



SMITH SCHAFFER

LEASE - IMPLEMENTATION

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ABOUT US



Smith Schafer is a client-first public accounting and business consulting firm offering a thoughtful advisory relationship to business and individual clients. Our deep bench of local, experienced professionals in Minneapolis, Rochester, and Red Wing result in high-value results and loyal relationships.

ADAM J. KELLERHALS, CPA



- **PRINCIPAL**
- **Expertise**
 - Audit & Attest Services
 - Financial Statement Presentation
 - Business Consultation
- **Background**
 - Bachelor of Arts degree in Accounting and Management from Luther College.
 - Joined the Twin Cities practice in June 2007.
- **Member**
 - AICPA & MNCPA
 - Nonprofit Financial Group - Twin Cities
 - Minnesota Council of Nonprofits
 - Minnesota Construction Association

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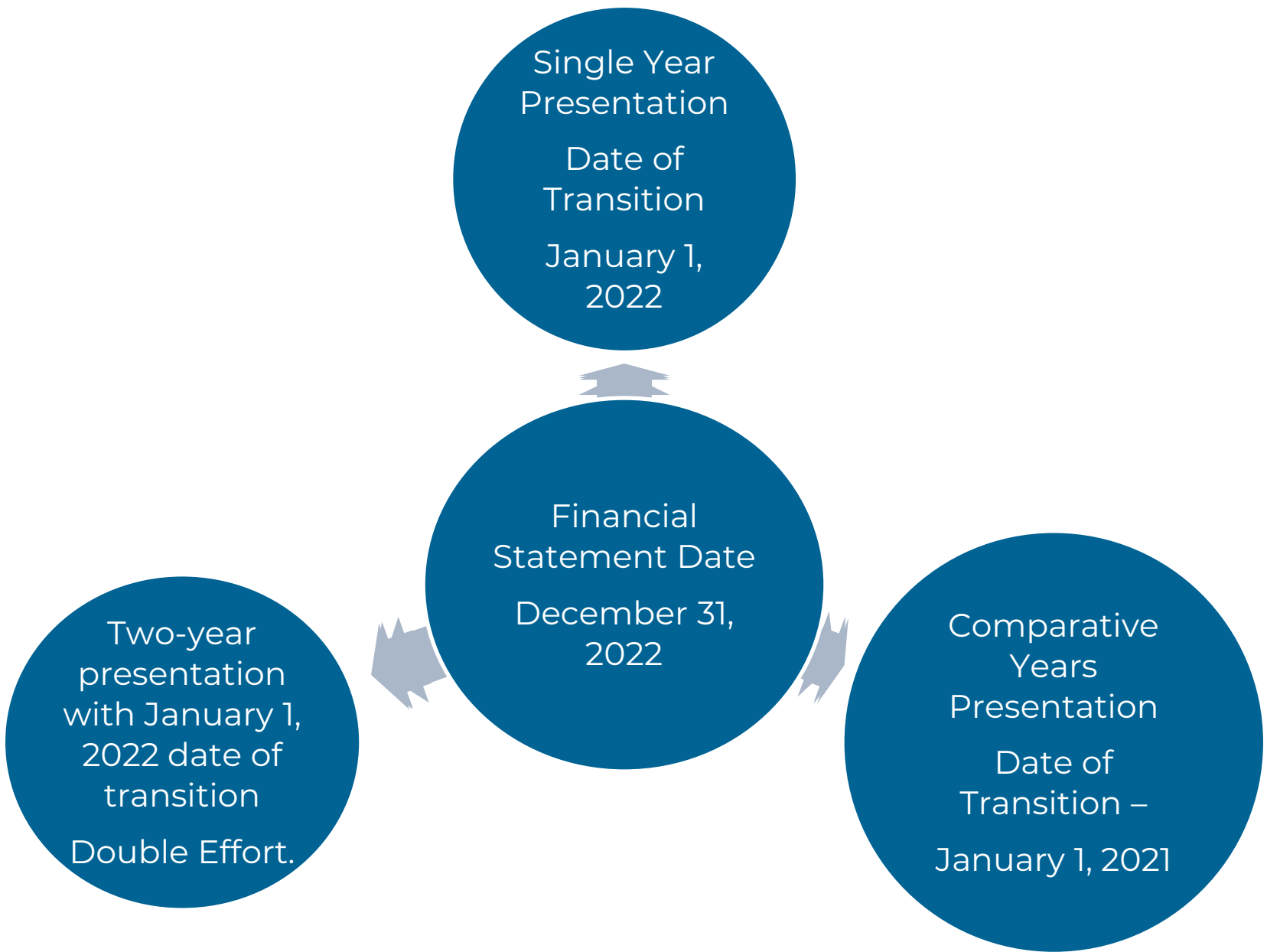


BASICS – ASU 2016-02 LEASES

- Only required for GAAP basis financial statements.
- Essentially requires most leases to be recognized on the balance sheet.
- New presentation and disclosure requirements.
- Effective for years beginning after December 15, 2021.
- Finance leases (capital leases)
- Operating leases (operating leases)

TRANSITION

- Required to transition using a 'modified retrospective' method
 - Adjust retained earnings as of the DATE OF TRANSITION



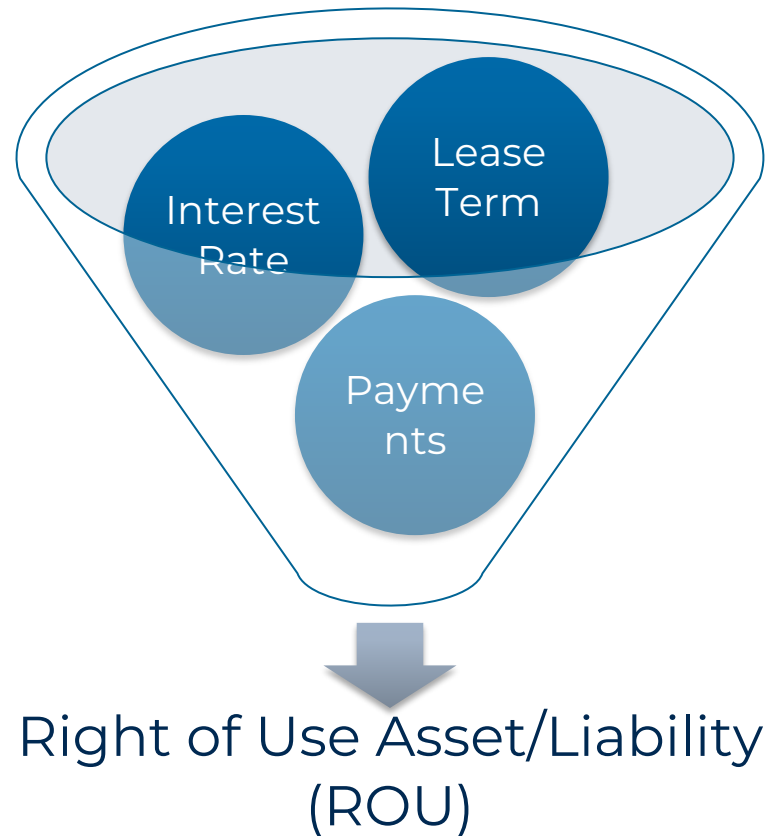
TRANSITION

- Required to transition using a 'modified retrospective' method
 - Adjust retained earnings as of the DATE OF TRANSITION
- Convert leases the later of the date of transition **or** the commencement date of the lease
- Practical Expedients
 - Pack of three – you will select
 - Right to use hindsight
 - Not transition – Short term leases
 - Not transition – Separating lease vs non lease components (may not elect)

TRANSITION

- Current capital leases – transition at the recorded balances as of the transition date
- Current operating leases – calculate asset and liability as of the date of transition or commencement date
- Do not need to test or verify they are still operating or finance lease

INPUTS



INPUTS – INTEREST RATES

- Later of date of transition or commencement date is the date used to determine the interest rate
- Risk free rate for the same term as the lease
- Higher the rate = lower the liability
- Can elect interest rate method by class of asset

INPUTS – LEASE TERM

- Need to assess extensions or cancellations
- Need to assess unwritten extensions (related party leases)

INPUTS – PAYMENTS

- Gross lease – CAM is included – monthly cost is high
- Net Lease – CAM is not included – base rent is lower
- Variable payments based on undetermined rate – no increase is calculated nor is it recalculated annually



DISCLOSURES

Continue with standard lease information

- Total expense
- General description of leases
- Cash paid related to liabilities
- Noncash information related to the assets
- Weighted average of terms and discount rate
- Use of practical expedients
- Finance lease – Debt information



TRANSITION AND CALCULATION TOOL

- Excel document available upon request
- Each lease will need its own spreadsheet
- Help catch a finance lease that you would think as an operating lease
- Gives transition entries and monthly entries

Q & A

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