June 30, 2022

To the Board of Directors
American Network of Community Options and Resources
Alexandria, Virginia

In planning and performing our audit of the financial statements of American Network of Community Options and Resources as of and for the year ended December 31, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered American Network of Community Options and Resources' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ANCOR’s internal control. Accordingly, we do not express an opinion on the effectiveness of ANCOR’s internal control.

However, we would like to provide you with the following information regarding a new accounting standard that will have an impact on your financial statements.

New Lease Accounting Standard

After several implementation delays of Financial Accounting Standards Board Accounting Standards Update No. 2016-02, Leases (Topic 842), the effective date of this standard is set for fiscal years beginning after December 15, 2021. In addition to complex calculations, the implementation of this standard involves several compliance and reporting matters that should be considered now. The accompanying appendix provides a brief overview of the new lease accounting standard and discusses certain matters that you should consider during your transition to the new standard.

This communication is intended solely for the information and use of management, the board of directors, and others within ANCOR, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Wegner CPAs, LLP

Glenn Miller, CPA
Partner
Appendix: New Lease Accounting Standard

The following is a summary of the standard and other considerations:

**What is Changing for Lessees?**

Lessees will recognize lease assets and liabilities on their statements of financial position for all leases unless an accounting policy election applies. The liability is measured at the present value of payments expected to be made for the lease term, and a right-of-use asset is measured at the amount of the initial lease liability, plus any payments made to the lessor at or before the beginning of the lease and certain indirect costs. The new lessee accounting model retains two types of leases, finance and operating. Finance leases will be accounted for in substantially the same manner as capital leases are accounted for under the current lessee accounting model. For purposes of the statement of activities and statement of cash flows, operating leases will be accounted for in a manner consistent with today's operating leases. The significant difference for operating leases is going to be the recognition of the right-of-use asset and lease liability on the statements of financial position. Lessees are also required to provide additional qualitative and quantitative disclosures to help financial statement users assess the amount, timing, and uncertainty of cash flows arising from leases. These disclosures are intended to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an organization's leasing activities.

**Preparing to Implement the New Standard**

1. *Compile the Complete Inventory of Leases*

   One of the first steps in preparing for the new standard is to gather all contracts that are or may contain leases. A lease does not have to be called a lease to be considered. Leases can be embedded in many different kinds of contracts such as contracts for outsourced warehousing, information technology services, freight shipping, and outdoor advertising, just to name a few. You will need to review more than just the organization's current rent expense accounts. Personnel from various departments in addition to accounting, such as procurement, information technology, and legal, may be needed to help compile a complete inventory of all leases.

2. *Consider Needs for Software or Other Tools*

   After all leases have been identified, you will need to determine how to track them going forward. The three most common ways are using a spreadsheet, an additional module from current accounting software, or using a new software separate from the accounting system. Entities will need to keep track of critical dates, payment amounts, renewal options, discount rates, and other relevant information regarding their leases in whatever tool is chosen. Capturing this data can get complicated, particularly when there are multiple leases and/or modifications.

3. *Determine Implementation Strategies*

   You will also need to determine the periods to apply the standard to. There are two options: all periods presented, including prior periods presented for comparative purposes, or only to the period of adoption. Next, you will need to consider what elections to use. Some of those elections are:
   - Not to recognize assets and liabilities related to leases with a term of one year or less.
   - Account for the non-lease components (for example, maintenance services) in a contract as part of the lease component to which they are related.
• Use a risk-free discount rate in lieu of an incremental borrowing rate when calculating lease liabilities.

• Additional elections related to the transition to the new standard can be discussed when you’re ready.

4. **Educate Stakeholders**

   The financial reporting changes may affect contractual agreements, loan covenants, key performance indicators, and other items. If ANCOR will be significantly affected, now is the time to discuss the upcoming changes to the financial statements with stakeholders to avoid any unwanted consequences of implementing the new standard. These stakeholders could include bankers, investors, board members, audit committees, key donors, funding sources, etc.

5. **Other Considerations**

   The standard also requires judgements to be made in certain circumstances. For example, ANCOR must assess whether it is reasonably certain the lease will continue into periods covered by renewal or termination options along with how to handle leases that on a month-to-month basis. Those judgements will affect the length of the lease term, which impacts the calculation of the asset and liability.

   Additionally, ANCOR should consider establishing a threshold to evaluate leases for recognition as a right-of-use asset and liability similar to the threshold that has been established for capitalizing purchases of property and equipment. Thought should be given to the effect on both assets and liabilities when determining a reasonable threshold.

**We Are Here to Help**

There are many complexities to implementing the new lease standard and we are more than happy to help you through the process. Wegner CPAs has partnered with a cloud-based software to ease compliance and reporting with the new standard. The software provides easy to use step-by-step guidance and offers a simple solution to accessing monthly journal entries, amortization schedules, and disclosures. We can help with any or all parts of your implementation. In addition, we have a ‘Lease Readiness Checklist’ and ‘Lease Accounting Policy’ template to aid you in your implementation.

Please contact us to learn more!