CAPINCROUSE LLP

Implementing the New Accounting Standard for Leases

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Introduction

The new accounting standard for leases, Financial Accounting Standards Board (FASB) Accounting Standards Codification 842 (ASC 842), brings significant changes for organizations, including new definitions and classifications.

To this end, we developed the CapinCrouse Lease Toolkit to assist nonprofits, churches, and higher education institutions in planning for and implementing ASC 842. This free Toolkit of helpful resources includes a Key Lease Decision Reference Guide, Lease Information Gathering Form, and Lease Calculation Tool.

We also published a series of articles to walk you through the steps in the Key Lease Decision Reference Guide. In these articles, which we've compiled here, Partner Tammara Williamson and Senior Manager Lisa Wabby highlight important action steps and quick tips to help you adopt the new standard efficiently and effectively.

ASC 842 is required for all nonprofits with fiscal years beginning after December 15, 2021 (calendar 2022 year-end; fiscal years ending in 2023). I encourage you to download your free copy of the CapinCrouse Lease Toolkit here, if you haven't already, and use the following articles to work through each step of the implementation.

If you have any questions or would like to discuss how we can help your organization with the implementation process, please contact us. We are here to help.

Timothy J. Sims, Partner and Professional Practice Leader – Attest
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Implementing the New Accounting Standard for Leases: Part One

By Tammara Williamson, Partner

We recently updated the CapinCrouse Lease Toolkit to reflect a change from the Financial Accounting Standards Board (FASB) and added a new tool. The Toolkit contains these resources to help your organization understand and implement ASC 842, the new accounting standard for leases, efficiently and effectively:

- Updated Key Lease Decision Reference Guide
- Updated Lease Information Gathering Form
- New Lease Calculation Tool

You can learn more about the new lease standard and download the free Lease Toolkit here.

This article is the first in a series outlining the steps in the Key Lease Decision Reference Guide in the Lease Toolkit. Our goal is to provide important action items in a quick, easy-to-read format to make the adoption of the new standard more manageable. Let's get started!

Step 1: Determine if a Contract Contains a Lease

Under Topic 842, the new lease standard updates the definition of a lease to include contracts or a part of a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This definition is clarified to focus on two areas:

1. Whether there is a specifically identifiable asset, and
2. Whether the lessee has control of the asset

Here are examples of an identified asset and lessee control:

Identified Asset	Lessee Control
Lease explicitly or implicitly specifies asset.	The lessee controls the use of the identified asset for a period of time.
The asset is physically distinct.	Lessee has decision-making authority for the asset.
The lessor is not able to substitute the asset for another.	Lessee has rights to substantially all the economic benefits.

If there is no specifically identifiable asset, or if the lessee does not have control of that asset, the contract does not contain a lease and the lease standard accounting would not apply.

Action Item #1: Create an inventory of all contracts that may contain a lease. Ensure that your inventory includes any embedded contracts — contracts that may be disguised as a service contract but that also include the lease of an asset. For example, if your organization has a service contract to receive wireless internet throughout your building, does that contract also include access to specific routers? If so, this embedded contract may include a lease under the new lease standard.

Action Item #2: Use the flowchart on page 5 of the Key Lease Decision Reference Guide to determine if each of your inventoried contracts meets the criteria to be considered a lease. For any contracts that do contain a lease, fill out Section 1 of the Lease Information Gathering Form in the Lease Toolkit.

Quick tip: In the Lease Information Gathering Form, make a copy of the tab for each contract that contains a lease, and then rename the tabs to match the underlying leases. That way, all your lease information will be in one workbook.

Step 2: Determine Which Payments are Considered Part of the Lease Calculations

There are two key components to determining which payments are considered part of the lease calculations. You need to know:

1. Which payments are included within the lease calculations; and
2. The portion of the consideration paid that is attributable to the underlying lease components

Lease Payments (a)					
Fixed payments (a)	Variable payments based on an index or rate (b)	Exercise price of a purchase option (c)	Payments for penalties for terminating the lease (d)	Residual value guarantees (e)	LESS any incentives paid or payable to the lessee

(a) Includes payments made by the organization prior to the lease term

(b) Variable payments that depend on an index or a rate are calculated based on the rate at the inception of the lease

The organization excludes variable payments that are not based on an index or rate from consideration; these are expensed in the period they are incurred

(c) Include only if reasonably certain that the organization will exercise

(d) Include only if the lease term reflects the lessee exercising an option to terminate the lease

(e) Include the amount that is probable a lessee will owe under residual value guarantees

Action Item #3: Use the chart above to determine the applicable payments for purposes of the lease standard calculation. *Quick tip: This step aligns with Section 2 of the Lease Information Gathering Form. Continue moving down the Lease Information Gathering Form to Section 2 for each of the leases identified in Step 1 above.*

Once you know what types of payments are included within the calculation, you then need to know the portion attributable to each of the underlying lease components. *Components* are items or activities that transfer a good or service to the lessee. Some leases have a single component while others may have multiple components. For example, a copier lease may have two components: 1) a lease for a specific asset, and 2) ongoing maintenance of the copier. Identifying these separate components is key to ensuring that the calculations are done correctly.

Refer to pages 7 – 9 of the Key Lease Decision Reference Guide for the process of identifying the different components within a lease. This should be completed for each lease in Step 1 above. Also note that an organization can make an accounting policy election (by underlying class of asset, such as equipment leases, for example) to treat all lease components as a single lease component. This means that allocating the current lease payment to the different lease components is not necessary. However, choosing this election would result in a higher right-of-use asset and liability on your books.

Action Item #4: Identify lease components. Determine if your organization wants to treat lease components separately *or* if you'd like to make an accounting policy election to treat both the lease and nonlease element as a single lease component. *Quick tip: This step aligns with Section 2 of the Lease Information Gathering Form. If you opt to treat the components separately, you will need to determine the consideration attributable to each lease component. The Lease Information Gathering Form contains a spot to do this.*

After completing these steps, you will be well along in the process of adopting the new lease standard.

In Part Two, we'll walk through the next two steps.

Implementing the New Accounting Standard for Leases: Part Two

By Lisa Wabby, Senior Manager

The new accounting standard for leases, ASC 842, brings significant changes, including new definitions, classifications, and disclosures. This article is the second in a series designed to walk you through the steps in the Key Lease Decision Reference Guide in the free CapinCrouse Lease Toolkit.

These articles provide important action items in a quick, easy-to-read format to make the adoption of the new standard more manageable. Part One focused on Steps 1 and 2. Now let's look at Steps 3 through 5.

Step 3: Determine the Lease Term

Once you've worked through the two steps outlined in Part One, determining if the contract contains a lease and which payments are considered part of the lease calculations, the third step is to determine which periods of the lease should be included in the lease standard calculation.

The lease term begins at the commencement date and always includes the noncancelable period of the contract, including any rent-free periods. The noncancelable period is the period during which the contract is enforceable and therefore both parties have rights and obligations to continue the lease. A lease is no longer enforceable when both parties have the unilateral right to terminate the lease without permission from the other party with no more than an insignificant penalty.

Action Item #1: Determine the noncancelable period of the lease, including rent-free periods. Sometimes a contract includes an option that only a lessee has the right to terminate the lease. In this situation, include any periods for which your organization is *reasonably certain* not to exercise that option in the lease term.

If the contract includes an option for you to extend the term of the lease, include all periods your organization is *reasonably certain* to extend in the lease term.

Reasonably certain is a high threshold of probability that must be met to include the optional lease periods above in the lease term for the purpose of determining the lease standard calculation. Your organization should consider the relevant factors that create an economic incentive for you to exercise or not exercise an option.

These include contract-based, asset-based, entity-based, and market-based factors.

Some of the factors to consider include the following:

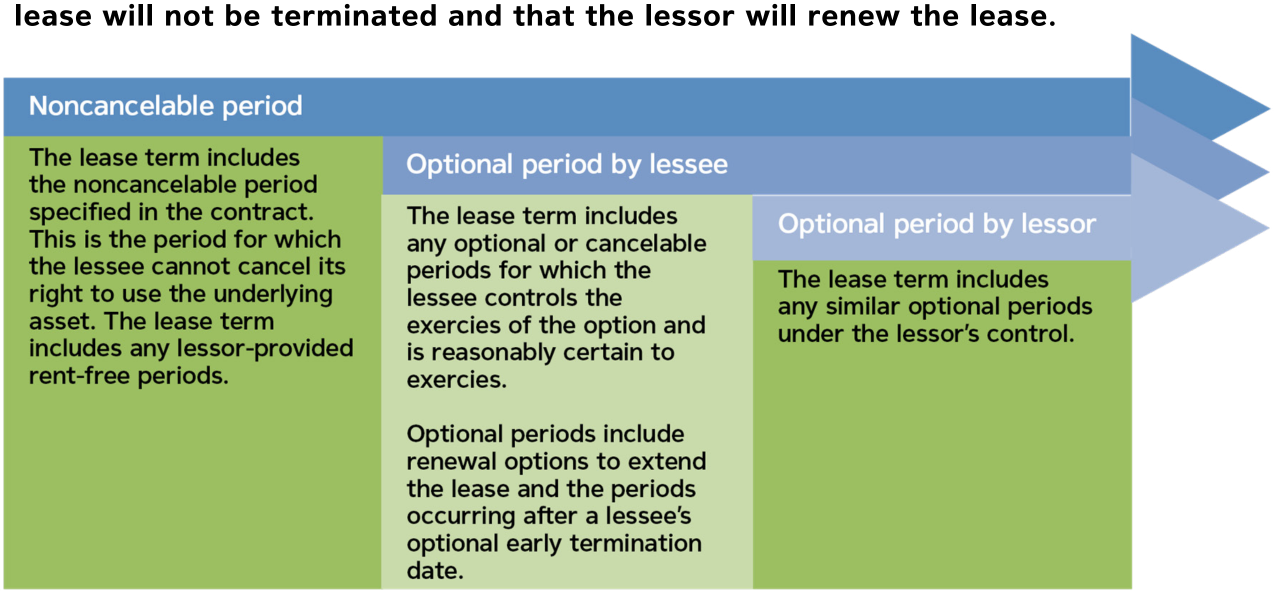
- Is the price of a lease renewal option at a fixed rate, or is it a discounted rate that creates an economic incentive for you to renew?
- Are there leasehold improvements that would make extending the lease term beneficial to you?
- Is the leased asset significant to your organization's operations? If so, is there a readily available replacement asset?
- Do you have a sublease term that extends beyond the noncancelable period of the lease?

It's important to note that management's intent to renew a lease or its history of renewing similar arrangements does not directly correlate to conclude that the organization is reasonably certain to exercise an option. There still must be a compelling economic reason to renew.

Action Item #2: Determine which optional periods you as the lessee control to include in the lease term, based on the relevant economic factors. Sometimes a contract includes an option that only the lessor has the right to terminate a lease; the lessee's lease term includes the period covered by this option. The likelihood of the lessor exercising the termination option is not considered in evaluating the potential impact on the lease term.

If the contract includes periods the lessor has the option to extend, you as the lessee must include these periods in the lease term.

Action Item #3: Determine if there are any periods for which the lessor controls the right to extend or terminate the lease. The lease term should assume that the lease will not be terminated and that the lessor will renew the lease.



Action Item #4: Use the prior action items in this step and the chart above to determine the initial lease term for the purpose of the lease standard calculation. *Quick tip: This step aligns with Section 3 of the Lease Information Gathering Form* *in the CapinCrouse Lease Toolkit. Continue moving down the Lease Information Gathering Form to Section 3 for each of the leases identified in Step 1 from Part One in our series.*

Step 4: Determine the Discount Rate

Determining an accurate discount rate is a critical component of the lease liability calculation. The lease liability is calculated based on the present value of the remaining lease payments, which is determined from the discount rate established at the commencement of the lease. The higher the discount rate, the lower the lease liability will be.

You must use the rate implicit in the lease when you are able to readily determine the rate. An implicit rate is considered readily determinable when all material inputs are themselves readily determinable by the lessee.

Action Item #5: Determine if the lease has an implicit rate. If so, it must be the rate used in the lease calculations. *Quick tip: The implicit rate will be almost impossible to determine if it is not explicitly stated in the contract.* ***Move to Action Item #7 for any lease that has an implicit rate.***

If you are not able to readily determine the rate implicit in the lease, you must use your incremental borrowing rate unless you elect to use the risk-free discount rate. Make this election by class of underlying asset.

Your incremental borrowing rate is the rate of interest that a lessee would have to pay on a collateralized loan with similar terms in a similar economic environment. As a result, the incremental borrowing rate will not always be equivalent to the borrowing rate on your loans.

The risk-free rate should be determined using a period comparable with that of the lease term. Organizations typically will use the U.S Treasury yield at the date of lease commencement or upon implementation of the new standard for the risk-free rate. You should select the term closest to the lease.

Action Item #6: Determine which class of underlying assets, if any, you will use the risk-free rate for and which you will use a relevant incremental borrowing rate for. *Quick tip: The risk-free rate election typically results in a higher recorded lease liability. Weigh the administrative benefits of this election against the higher financial liabilities and consider which classes of assets to apply this election to. Factors to consider include the amount and frequency of the lease payments.*

Once you decide whether to use the incremental borrowing rate or the risk-free rate, determine the applicable rate to be used based on the relevant criteria outlined above.

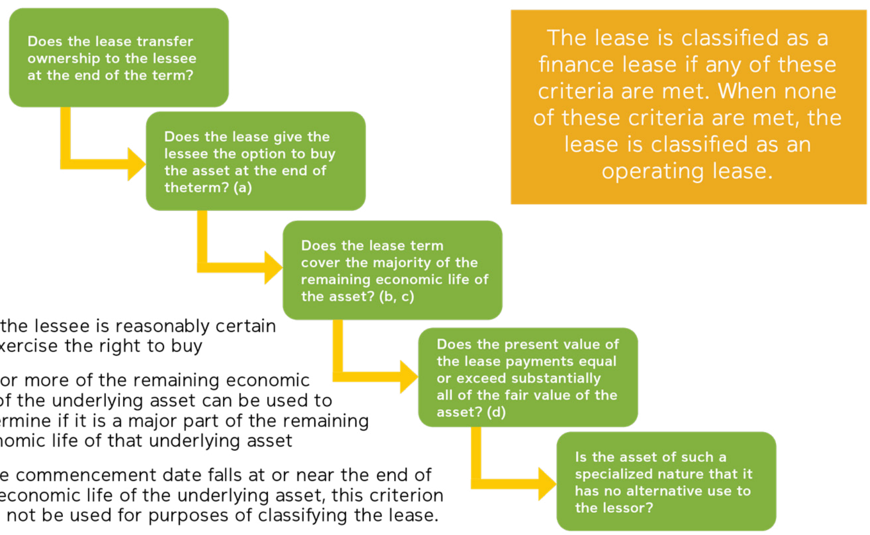
Action Item #7: Using the rate determined in Action Item #5 or #6, input the rate for the lease agreement for the purpose of the lease standard calculation. *Quick tip: This step aligns with Section 4 of the Lease Information Gathering Form. Continue moving down the Lease Information Gathering Form to Section 4 for each of the leases identified in Part One.*

Step 5: Determine the Classification of a Lease

Under the new standard, lease classification no longer determines if a lease will be recorded as an asset and liability on the statement of financial position, since all leases are recorded. The classification criteria are very similar to the previous lease classification criteria. Essentially an operating lease permits the use of an asset without transferring the ownership right of that asset for a major part of the asset's life.

Lease classification is determined at the commencement date and affects the amount and timing of lease expense. Operating leases require lease expenses to be recognized on a straight-line basis over the lease term. Financing leases recognize interest expense and amortization expense, which generally results in higher expenses at the beginning of the lease that decrease over the lease term.

The following flowchart is used to determine classification:



(a) And the lessee is reasonably certain to exercise the right to buy

(b) 75% or more of the remaining economic life of the underlying asset can be used to determine if it is a major part of the remaining economic life of that underlying asset

(c) If the commencement date falls at or near the end of the economic life of the underlying asset, this criterion shall not be used for purposes of classifying the lease.

A commencement date that falls within the last 25% of the total economic life of the underlying asset can be used as a basis for determining if the contract falls at or near the end of the economic life of the underlying asset at the commencement date.

(d) 90% or more of the fair value of the underlying asset can be used as a basis for determining if it amounts to substantially all the fair value of the underlying asset

Action Item #8: Use the chart above to determine the lease calculation for the purpose of the lease standard calculation and related financial statement disclosures. *Quick tip: This step aligns with Section 5 of the Lease Information Gathering Form. Continue moving down the Lease Information Gathering Form to Section 5 for each of the leases identified in Part One.*

After completing Steps 1 and 2, which are outlined in Part One, and the steps provided here, you will have successfully navigated through the key decisions that affect the accounting for each of your lease contracts. In our next article, we'll walk through the calculations for recognition and initial measurement of your organization's lease contracts as well as the calculations for ongoing measurement.

Implementing the New Accounting Standard for Leases: Part Three

By Tammara Williamson, Partner

Is your organization ready for the new accounting standard for leases? ASC 842 introduces new definitions, classifications, and disclosures, among other changes. This article is the third in a series designed to walk you through the steps in the Key Lease Decision Reference Guide available in the free CapinCrouse Lease Toolkit.

These articles provide important action items in a quick, easy-to-read format to make the adoption of the new standard more manageable. Part One and Part Two cover Steps 1 through 5. Now let's look at Steps 6 and 7, which will help you determine the calculations for recognition and initial measurement and determine the ongoing (or subsequent) measurement.

Step 6: Determine the Calculations for Recognition and Initial Measurement

If you've been following the steps in the first two articles in this series, at this point you will have determined:

- If the contract contains a lease
- Which payments are considered part of the lease standard calculation
- The lease term
- The discount rate
- The classification of the lease

Once you have gathered this information, you're ready to make the initial calculation.

Action Item #1: Calculate the initial lease liability and right-of-use asset. A lessee must recognize a lease liability and right-of-use asset for all leases. Recognition and measurement of a lease occur at the commencement date. The lease commencement date is the date the lessor makes the asset available for use by the lessee.

The lease asset will be equal to the lease liability at the start of the lease, adjusted for any prepaid rent, initial direct costs, and lease incentives. The initial right-of-use asset and lease liability will be the same for operating leases and finance leases.

As a reminder, lease payments are reduced by any future fixed incentives that are payable to you as the lessee. Therefore, if the contract includes the right to receive a payment in the future, enter the lease incentive as a negative payment amount at the applicable date in the payment column of the Lease Calculation Tool, which is available as part of our free CapinCrouse Lease Toolkit.

Quick tip: Section 6 of the Lease Information Gathering Form in the CapinCrouse Lease Toolkit summarizes the information needed for the initial measurement calculation. If you've taken the action steps in Part One and Part Two of this article series, you will have completed this section.

Quick tip: Open the CapinCrouse Lease Calculation Tool. Depending on whether the lease is an Operating Lease or Finance Lease, complete Quadrant 1 Column D of the respective tab using the information found in Section 6 of the Lease Information Gathering Form. The initial measurement of the right-of-asset and liability will auto-populate in Row 23 within Quadrant 2.

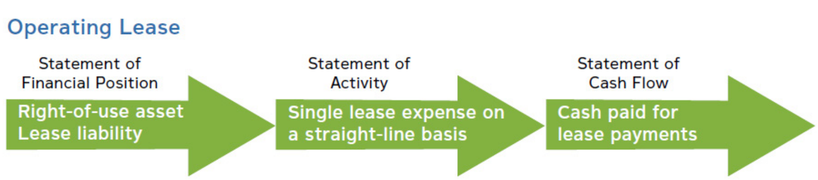
Note the following:

1. *For the initial measurement to calculate correctly, you will need to update the payment dates in Quadrant 2 Column B to reflect the details shown in Quadrant 1. The Lease Calculation Tool has examples so you can easily see how the tool works.*
2. *Do not delete any of the tabs in the workbook. If there are tabs you don't need, simply remove the information in Quadrant 1 Column D and then hide the unused tabs.*
3. *The Lease Calculation Tool has a number of protected cells that cannot be modified. These protected cells are the key cells needed for accurate calculations.*

Step 7: Determine the Ongoing (or Subsequent) Measurement

Once you've completed the initial measurement of the right-of-use asset and liability, you must determine the necessary entries to accurately capture the subsequent measurement of the lease.

Finance leases will result in greater expense in the early years of the lease term and a lesser expense in the later years. Conversely, operating leases will result in a single straight-line lease expense throughout the lease term, unless another pattern is more representative of the lessee's anticipated consumption of the asset's future economic benefits.



- Statement of Financial Position:
  - Right-of-use asset: Measured at the current lease liability +/- prepaid lease payments and unamortized initial direct costs
  - Operating lease liability: Measured at the present value of remaining lease payments using the discount rate established at the beginning of the lease term
- Statement of Activities: Lease expense is recognized on a straight-line basis. If the payments vary over the lease term, the lease expense should be straight-lined over the lease term.
- Statement of Cash Flows: Cash paid for lease payments (operating activities)

- Statement of Financial Position:
  - Right-of-use asset: Amortized over the lease term. Amortized over the useful life of the underlying asset if the lease transfers ownership and the lessee is reasonably certain to exercise an option to purchase the asset.
  - Finance lease liability: Measured at the initial lease liability plus interest on the liability less payments made
- Statement of Activities:
  - Amortization expense: amortization of the right-of-use asset
  - Interest expense: interest on the finance lease liability
- Statement of Cash Flows:
  - Cash paid for principal payments (financing activities)
  - Interest payments (supplemental disclosure)

Action Item #2: Calculate the ongoing (or subsequent) measurement of the lease. See pages 14 – 15 of the Key Lease Decision Reference Guide for examples of commencement date, year 1, and year 2 entries for operating and finance leases.

Quick tip: Once Quadrant 2 Column B of the Lease Calculation Tool is updated for the accurate payment dates as shown in the examples mentioned above, the tool will calculate the ending balances for the right-of-use asset and liability at each payment date. It will also calculate the liability reduction, right-of-use asset reduction, and lease expense (for operating leases) or liability reduction, interest expense, and amortization expense (for financing leases) in Quadrant 3. For these calculations to be correct, you will need to manually update the links in Columns O and P to correspond to your fiscal year.

In subsequent years, you won't need to create a new workbook for each lease. Just update the years and links in Quadrant 3 to the current year for accurate calculations.

After completing these steps, you will have successfully navigated through the key decisions that affect the accounting for each of your lease contracts and completed the initial and subsequent measurements based on those decisions and the underlying contracts.

In Part Four, we'll walk through the transition guidance for adopting the standard.

Implementing the New Accounting Standard for Leases: Part Four

By Lisa Wabby, Senior Manager

In this series of articles on the new accounting standard for leases, ASC 842, we have been breaking down the implementation steps provided in the Key Lease Decision Reference Guide available in the free CapinCrouse Lease Toolkit. Parts One, Two, and Three cover the first seven steps. In this final installment in the series, we walk through the transition guidance for adopting the new standard and discuss the key financial statement presentation and disclosure provisions. This will provide you with the final action items for adopting ASC 842.

Step 8: Elect Transition Guidance

If your organization hasn't adopted the new standard yet, note that it will be required for all nonprofits with fiscal years beginning after December 15, 2021 (calendar 2022 year-end; fiscal years ending in 2023).

Adoption of ASC 842 requires organizations to use a modified retrospective approach, which is intended to alleviate some of the implementation challenges.

There are also several practical expedients that provide relief in the adoption of the new standard as well as simplify ongoing compliance.

Prior Period Presentation

If your organization presents single-year financial statements, you will recognize and measure all of your leases as of the beginning of the reporting period by making a retrospective adjustment to record the leases.

If you present comparative financial statements, you can elect to make this adjustment as of the beginning of the earliest period presented *or* elect to make this adjustment as of the adoption date. In the latter scenario, the prior year would be presented under the previous guidance in ASC 840 and the current year would be presented under the new guidance in ASC 842.

Action Item #1: Determine whether to apply the new standard as of the date of adoption or as of the earliest period presented. Your organization must decide whether it is necessary to present comparative financial statements under the new lease guidance or if you can apply the transition relief and use the new guidance only in the current reporting period, which may significantly ease your adoption efforts.

Package Election

The transition guidance within ASC 842 contains several policy elections and practical expedients. The first practical expedient is referred to as the "package of three" transition relief. Organizations must either elect all three of these or none of them.

This election would be applied to leases commenced before the standard's effective date and would allow your organization to not reassess the following:

- Whether any expired or existing contracts are or contain leases – This expedient does not cover incorrect assessments, such as failing to identify an embedded lease.
- The lease classification for any existing or expired leases – All existing leases that were classified as operating leases under the prior lease standard will be classified as operating leases under the new standard. All existing leases that were classified as capital leases under the prior standard will now be classified as finance leases under the new standard.
- Initial direct costs for any existing leases – Your organization will not need to reassess whether these costs would have qualified for capitalization under the new lease accounting standard.

Action Item #2: Decide whether your organization will adopt the "package of three" relief package. If elected, this package of practical expedients should be applied to all leases consistently. If you decide not to adopt it, you should reassess the lease classification as of the commencement date of the lease or the lease modification date.

Quick tip: Electing this transition relief will reduce the time and effort your organization will spend on implementing the new standard since you will not need to reanalyze existing leases for decisions that were properly made under the prior lease standard.

Hindsight

Your organization can elect to use hindsight when determining the lease term and assessing the impairment of right-of-use assets. You can consider the actual outcome of lease renewals, termination options, and purchase options as well as impairment of a right-of-use asset for leases commenced before the standard's effective date.

Action Item #3: Determine whether your organization will use hindsight. If elected, hindsight should be applied to all leases consistently.

Quick tip: Since it eliminates the need to determine the impact of remeasurements and impairments in initial calculations, adopting this package of practical expedients may increase the accuracy of the information used for key decisions in the implementation of the new lease standard. However, it could be a labor-intensive process since it must be applied to all leases.

Discount Rate

The transition guidance requires organizations to determine the discount rate at the transition date (versus the inception of the lease). However, the guidance does not specify whether that rate should be based on the original term or the remaining term of the lease. Organizations appear to have a policy choice here that will impact the operating lease liability recognized at the transition date, which organizations must apply consistently to all leases.

Action Item #4: Decide whether your organization will use the original term or the remaining term of the lease in determining the applicable discount rate.

Accounting Policy Elections

In the Key Lease Decision Reference Guide and our prior articles in this series, we walked through the following accounting policy elections:

- Short-term leases – An organization can make an accounting policy election by class of underlying asset to not record leases with a term of 12 or fewer months on the statement of financial position. The lease must not include an option to purchase the underlying asset that the lessee is reasonably certain to exercise. The lease term would include renewals that the lessee is reasonably certain to exercise.
- Separation of lease and nonlease components (Step 2) – Lessees may make an accounting policy election by class of underlying asset to not separate lease components from nonlease components. If you make this accounting policy election, your organization is required to account for the nonlease components together with the related lease components as a single lease component.
- Discount rate: elect the risk-free rate (Step 4) – As a nonpublic business entity, you can make an accounting election to use a risk-free discount rate by class of underlying asset.

Practical Expedient Summary

Summary of Optional Relief for Lessees Under ASC 842	
Transition Elections	**Accounting Policy Elections**
Package election: no reassessment of contracts, lease classification, or initial direct costs	Separation of lease and nonlease components
Hindsight	Short-term leases
Prior period presentation	Discount rate: elect risk-free rate
Discount rate at adoption	

Action Item #5: Disclose the election of any of the transition relief and practical expedients in the notes to the financial statements.

Key Financial Statement Presentation and Disclosure Provisions

The Appendix of our Key Lease Decision Reference Guide provides a comprehensive overview of the required financial statement presentation and related disclosures. In addition, if your organization uses the CapinCrouse Lease Calculation Tool provided in our Lease Toolkit, two tabs in the workbook (the FS presentation tab and the FN Disclosures tab) provide the summarized information needed to prepare your financial statements.

Let's look at some of the key items.

Statement of Financial Position

Organizations can report right-of-use lease assets and lease liabilities in individual line items on the statement of financial position or include them with another related class; however, you must follow these provisions:

- Operating lease right-of-use assets and finance lease right-of-use assets cannot be presented in the same line item in the statement of financial position. Similarly, operating lease liabilities and finance lease liabilities are prohibited from being presented in the same line item in the statement of financial position.
- If the above lease items are not presented separately from other assets and liabilities in the statement of financial position, the notes to the financial statements should include a disclosure of which line items are included.

  Quick tip: You can choose to present one class of leases in a stand-alone line item and present the other class of leases in a line item combined with other similar accounts. Make this determination based on the overall materiality of the class of leases. Typically, the lease asset and lease liability presentation should mirror each other for each class of leases.
- If your organization presents a classified statement of financial position, right-of-use assets and lease liabilities should be appropriately classified as current and noncurrent.

Statement of Activity

For finance leases, interest expense on the lease liability and amortization of the right-of-use asset should be presented in the statement of activities, consistent with the presentation of other interest expense and amortization or depreciation of similar assets.

For operating leases, lease expense is included in general operating expenditures.

Quick tip: Expenses from lease contracts are not required to be presented as separate line items in the statement of activities.

Statement of Cash Flow

For finance leases, the principal payments will be reported under cash flows from financing activities and the interest paid on the leases should also be reported. Amortization of the right-of-use asset should be included with other amortization.

For operating leases, the lease payments (expenses) are included in cash flows from operating activities.

Notes to the Financial Statements

Our Lease Calculation Tool conveniently summarizes the key quantitative disclosures for all your lease contracts. The protected formulas on the FN Disclosures tab allow the updates you make on the individual lease calculation tabs to properly flow to the summarized disclosures, including those for lease costs, weighted-average discount rate and remaining lease term, and future minimum lease payments.

The Lease Calculation Tool also provides sample narrative descriptions you can use as a template for writing individual narratives for the required qualitative disclosures.

The new lease standard is complex, but the CapinCrouse Lease Toolkit provides you with the resources you need to adopt the standard efficiently and effectively. You can access your free Lease Toolkit here.

Please contact us with questions or to discuss how we can assist your organization with the implementation process.

About the Authors

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Tammara joined CapinCrouse in October 2010. As a partner in the Colorado Springs office serving the firm's West region, she provides various assurance and advisory services to numerous types of nonprofit organizations, including churches, camping ministries, mission-sending organizations, and colleges and universities.

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Lisa joined CapinCrouse in July 2006. She has acquired a broad range of experience through serving a variety of clients within the nonprofit industry, including churches, colleges, foundations, international mission organizations, and voluntary health and welfare organizations.

About CapinCrouse

As a national full-service CPA and consulting firm devoted to serving nonprofit organizations, CapinCrouse provides professional solutions to organizations whose outcomes are measured in lives changed. For 50 years, the firm has served domestic and international outreach organizations, universities and seminaries, foundations, media ministries, rescue missions, relief and development organizations, churches and denominations, and many others by providing support in the key areas of financial integrity and security.

With a network of offices across the nation, CapinCrouse has the resources of a large firm and the personal touch of a local firm. Learn more at capincrouse.com.

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