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**THIS LETTER IS FOR INTERNAL PURPOSES ONLY**

**THE FOLLOWING INFORMATION REFLECTS UPCOMING ACCOUNTING  
PRONOUNCEMENTS WHICH MAY AFFECT THE ORGANIZATION**

February 21, 2023

To the Finance - Audit Committee  
Michigan State Bar Foundation

**Financial Accounting Standards Board Accounting Standards Update No. 2016-02, Leases**

The Financial Accounting Standards Board (FASB) issued its long-awaited new leases standard in February 2016. The standard will apply to all organizations including nonprofits, and substantially all leases. The lease standard's effective date has been recently extended and will apply for fiscal years beginning after January 1, 2022. Therefore, the Organization plans to adopt this lease standard October 1, 2022.

The FASB Board concluded there are two different types of leases, for both lessors and lessees. The criteria used to distinguish between each type is the same, which is whether the lessee acquires and consumes more than an insignificant portion of the underlying asset during the leases term. However, the model applicable to a lessor or lessee differs based on the amount of consumption of the lease.

Lessees would recognize all leases on the balance sheet (other than short-term leases) by recording a right-to-use asset and a lease payment liability. However, the profit and loss impact over the life of the lease would be as follows:

- Property leases (land or a building) would be accounted for using the straight-line approach unless the lease term is for the major part of the economic life of the underlying asset, or the present value of fixed lease payments accounts for substantially all of the fair value of the underlying asset.
- All other leases would be accounted for using an accelerated approach unless the lease term is an insignificant portion of the economic life of the underlying asset, or the present value of the fixed lease payments is insignificant relative to the fair value of the underlying asset.

In other words, property leases are presumptively straight-line, while all other leases will reflect an accelerated pattern of expense recognition.

Lessors would also report two types of leases. A receivable and residual approach would apply to leases for which the lessee acquires and consumes more than an insignificant portion of the underlying asset over the lease term. Otherwise, rental income would be recognized on a straight-line basis.

To apply the receivable and residual approach:

- Lessors would derecognize the underlying asset, recognize a receivable for the right to receive lease payments and a residual asset for the asset that will be returned to the lessor at the end of the lease term.
- The receivable would be measured at the present value of the lease payments, while the residual asset would equal the present value of the estimated residual asset at the end of the term plus deferred profit, which is the difference between the gross residual asset and the carrying amount of the underlying asset.
- Subsequently, the lease receivable would be reduced using the effective interest method, while the residual asset would be reduced to its estimated value at the end of the lease term.

There can be a significant effect on ratios such as debt to equity and others of that type. We recommend a review of this standard with existing debt covenant requirements to determine any potential noncompliance issues.

We would be pleased to discuss this accounting standard update in further detail at your convenience, should you have questions or concerns regarding its' impact on Michigan State Bar Foundation. This report is intended solely for the information and use of the Board of Trustees, Michigan State Bar Foundation management, and others within the Foundation, and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

*Maney Costeiran PC*