

Nonprofit Notes

FASB's Leases Standard Applies to All Not-for-Profits Beginning in 2022

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After several postponements, the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU), **No. 2016-02 Leases (Topic 842)**, originally issued in February 2016, becomes effective for all not-for-profit organizations beginning in 2022. Most recently, the FASB granted a delay for implementation of the **Leases** Standard through issuance of ASU No. 2020-05 in June 2020. The deferment applied to both public and nonpublic not-for-profits.

Implementation Dates and Options

Under ASU No. 2020-05, the final extended implementation dates for the requirements contained in the **Leases** Standard for public not-for-profits and all others are as follows:

Public Not-For-Profits

A public not-for-profit (NFP) is one that has issued (or is a conduit bond obligor for) securities that are traded, listed, or quoted on an exchange or an over-the-counter market. Public NFPs that have not yet issued financial statements or made financial statements available for issuance as of June 30, 2020, shall apply the requirements contained in the **Leases** standard for fiscal years *beginning after* December 15, 2019, and interim periods within those fiscal years.

Nonpublic Not-for-Profits

Nonpublic (all others that are not public) NFPs shall apply the Standard's requirements for financial statements issued for fiscal years *beginning after* December 15, 2021, and interim periods within fiscal years *beginning after* December 15, 2021. In other words, the **Leases** Standard is now in effect for all nonpublic NFPs with calendar year ends and becomes effective for NFPs with fiscal year ends that begin in 2022.

Earlier application is permitted for both public and nonpublic not-for-profits.

The requirements under the **Leases** Standard can be implemented in one of two ways:

- Under the Modified Retrospective Approach, the required changes must be applied to the earliest period presented, including to comparative financial statements when they are included, **or**
- As a Cumulative Effect Adjustment to the net assets at the beginning of the year of adoption. Comparative periods need not be changed.

Main Provisions of the Leases ASU

- Applies to leases with a term of more than 12 months.
- Retains similar previous requirements under Generally Accepted Accounting Principles (GAAP) for recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee.

- Continues to differentiate between **finance** leases and **operating** leases. However, the principal difference from previous guidance is that the lease assets and lease liabilities arising from **operating** leases should be recognized in the statement of financial position.

For **finance** leases, a lessee is required to do the following:

- Recognize a “right of use” asset and a lease liability, initially measured at the present value of the lease payments in the statement of financial position.
- Recognize interest on the lease liability separately from amortization of the right of use asset in the statement of activities
- Classify repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows.

For **operating** leases, a lessee is required to do the following:

- Recognize a “right of use” asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position.
- Recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis.
- Classify all cash payments within operating activities in the statement of cash flows.

The accounting applied by a lessor is largely unchanged from that applied under previous GAAP.

Implementation Considerations

Implementation of the **Leases** Standard requires not-for-profits to be able to distinguish between operating and financing leases, understand discount rates to be used for present value calculations, and how to treat initial lease costs and cash incentives before recording the appropriate transactions to their financial records

Contact Us

If your not-for-profit organization needs assistance understanding the requirements under the **Leases** Standard or with any accounting, auditing, tax or business consulting services, please contact the partner in charge of your account or:

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