

# Lease accounting implementation

8 billion

Enterprise value

9,800

Miles of Pipeline

74

Terminal and  
Storage Facilities

74 million

Barrels of Storage  
Capacity

With an enterprise value of around \$8 billion, NuStar Energy L.P. (NYSE: NS) is a master limited partnership based in San Antonio, TX. NuStar currently has approximately 9,800 miles of pipeline and 74 terminal and storage facilities that store and distribute crude oil, refined products and specialty liquids. The partnership's combined system has more than 74 million barrels of storage capacity at its facilities in the United States, Canada and Mexico.

## Nustar's lease portfolio

NuStar leases a wide range of equipment and real estate assets to support its pipeline, terminal and storage business. To support bunker fuel sales, the company leases a number of marine vessels such as tugs and barges. A diverse mix of equipment is used in field operations including forklifts, trucks, vehicles, and even portable lavatories. With almost 10,000 miles of pipelines, NuStar has a number of land easements and right-of-way contracts that are also leased. The real estate lease portfolio consists primarily of docks and terminal operations as well as several corporate offices.

**Industry:**

Energy

**HQ:**

San Antonio, TX

**Listing:**

NYSE: NS

**Financial Reporting:**

US GAAP

**Fiscal Year:**

Dec 31

**ERP:**

SAP

# Implementing ASC 842

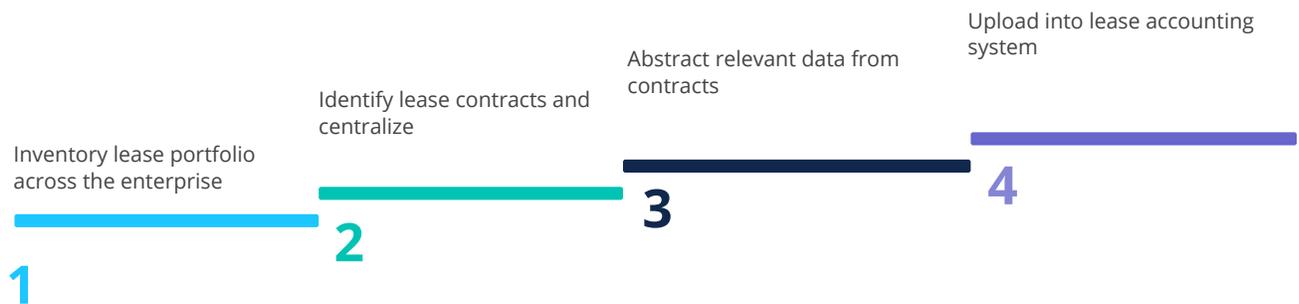
## Data collection

One of the first steps taken by NuStar in its ASC 842 lease accounting project was to identify its population of leases. The project team had to survey various teams and review various systems to gain a comprehensive inventory of the lease portfolio across the enterprise. The data collection process proved to be the most challenging aspect of the implementation. Before the data could be abstracted from the leases, the necessary contracts needed to be located and centralized. Not only was the process time consuming, it required specialized expertise to interpret some of the contracts. To supplement the resources of its internal team, NuStar leveraged an external financial advisory firm with leasing and contract analysis skills.

## Leased assets:

- ▶ Tugs and Barges
- ▶ Forklifts and JACKS
- ▶ Trucks and Vehicles
- ▶ Land Easements
- ▶ Docks and Terminals
- ▶ Corporate Offices

Upon completion, the project team identified over 1000 leases across the enterprise. However, the population was scoped down to 300-400 by excluding short term and low value leases for items such as uniform rentals, rugs, floor mats, and other small ticket items.



## Software selection

NuStar opted not to use spreadsheets for ASC 842, but instead opted for an enterprise software package that would enable it to automate many of the time-consuming aspects of the record-to-report process. The system would perform most of the calculations, ensure consistent application of policies, and provide an audit trail of all activities related to a specific contract.

NuStar selected LeaseAccelerator's Enterprise Lease Accounting software application to support its ASC 842 compliance program. There were several features of the LeaseAccelerator solution that appealed to the project team:



### Cloud-Based Architecture

As a SaaS application, the LeaseAccelerator application runs in the cloud, which minimized the amount of implementation work required by NuStar's corporate IT team to get the system up and running.



### Bulk Data Uploads

Rather than keying the data into the user interface field-by-field, the relevant data for each lease can be aggregated into an Excel spreadsheet and then mass imported into the application.



### Customizable Reporting

Users can dynamically create ad-hoc reports to "slice and dice" the data in the system to support end-of-quarter close activities, fiscal budgeting and forecasting, and internal cost analysis needs.



### Training System

LeaseAccelerator offers a library of over 200 different training modules in its online Learning Management System. New users can take courses on-demand, many of which are eligible for CPE credit. Progress is measured in an online transcript.

## Post-adoption

NuStar successfully transitioned to ASC 842 on January 1, 2019. The accounting team was able to perform the monthly close on time and file its first interim statement (SEC Form 10-Q) in April 2019.

With all of the company's leasing data centralized in a single repository, NuStar's leasing program is now quantifiable, reportable, and manageable. The accounting team is now able to provide more detailed reports to other organizations such as leased assets by business unit and leased assets by legal entity.

In fact, the new centralized visibility to leasing has yielded some unexpected benefits. For example, the accounting team identified a number of small ticket leases that had been rented on a week-to-week basis for periods of five years and longer. The accounting team worked with the procurement organization to identify the assets so that more cost-effective contracting mechanisms could be negotiated.

## Lessons learned from implementation

	Challenge	Recommendation
<b>Project Team</b>	Unlike other accounting projects that can be completed within the four walls of the Controller's organization, ASC 842 will require time commitment and participation from all the groups across the organization that own or touch equipment and real estate leases.	Assign a dedicated project manager whose priority is to lead a cross-functional team and tackle the complex issues required for ASC 842 adoption.
<b>Implementation Resources</b>	Transitioning to ASC 842 will require a significant amount of work to implement. Companies will need to review contracts, collect leasing data, implement new systems, update accounting policies, and modify business processes.	Consider hiring a financial advisory or consulting firm to help with the implementation within the project timeframe.
<b>Accounting Policy</b>	Adopting ASC 842 will require accounting teams to make a number of policy elections. Some of the key challenges will include evaluating candidates for embedded leases, deciding whether to separate lease/non-lease components, and determining incremental borrowing rates.	Work with your external auditors - early and often. Seek counsel on accounting policies and technical accounting questions throughout the project.
<b>Day Two and Beyond</b>	The lease accounting project effort will continue well past the effective date. Considerable work effort will be required to perform the monthly close and quarterly disclosures in year one. Additionally, sustainable processes will need to be developed to track new leases and changes to the portfolio on a longer-term basis.	Begin with the end in mind. Invest the time during the implementation phase to configure the systems, write the documentation, and establish the processes that will be needed on Day Two.