

FASB Accounting Standards Update

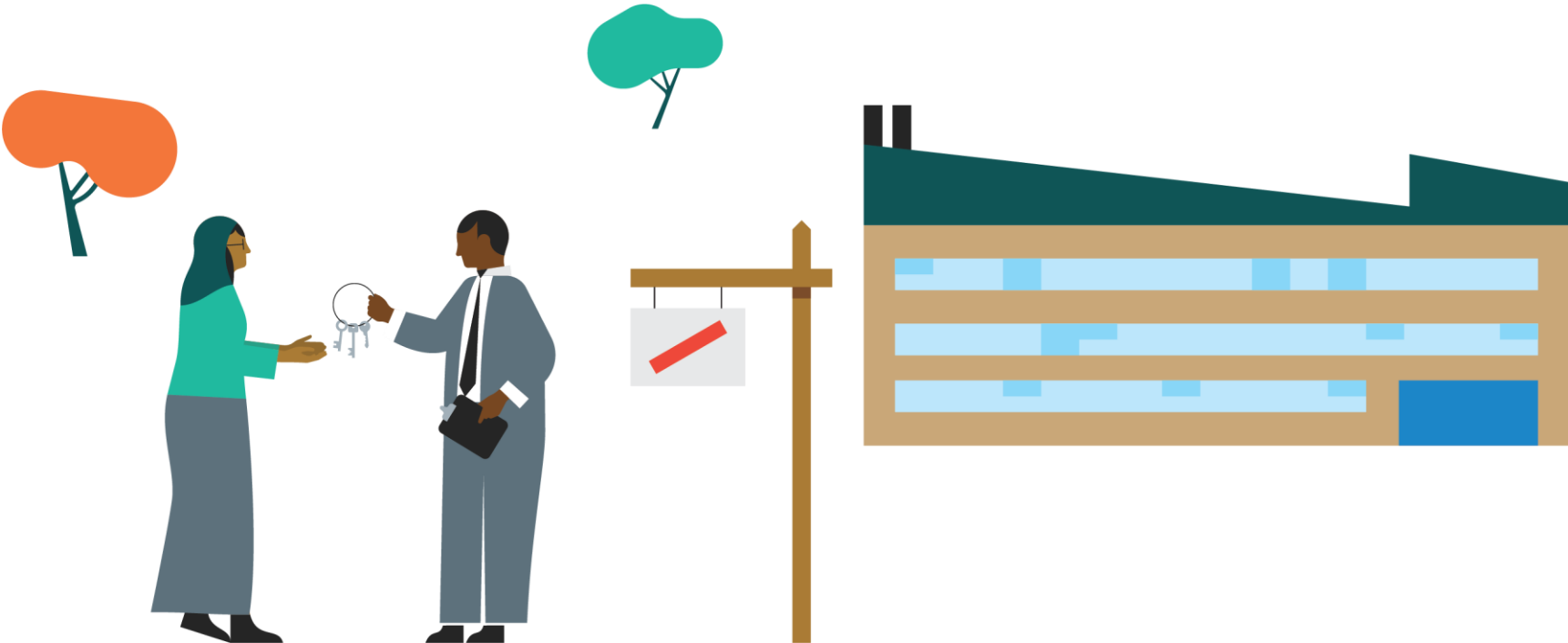
What's Changing Regarding Leases?

Presented by

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Director



What's a lease?



Lease, Lessee, and Lessor

Lease: An agreement transferring the right to use property and/or equipment, typically for a stated period of time.

Lessee: the party that gets the *right to use* the asset

Lessor: the party that is *the owner* of the asset but leases it to others

Capital Lease vs. Operating Lease



What was the difference?

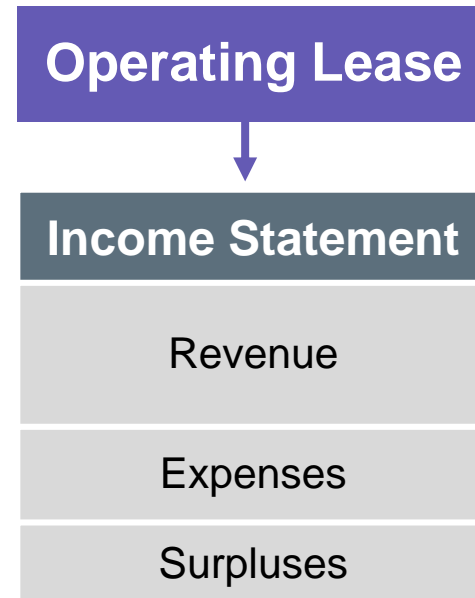
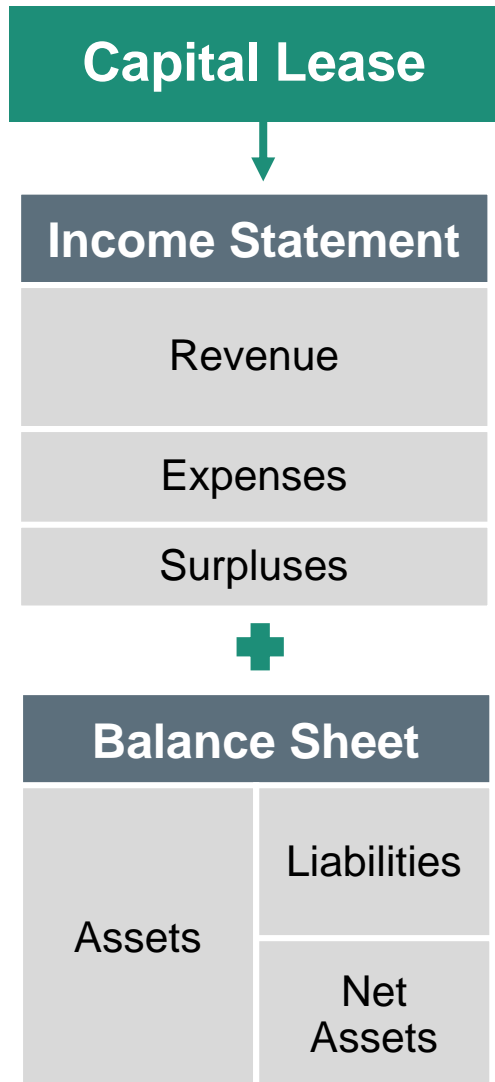
Capital Lease

- Could be transfer of ownership (e.g., lease to buy)
- Longer-term
- Assume risk of ownership
- Value is reflected on balance sheet, and transaction on income statement

Operating Lease

- A transaction that is simply payment for use of a space or equipment
- Shorter-term
- No risk of ownership
- No transfer of ownership
- Transactions captured solely on income statement

How is this captured on financial statements?



More detail for reference

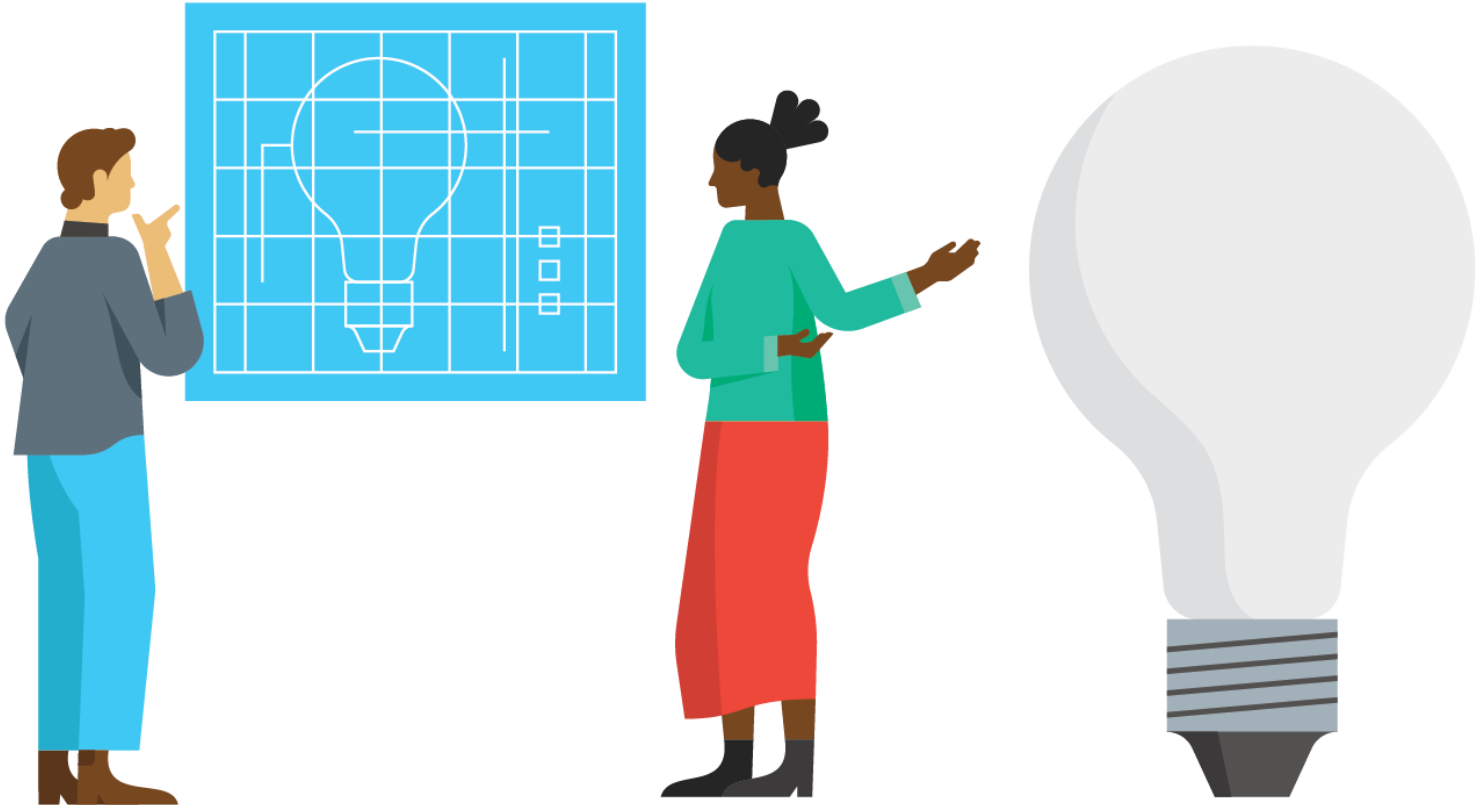
Lease Criteria	Capital Lease	Operating Lease
Ownership	Ownership of asset might be transferred to the lessee at the end of the lease term	Ownership is retained by the lessor (owner of property) during and after the lease term
Term	Lease term => 75% of the asset's estimated useful life	Lease < 75% of the estimated economic life of the equipment
Risk / Benefits	Risk and benefits transferred to lessee, who also pays maintenance, insurance and taxes	Right to use only; risk and benefits remain with lessor. Lessee pays maintenance costs
Accounting	Lease is considered an asset (leased asset) and liability (lease payments), shown in balance sheet	Payments are considered operating expenses and shown on income statement. No recording on balance sheet

Why the change?

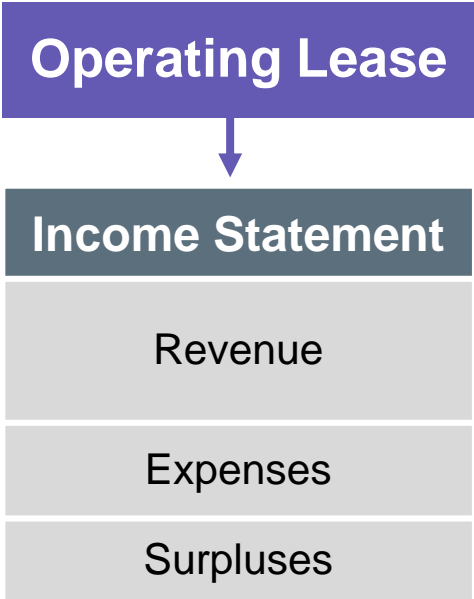
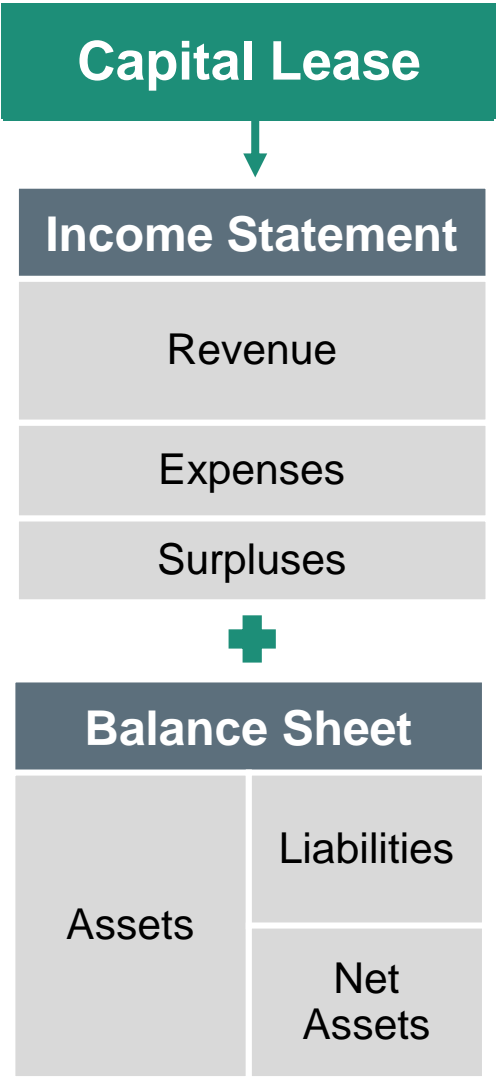
\$1.25 Trillion



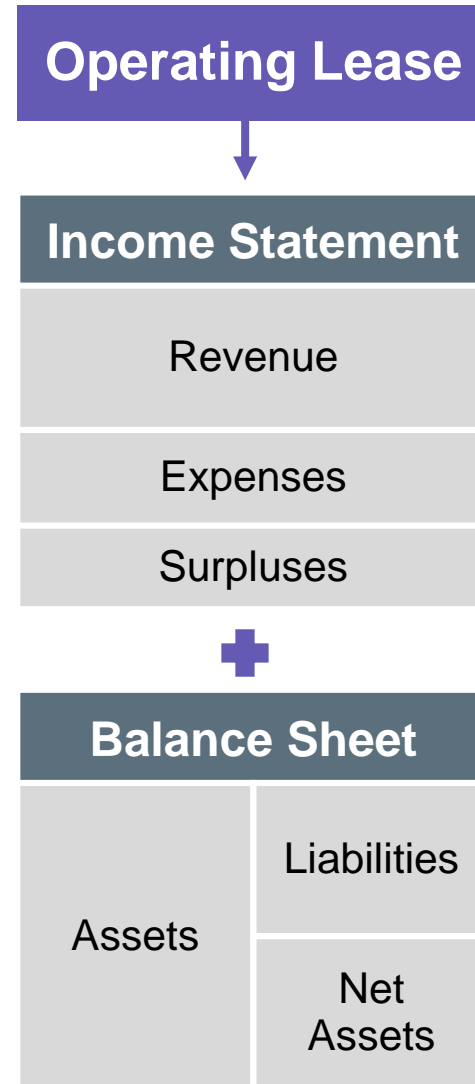
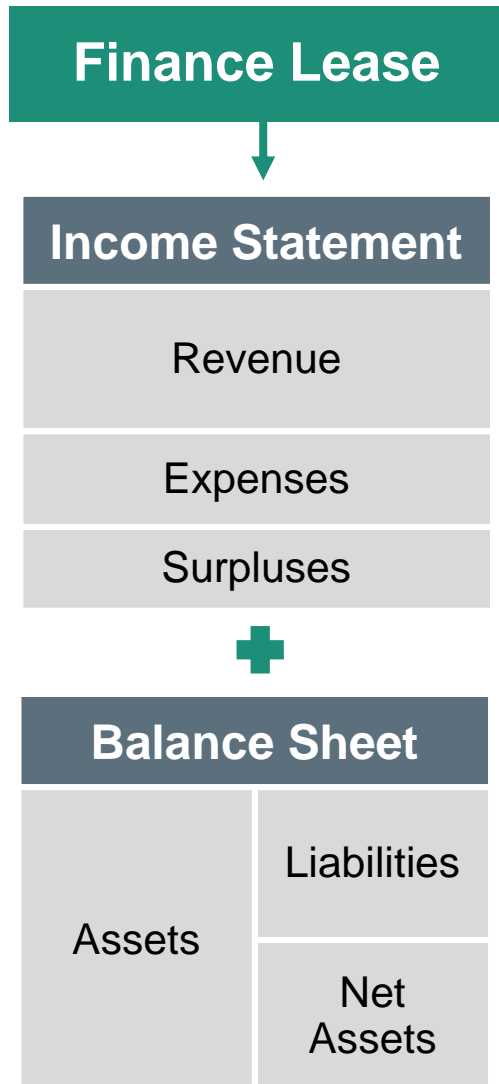
What's changing?



Capital Lease has a new name



What else?



When will the update occur?



What does this mean for you?



This update will:

1. Require many to recognize lease assets and liabilities for operating leases where they had not before
2. Improve the understanding and comparability of a nonprofit's financial commitments regardless of how it finances the assets that it uses in its business
3. Help tell your financial story more effectively
4. Become effective for most nonprofits whose fiscal years begin after Dec 15, 2019

Thank You!

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