FASB Accounting Standards Update
What’s Changing Regarding Leases?

Presented by
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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?

**Capital Lease**

- **Income Statement**
  - Revenue
  - Expenses
  - Surpluses

- **Balance Sheet**
  - Assets
  - Liabilities
  - Net Assets

**Operating Lease**

- **Income Statement**
  - Revenue
  - Expenses
  - Surpluses
## Lease Criteria

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

$1.25

Trillion
What’s changing?
Capital Lease has a new name

**Capital Lease**

Income Statement
- Revenue
- Expenses
- Surpluses

Balance Sheet
- Assets
- Liabilities
- Net Assets

**Operating Lease**

Income Statement
- Revenue
- Expenses
- Surpluses
What else?

Finance Lease

Income Statement
- Revenue
- Expenses
- Surpluses

Balance Sheet
- Assets
- Liabilities
- Net Assets

Operating Lease

Income Statement
- Revenue
- Expenses
- Surpluses

Balance Sheet
- Assets
- Liabilities
- Net Assets
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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