



The Auditor's Report

New Lease Accounting Starts Jan. 1, 2022— Five Things To Remember for Lease Accounting Compliance

The process of implementing the new lease accounting rules requires a lot of time and resources to reach proper compliance. For organizations that have completed the process, 67% of them confirmed experiencing major difficulty. In order to face the complexities of the transition process and comply with ASC 842, here are a few things you must remember.

1) Know the lease accounting standard front and back

Several key differences exist between each of the new standards and their previous iterations. Balance sheet recognition of operating leases, lease classification criteria, and short term lease accounting are all affected by the new lease accounting standards. Whether your credit union chooses to utilize practical expedients also impacts the time and complexity to implement the standard. Without an upfront, solid understanding of the changes, compliance under ASC 842 will be even more challenging.

2) Utilize your resources

Depending on your size, the average lease accounting transition takes several months to complete. As you start your project, it is important to understand the steps necessary for compliance, the first being to establish a lease accounting implementation team.

For many credit unions, the accounting department must transition successfully to the new lease accounting rules along with handling closing activities, financial and statutory reporting, and many other day-to-day accounting responsibilities. It's important to assess available resources against the needs of the organization and remember to consider the necessary team members from the legal, purchasing, and IT departments for this task.

3) Gather a full listing of your leases

Compiling all of your lease information in one place is tedious if you lease many different types of assets and/or have a large number of existing operating leases. Identifying your entire lease portfolio significantly ahead of your actual lease transition date will allow enough time for the team to make determinations regarding accounting policy elections—both in reference to the practical expedients in the guidance and also regarding company policies that must be determined during this phase.

One way to quickly compile your leases is to reach out to various departments within the organization and request they provide all contracts currently managed by their department. Requesting contracts instead of lease documents ensures embedded leases are identified as well.

After gathering a complete population of leases, the next step is to extract the numerous lease details and input or upload the information for each contract into your software. This will allow the software to seamlessly create the transition and on-going journal entries.

Continued on page 2



INSIDE THIS ISSUE

Lease Accounting Compliance	1
Associate Spotlight.....	2
We've Moved.....	2



**Nearman
Maynard • Vallez**
Certified Public Accountants

ABOUT US

Since 1979, Nearman, Maynard, Vallez, CPAs has provided auditing and consulting services exclusively to credit unions throughout the United States. Our dedication to the credit union industry has given us the unique ability to provide exceptional service at a reasonable price. Our primary objective is to assist our clients in accomplishing their goals through our experience, service, and commitment. If your Supervisory/Audit Committee, Management, or Board of Directors is interested in obtaining information on the subjects in this issue or about our many services, call or email us today.

This newsletter is for information purposes only and is not intended to provide investment, legal, or accounting advice. Edited by Erin Doolittle, Marketing Coordinator. No part of this newsletter may be reproduced without the written consent of Nearman, Maynard, Vallez, CPAs.

**Nearman
Maynard • Vallez**
Certified Public Accountants

Website: www.nearman.com

E-mail: info@nearman.com

Toll-free: 800.288.0293



**We've Moved!
Our Miami office has
moved. Please make
note of our new
address:**

**10661 N Kendall Drive
#201
Miami, FL 33176**

Continued from page 1

It's also important to determine if any of your lease agreements can be excluded. For example, you may be able to use the materiality concept within FASB accounting pronouncements to implement a capitalization threshold to exclude immaterial leases.

While Excel can be used to complete your lease portfolio, depending on the number of branches or leases your organization has, looking into a lease accounting software solution now can create some invaluable efficiencies. For an organization covering a wide geographic area, a cloud-based software with a repository for all your lease documentation means anyone can access any lease at any time. The technology can replace the need for sending information back and forth. Built-in internal controls, role-based access, and an audit trail of who is touching or changing lease information gives your implementation team much needed visibility and comfort over various aspects of this long-term project.

4) Look out for errors within your leases

Under the previous standard, as a result of the financial statement treatment for service contracts and operating leases being similar, not all leases were appropriately identified. Additionally, all provisions resulting in capital lease treatment may not have been identified. ASC 842 provides a practical expedient which allows for keeping the classification of leases determined under old rules. However, you cannot grandfather in classification errors made under the previous lease rules. You must correct the accounting for those leases first, then transition.

5) Conduct due diligence in selecting your software solution

Several points must be considered when looking for a new lease accounting solution. The first step is to get buy-in from management who may be hesitant to invest in software. By letting them know the benefits of using a compliant lease accounting solution over Excel, the organization can begin its journey toward a new software.

Don't rush when trying to find accounting software for your organization. It can take weeks to procure the software, then longer to implement the solution. Once your team has agreed to utilize a solution, it's important to consider the software's features, functionality, and accuracy to see if it is the right fit for your organization. Two essential considerations: accurate accounting and a knowledgeable and accessible support department.

What could non-compliance mean for your credit union?

Complying with the new lease accounting standard completely and accurately is important to the success of your organization. Not only is a clean audit opinion at significant risk, but you may also be forced to restate your financial statements. It is important to give the utmost attention to this project, to achieve compliance by the deadline and to ensure accurate lease accounting on day two and beyond.

To learn more about ensuring your organization is compliant in time for the transition deadline, contact Nathan Collier at LeaseQuery for more information and to schedule a demo. Nathan can be reached at 678-736-0955 or nathan.collier@leasequery.com

About LeaseQuery

LeaseQuery makes accountants' lives easier by simplifying the complex with technology. More than 25,000 financial professionals globally rely on our cloud-based, CPA-approved solutions and in-house accounting expertise to comply with confidence across various FASB, GASB and IASB accounting standards. Our software helps businesses minimize risk, increase efficiency and reduce costs. Learn more about LeaseQuery's core lease accounting solution, which focuses on easing the mandatory transition to ASC 842, GASB 87 and IFRS 16, or explore additional accounting tools.

LeaseQuery
COMPLEX ACCOUNTING SIMPLIFIED

Associate Spotlight!

Nearman, Maynard, Vallez, CPAs is proud to announce **Lynn M. Franzosa, CPA, MACC, NCCO** has been promoted to Partner. With her new title comes increased responsibility in job performance, training, planning, and leadership. As a partner, Lynn's responsibilities include planning and coordinating various projects as well as all phases of special work and pension engagements. She follows the progress of the engagement, resolving accounting and auditing problems as they arise and discussing any specific concerns of the client. Congratulations Lynn!

In addition, **Jennifer Doyle, Senior Auditor**, successfully passed all four parts of the CPA exam. Jennifer conducts numerous audits both federal and state chartered. Her clients range in asset size from approximately \$50 million to more than \$5 billion. Some of Jennifer's responsibilities as a Senior Auditor include planning the audit from start to completion, participating in the audit fieldwork, supervising and training staff, and reviewing work papers. She also assists in presenting client briefings of audit results and financial trend analyses. After the audit is completed, Jennifer prepares the financial statements and management reports detailing the audit results and our recommendations.