GASB Statement No. 87. This lease standard may significantly impact your entity if you have contracts that are leases or contain leases that support your entity operations.

Hanging in the Balance

Historically, operating leases have been “off the balance sheet,” but the new standard will require all leases with lease terms exceeding one year to be recognized as both a “right-of-use” asset and a lease liability on the balance sheet, with certain exceptions. In addition, lessors will now recognize a lease receivable and deferred inflow.

The GASB lease standard offers a single model approach for leases under the premise that leases are a financing arrangement of a right to use an underlying asset. The “right-of-use” asset is to be amortized and interest expense is to be recognized on the lease liability. For lessors, the deferred inflow is to be amortized and interest revenue is to be recognized on the lease receivable.

Impact to Your Entity

With more leases on the balance sheet, consider the following:

- ▶ **Compliance** - Changes to financial statement amounts may impact compliance with debt agreements.
- ▶ **Operations** - Policies and procedures will need to be updated to ensure new and existing leases are recorded correctly.
- ▶ **Resources** - Additional resources may be needed to implement the new policies and procedures, evaluate leases, update financial statement disclosures, and maintain the calculations going forward.

How We Can Help You

Cherry Bekaert understands the impact of the new lease standard on your entity could be significant. We know this is not a one-time implementation issue; therefore, we have developed the following service offerings to assist with compliance and a long-term business solution. We offer:

- ▶ General diagnostic discussion with management.
- ▶ Consultation and interpretive guidance.
- ▶ Checklists and other tools for GASB 87 implementation.
- ▶ Assistance with tool identification and vendor evaluation.
- ▶ Assistance to management with identification of unknown or embedded leases.
- ▶ Assistance in identifying additional disclosures.
- ▶ Assistance in identifying additional reports and data needed.
- ▶ Review of your management's GASB 87 GAAP policies and practices.
- ▶ Compare and contrast reviews for the ability of your entities current processes and controls and IT systems to meet the requirements of GASB 87.
- ▶ Analysis of potential impact on debt covenants.

We can also assist with implementation and IT system changes, if necessary, through Cherry Bekaert's IT system partners.

Next Steps

While the lease standard is not effective until 2020 for calendar year ends and 2021 for fiscal year ends, now is a good time to start preparing by:

- ▶ **Performing an inventory of all leases** - Begin gathering all lease-related documents to identify the key considerations for implementation of the new standard.
- ▶ **Evaluating the impact** - Consider the impact on financial statements and compliance with agreements.
- ▶ Determine the means of calculating financial statement impacts.

Feeling Overwhelmed?

Cherry Bekaert's dedicated team of professionals can help you navigate these changes and assist with your approach to implementing the new standard.

Now is the time to plan and adequately prepare for changes that will impact your entity.

Let us be your guide forward



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