NFP GAAP Update

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ASU Number	Subject	Effective for Calendar Year	
		Issuers/Obligors	All Other NFPs
2016-07	Investments – Equity Method and Joint Ventures		2017
2017-02	Clarifying When a Not-for-Profit GP or LP Should Consolidate a For-Profit LP or Similar Entity		2017
2016-14	Financial Statement Presentation of Not-for-Profit Entities		2018
2016-350 (Proposed)	Technical Correction to ASU 2016-14 to Remove the wording "that contain no purpose restrictions" from Endowment Reconciliation Guidance		2018
2014-09, 2016-08, 2016-10, 2016-12, 2016-20, 2017-05	Revenue from Contracts with Customers "Suite"	2018	2019
2017-10	Service Concession Arrangements – Determining the Customer of the Operation Services	2018	2019
2018-08	Clarifying the Scope and Accounting Guidance for Contributions Received and Made	2018	2019
2016-01	Financial Instruments – Recognition and Measurement of Financial Assets and Liabilities		2019
2016-15	Statement of Cash Flows – Classification of Certain Cash Receipts and Payments		2019
2016-18	Statement of Cash Flows – Restricted Cash		2019
2017-01	Business Combinations – Clarifying the Definition of a Business		2019
2017-07	Improving the Presentation of Net Periodic Pension and Postretirement Benefit Cost		2019
2016-02	Leases	2019	2020
2016-13	Financial Instruments – Credit Losses		2021
2017-04	Simplifying the Test for Goodwill Impairment		2022
2017-200 (Proposed)	Simplifying the Balance Sheet Classification of Debt		First FS after issue

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Upcoming Effective Dates: The "Big Three" for NFPs

Not-for-Profit Financial Statements — CY 2018* (All)

Revenue — CY 2018* (Public)
CY 2019* (Non-public)

Leases — CY 2019* (Public)
CY 2020* (Non-public)

*or FYs beginning in those years

NOTE: "Public" for Revenue and Leases includes NFPs with publicly-traded conduit (or direct) debt

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Presentation of Financial Statements of NFP Entities

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NFP Financial Statements ASU – Key Objectives
(recommended by FASB's NFP Advisory Committee (NAC))

- Update, not overhaul, the current model
- Improve net asset classification scheme
- Improve information in financial statements and notes about: financial performance, cash flows, and liquidity
- Better enable NFPs to "tell their financial story"

Issued August 18, 2016, ASU No. 2016-14

Key Provisions of ASU 2016-14

Liquidity and Availability

Quantitative & qualitative disclosures about liquidity and availability of resources

Net Asset Classification

Updated net asset classification scheme to two classes, changes to underwater endowment accounting, enhanced disclosures

Expenses

Requirement to report expenses by function (already required), nature, and an analysis showing the relationship between function and nature

Statement of Cash Flows

Continue to allow direct or indirect method for operating cash flows; indirect reconciliation no longer required for direct method

Investment Return

Present investment return net of external and direct internal investment expenses, no longer required to disclose netted expenses

Net Assets

Current GAAP	Unrestricted	Temp. Restricted	Perm. Restricted
Revised GAAP	**Without Donor Restrictions***	**With Donor Restrictions***	
+			
Disclosures	**Amount, purpose, and type of board designations ****	**Nature and amount of donor restrictions**	

*** NFPs may choose to disaggregate further**
**** New disclosure requirement**

Balance Sheet Presentation

Net Assets		
Without donor restrictions		
Undesignated	3,057,607	1,370,401
Designated by the Board for operating reserve	300,000	250,000
Designated by the Board for endowment	15,511,186	14,912,222
Invested in property and equipment, net of related debt	21,150,885	20,193,878
	40,019,678	36,726,501
With donor restrictions		
Perpetual in nature	22,864,750	22,450,146
Purpose restrictions	14,228,316	10,351,233
Time-restricted for future periods	1,391,825	1,279,636
Underwater endowments	-	(42,677)
	38,484,891	34,038,338
Total net assets	78,504,569	70,764,839
Total liabilities and net assets	$ 94,314,447	$ 86,137,541

Statement of Activities Presentation

Pre-adoption

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Support, and Gains				
Program service fees	$ 12,972,526	$ -	$ -	$ 12,972,526
Exchange portion of membership dues	373,781	-	-	373,781
Gift shop sales	112,364	-	-	112,364
Less cost of goods sold	(59,621)	-	-	(59,621)
Net gift shop sales	52,743	-	-	52,743
Net investment return	1,173,826	3,369,715	-	4,543,541
Other revenue	101,275	-	-	101,275
Federal and state contracts and grants	256,663	-	-	256,663
Contributions	3,352,578	2,528,554	330,409	6,211,541
Donated professional services	23,555	-	-	23,555
In-kind contributions	36,280	-	-	36,280
Gross special events revenue	114,989	-	-	114,989
Less cost of direct benefits to donors	(12,601)	-	-	(12,601)
Net special events revenue	102,388	-	-	102,388

Post-adoption

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Program service fees	$ 12,972,526	$ -	$ 12,972,526
Exchange portion of membership dues	373,781	-	373,781
Gift shop sales	112,364	-	112,364
Less cost of goods sold	(59,621)	-	(59,621)
Net gift shop sales	52,743	-	52,743
Net investment return	1,131,149	3,412,392	4,543,541
Other revenue	101,275	-	101,275
Federal and state contracts and grants	256,663	-	256,663
Contributions	3,352,578	2,858,963	6,211,541
Donated professional services	23,555	-	23,555
In-kind contributions	36,280	-	36,280
Gross special events revenue	114,989	-	114,989
Less cost of direct benefits to donors	(12,601)	-	(12,601)
Net special events revenue	102,388	-	102,388

NFPs required to provide:

Qualitative information on how an NFP manages its liquid available resources and its liquidity risk (in the notes)

Quantitative information that communicates the availability of an NFP's financial assets at the balance sheet date to meet cash needs for general expenditures within one year (on the face and/or in the notes)

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Availability Disclosure

<u>Quantitative</u> information either on the face of the statement of financial position or in the notes, and additional qualitative information in the notes as necessary, that communicates the **<u>availability of an NFP's financial assets</u>** at the date of the statement of financial position to meet cash needs for **<u>general expenditures within one year</u>** of the date of the statement of financial position

Availability of a financial asset may be affected by

- Its **<u>nature</u>**
- **<u>External limits</u>** imposed by donors, laws, and contracts with others
- **<u>Internal limits</u>** imposed by governing board decisions.

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Example Liquidity Disclosure

Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	$	4,851,231
Operating investments		723,006
Accounts receivable		312,216
Promises to give		985,846
Distributions from assets held under split-interest agreements		145,000
Distributions from beneficial interests in assets held by others		180,110
Endowment spending-rate distributions and appropriations		1,115,664
	$	8,313,073

Our endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

Our board-designated endowment of $15,511,186 is subject to an annual spending rate of 4.5 percent as described in Note 9. Although we do not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of our Board's annual budget approval and appropriation), these amounts could be made available if necessary.

As part of our liquidity management plan, we invest cash in excess of daily requirements in short-term investments, CDs, and money market funds. Occasionally, the Board designates a portion of any operating surplus to its operating reserve, which was $300,000 as of December 31, 201X.

Example – Foundation

The table below presents financial assets available for general expenditures within one year at December 31, 20X1 (in thousands):

Financial assets at year end:		
Cash and cash equivalents	$	70,000
Collateral under security lending agreements		20,000
Contributions receivable		210,000
Other receivables		10,000
Due from broker		8,000
Investments		2,200,000
Total financial assets		2,509,000
Less amounts not available to be used within one year:		
Investments in non-liquid securities		(1,023,000)
Investments held in custodial and non-custodial trusts		(65,000)
Collateral under security lending agreements		(20,000)
Contribution receivable - for restricted gifts, net		(82,000)
Contribution receivable - due after one year, net		(106,000)
Investments held for quasi-endowments		(250,000)
Financial assets not available to be used within one year		(1,546,000)
Financial assets available to meet general expenditures within one year	$	963,000

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Example – Foundation (Continued)

Note – Liquidity and Availability

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund programs. In addition, the Foundation receives support without donor restrictions; such support has historically represented approximately 65% of annual program funding needs, with the remainder funded by investment income without donor restrictions and appropriated earnings from gifts with donor restrictions.

The Foundation considers investment income without donor restrictions, appropriated earnings from donor-restricted and board-designated (quasi) endowments, contributions without donor restrictions and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, fundraising expenses and grant commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Foundation's fiscal year.

The Foundation manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long term grant commitments and obligations under endowments with donor restrictions and quasi-endowments that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

The Foundation's Grant Committee (the Committee) meets semi-annually to review and approve grant requests. Due to this timing, the Foundation strives to maintain financial assets available to meet general expenditures at a level that represents 100% of annual expenses for administrative, general, and fundraising expenses plus an amount that represents the next expected payment for semi-annual grant commitments approved by the Committee, which typically represents approximately 50% of the expected annual grant cash needs.

Example - Association

Note X - Information Regarding Liquidity and Availability

The Association strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in certificates of deposit, money market funds and other short-term investments.

The following table reflects the Association's financial assets as of December 31, 2017 and 2016, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. Amounts not available include certain alternative investments with redemption limitations as more fully described in note XX and a board-designated special projects fund that is intended to fund special board initiatives not considered in the annual operating budget. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. Amounts not available to meet general expenditures within one year also may include net assets with donor restrictions. There were no net assets with donor restrictions at December 31, 2017 and 2016.

	2017	2016
Cash and cash equivalents	$ 2,740,000	$ 2,690,000
Investments	11,100,000	12,250,000
Accounts receivable	325,000	650,000
Total financial assets	14,165,000	15,590,000
Investments with liquidity horizons greater than one year	(1,250,000)	(1,450,000)
Cash collateral related to letter of credit	(275,000)	(325,000)
Board-designated special projects fund	(1,000,000)	(1,000,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 11,640,000	$ 12,815,000

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Example – Social Services

Note X – Liquidity and Availability

		6/30/X1		6/30/X0
Total financial assets	$	78,600	$	94,801
Donor-imposed restrictions:				
Restricted Funds		(1,613)		(1,584)
Endowments		(8,288)		(8,616)
Net financial assets after donor-imposed restrictions		68,699		84,601
Internal designations:				
Board Advised Funds		(25,071)		(27,709)
Gift Annuities		(7,693)		(7,793)
Quasi-endowments		(329)		(309)
Financial assets available to meet cash needs for general expenditures within one year	$	35,606	$	48,790

The organization receives significant contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The organization has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 30 days operating expenses. The organization has a policy to target a year-end balance of reserves of unrestricted, undesignated net assets to meet 15 to 30 days of expected expenditures. To achieve these targets, the entity forecasts its future cash flows and monitors its liquidity quarterly, and monitors its reserves annually. During the years ended June 30, 20X1 and 20X0, the level of liquidity and reserves was managed within the policy requirements.

Example – NFP with Deficiency in the Composition of Assets to Comply with Donor-Imposed Restrictions

	Option 1		Option 2	
Cash	$ 1,050		$ 1,050	
Receivables	3,210		3,210	
Total financial assets	4,260		4,260	
Receivables scheduled to be collected in more than one year	(2,200)		(2,200)	
Contractual or donor-imposed restrictions:				
Donor contributions restricted to specific purposes	(3,750)	*	(1,910)	*
Funds restricted by lender	(150)		(150)	
Financial assets available to meet cash needs for general expenditures within one year	$ (1,840)		$ -	

* Donations restricted for purposes more limited than general expenditures total $3,750.

Codification references:

958-210-50-2 An NFP shall disclose the following, if applicable, in the notes to the financial statements and may include that information in qualitative disclosures on the availability of an NFP's financial assets in accordance with paragraph 958-210-50-1A(b):

b. The fact that the NFP has not maintained appropriate amounts of cash and cash equivalents to comply with donor-imposed restrictions (see paragraph 958-450-50-3)

958-450-50-3 If the noncompliance results from a not-for-profit entity's (NFP) failure to maintain an appropriate composition of assets in amounts needed to comply with all donor restrictions, the amounts and circumstances shall be disclosed.

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Net Investment Return

How to present?

- **Net presentation** of investment expenses against investment return on the face of the statement of activities
  - Netting limited to external and **direct** internal expenses
  - May report net return in **multiple**, appropriately labeled lines (e.g., from different portfolios, in different net asset classes, or in operating versus nonoperating)

What to disclose?

- Disclosure of investment expenses **no longer required**
  - If reported, carefully label and don't include in expense analysis
- No longer require disclosure of investment return **components**

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Pre-adoption

Total expenses by function	13,400,588	2,464,694	15,865,282	908,593
Less expenses included with revenues				
on the statement of activities				
Gift shop cost of goods sold	(59,621)	-	(59,621)	-
Cost of direct benefits to donors	-	-	-	-
Investment management fees	-	-	-	(25,000)
Total expenses included in the expense section on the statement of activities	$ 13,340,967	$ 2,464,694	$ 15,805,661	$ 883,593

Statement of Functional Expenses: Investment Expenses Presentation

Post-adoption

Total expenses by function	13,400,588	2,464,694	15,865,282	883,593
Less expenses included with revenues				
on the statement of activities				
Gift shop cost of goods sold	(59,621)	-	(59,621)	-
Cost of direct benefits to donors	-	-	-	-
Total expenses included in the expense section on the statement of activities	$ 13,340,967	$ 2,464,694	$ 15,805,661	$ 883,593

Incentive to Use Direct Method for Cash Flow Statement

Continue to allow choice between the Direct Method and the Indirect Method in presenting operating cash flows

- However, indirect reconciliation no longer required for Direct Method

Direct

	2016	2015
Cash received from donors for operations	$ 1,756,001	$ 1,390,824
Cash received from program fees and other	700,622	645,201
Cash payments to employees	(1,257,765)	(1,319,769)
Cash payments to vendors and others	(1,046,017)	(983,776)
Cash paid for interest	(47,878)	(32,922)
Net Cash From Operating Activities	**104,963**	**(300,442)**

Indirect

	2016	2015
Change in net assets	$ (97,821)	$ (540,070)
Adjustments to reconcile change in net assets to net cash from operating activities-		
Depreciation and amortization	269,584	254,559
Contributions restricted for property purchases	(60,582)	
(Gains) losses on investments	(22,060)	2,574
Changes in operating assets and liabilities:		
Grants and pledges receivable	(125,862)	27,305
Prepaid expenses and other assets	26,615	(2,300)
Accounts payable and accrued expenses	59,108	(44,825)
Deferred revenue	55,981	2,315
Net Cash From Operating Activities	**104,963**	**(300,442)**

Revenue Recognition (Topic 606)

Revenue Recognition—Model

- Core Principle:

> Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services

- Steps to apply the core principle:

1. Identify contract(s) with the customer

2. Identify performance obligations

3. Determine transaction price

4. Allocate transaction price

5. Recognize revenue when (or as) a performance obligation is satisfied

Revenue Recognition—Transition

		PY (2017)		CY (2018)	CY Footnotes
Retrospective (with optional practical expedients)	**Cumulative catch-up**				
Cumulative effect at date of application			**Cumulative catch-up**	Existing* and new contracts under new standard	Existing and new contracts disclosed under <u>legacy</u> standard for CY (2018)

* contracts for which all (or substantially all) of the revenue has not been recognized under legacy revenue guidance

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Revenue Recognition—Disclosure

Disaggregation of revenue	• Qualitative and quantitative* disaggregation of revenue into categories that depict how revenue and cash flows are affected by economic factors
Information about contract balances	• Opening and closing balances* • Amount of revenue recognized from contract liabilities* • Explanation of significant changes in contract balances*
Remaining performance obligations	• Transaction price allocated to remaining performance obligations* • Quantitative or qualitative explanation of when amounts will be recognized as revenue*
Interim requirements	• Quantitative disclosures*

* Required for public entities only. These include NFPs with publicly-traded conduit (or direct) debt. Optional for other entities.

What organizations will likely be impacted?

Museums

Performing arts groups

Schools

Colleges and Universities

Trade Associations

Hospitals and clinics

Other specialized nonprofits

Organizations holding fundraising events

Contributions (**Out of Scope**)

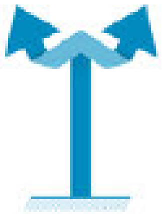
Bifurcation

Examples of transactions that may be in part a contribution and in part an exchange transaction include the following:

- Membership dues
- Grants, awards, and sponsorships
- Naming opportunities
- Donor status
- Gifts in kind

Bifurcation

- 958-605-55-2
  - "… A grant, sponsorship, or membership may be entirely a contribution, entirely an exchange, or a combination of the two…"
- 958-605-55-6
  - "Moreover, a single transaction may be in part an exchange and in part a contribution… See paragraphs 958-720-45-18 through 45-19… 958-220-55-11 through 55-15 for direct benefits provided to donors at special events."



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Tuition and Fees

Deposits & Billing

Tuition Fees & Revenue Accounting:

- Deposit made before classes start
- Student enrolls
- Student pays tuition bill
- Institution recognizes refund liability
- Institution provides first day of class
- Student withdrawals after day 1
- Student withdrawal period ends after 2 weeks
- Recognize revenue through the end of the semester

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Tuition and Fees

- STUDENT PAYS TUITION BILL BEFORE CLASSES

a) Student pays nonrefundable enrollment deposit of $1,000 (represents 10% of tuition bill) prior to enrollment

DR.	**Cash**	**$1,000**	
CR.	**Contract Liability (Deferred Revenue)**		**$1,000**

b) Student enrolls and bills sent to student for $9,000 balance of tuition

No entry

[No entry because revenue recognition has not yet commenced and the institution does not yet have an unconditional right to consideration given the 2 week cancellation (withdrawal) period.]

Tuition and Fees

- STUDENT PAYS TUITION BILL BEFORE CLASSES

c) Student pays tuition bill

DR.	**Cash**	**$9,000**	
CR.	**Contract Liability (Deferred Revenue)**		**$9,000**

d) Institution recognizes refund liability

DR.	**Contract Liability**	**$450**	
CR.	**Refund Liability**		**$450**

[Refund liability is estimated using the expected value method, determined using a portfolio approach. $450 represents the applicable refund estimate per student ($9,000 potentially refundable x 5% refund estimate)]

Tuition and Fees

- STUDENT PAYS TUITION BILL BEFORE CLASSES

e) Institution provides the first day of class

DR.	**Contract Liability**	**$95.50**	
CR.	**Revenue**		**$95.50**

[Continue to recognize revenue ratably over the semester and adjust contract liability and refund liability. ($95.50 = $10,000 revenue/100 days less refund estimate)]

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Tuition and Fees

- STUDENT PAYS TUITION BILL BEFORE CLASSES

f) At the end of day 1, student partially withdraws by dropping a class and tuition is reduced by $1,000.

DR.	**Contract Liability**	**$550**	
DR.	**Refund Liability**	**450**	
CR.	**Cash**		**$1,000**

g) Throughout the remainder of semester

DR.	**Contract Liability**	**$90/day**	
CR.	**Revenue**		**$90/day**

[Continue to recognize revenue ratably over the semester and reduce contract liability. Revenue is recognized ratably over the 100-day semester ($9,000/100 days)]

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Tuition and Fees

- STUDENT PAYS TUITION BILL BEFORE CLASSES

h) True up Revenue/Contract Liability for Day 1

DR.	**Revenue**	**$5.50**	
CR.	**Contract Liability**		**$5.50**

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Gala Dinner Ticket

Special event with ticket price of $500

- Cost of dinner and entertainment is $100
- Fair value of dinner and entertainment is $175
- Purchasers of dinner ticket also receives guaranteed entry to special museum exhibit – admission to museum is free, but the museum has donated event entry to other nonprofits with a suggested price of $50

How much of this is a contribution?

How would you allocate the price of the exchange transaction portions?

How does the museum present this on its financial statements?

Gala Dinner Ticket (Continued)

Contribution = $275 ($500; minus $175 fair value of dinner; minus $50 museum entry price)
Exchange element = $225 ($175 fair value dinner + $50 museum entry price)
Direct benefits to donor = $100 (cost of dinner and entertainment)

Examples of display options on statement of activities (no changes from current format):

Most comonly used	Gross special event revenue		500
	Less cost of direct benefits to donors		(100)
	Net special event revenue		400

OR

Recommended for smaller events	Special event revenue, net of $100 cost		
	of direct benefits to donors	$	400

OR

Event revenue split into two lines Separates contribution and exchange Format similar to 990 presentation	Contributions	$	275
	Special event revenue		225
	Less cost of direct benefits to donors		(100)
	Contributions and net revenues from special events	$	400

Membership Dues with a Publication

An NFP has annual dues of $180. Members receive benefits from their dues such as advocacy efforts, educational opportunities, industry trend information, and a quarterly newsletter with a fair value of $60 annually.

Step 1: Identify the Contract

- Related to the dues and subscription for the quarterly newsletter

Step 2: Identify the performance obligation(s).

1. NFP is providing membership services and benefits.
2. Subscription service in the form of quarterly newsletter.

Step 3: Determine the transaction price.

- Total bundle of membership and subscription is $180.

Step 4: Allocate the transaction price to the performance obligation(s).

- $60 is allocated to subscription revenue and $120 to membership service revenue.

Step 5: Recognize revenue as each performance obligation is satisfied.

- Recognize revenue streams over time since services are provided monthly/quarterly.

Education and Advocacy Membership

An NFP has annual dues of $200 and the only benefit members receive is a monthly newsletter with a fair value of $50.

Step 1: Identify the Contract

- Amount paid ($50) for the newsletter is contract with a customer since this is a reciprocal transaction. The remaining $150 is a contribution since no specific identifiable benefits are provided.

Step 2: Identify the performance obligation(s).

- The NFP has a obligation to provide the monthly newsletter to the member in return for the payment.

Step 3: Determine the transaction price.

- The FV of the newsletter ($50) is the transaction price.

Step 4: Allocate the transaction price to the performance obligation(s).

- $50 is allocated to the performance obligation to provide the monthly newsletter.

Step 5: Recognize revenue as each performance obligation is satisfied.

- $50 is recognized as revenue over 12 months as each issue is provided to the member. Remaining $150 is recognized as contribution revenue as received.

Leases (Topic 842)

Leases (Topic 842; ASU 2016-02) – Lessee Accounting Overview

	Balance Sheet	Income Statement	Cash Flow Statement
Financing Lease	Right-of-use (ROU) asset Lease liability	Amortization expense Interest expense	Cash paid for principal and interest payments
Operating Lease	Right-of-use (ROU) asset Lease liability	Single lease expense on a straight-line basis	Cash paid for lease payments

- Classification is similar to that in Topic 840, *Lease*
- Recognition and measurement exemption for short-term leases
- Entities other than public business entities may use risk-free rates as practical expedient for measurement of all lease liabilities

Identifying a Lease

(The new primary determinant for on/off balance sheet treatment)

- Lease contracts in the scope of Topic 842 involve
  - An identified asset
    - That is explicitly or implicitly specified
    - Supplier has no practical ability to substitute and would not economically benefit from substituting the asset
  - The right to control the use during the lease term
    - Decision-making authority over the use of the asset
    - The ability to obtain substantially all economic benefits from the use of the asset

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Lessor Accounting Overview

	Balance Sheet	Income Statement	Cash Flow Statement
Financing Lease	Net investment in the lease	Interest income and any profit on the lease	Cash received for lease payments
Operating Lease	Continue to recognize underlying asset	Lease income typically on a straight-line basis	Cash received for lease payments

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Leases – Getting Ready

Inventory of leases – *What's out there? Know your leases.*

Materiality – *How modern is your capitalization policy?*

Debt covenants – *To what extent will capitalizing your operating leases affect covenants based on leverage ratios?*

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DONATED LEASES AND BELOW MARKET LEASES ARE NOT COVERED UNDER THE LEASE STANDARD!

Fully Donated Lease Example

A donor unconditionally promises to provide NFP A, a non-public entity, with the free use of warehouse space for three years, beginning January 1, 20X7. NFP A does not pay the insurance or taxes nor any non-cash considerations to the lessor. The unconditional promise to provide the space is considered to be fully collectible. The warehouse space is located in an area of town undergoing economic revitalization and rental values are increasing at above market rates.

The undiscounted fair value of the free rent totals $69,000 ($20,000 for 20X7, $23,000 for 20X8, and $26,000 for 20X9), discounted at 5% to $62,370. NFP A is responsible for utilities. For simplicity, the present value calculations are reported based on annual amounts rather than monthly amounts.

The contributed use of the warehouse space increases net assets with donor restriction because the space can only be used in future periods (restricted due to time). Since there is no consideration paid, NFP A determined that ASC 842 does not apply to this transaction (e.g. it is not a lease). Therefore, the contribution receivable would be amortized as the fair value of the leased warehouse space is used. The contribution receivable could also be described as ‘donated warehouse space’ or ‘donated rent’.

NFP A could calculate the amount to be recognized as a contribution receivable for the donated warehouse space as follows:

Contribution receivable		**Year 1**		**Year 2**		**Year 3**
Contribution receivable, beginning	$	69,000	$	45,490	$	24,760
Beginning discount		(6,630)		NA		NA
Amortization of discount		3,120		2,270		1,240
Minus fair rental value of donated lease		(20,000)		(23,000)		(26,000)
Contribution receivable, ending	$	45,490	$	24,760	$	-

The impact on net assets with donor restrictions would be as follows:

		Year 1		**Year 2**		**Year 3**
Net assets with donor restriction, beginning	$	62,370	$	45,490	$	24,760
Amortization of discount		3,120		2,270		1,240
Release from restriction		(20,000)		(23,000)		(26,000)
Net assets with donor restriction, ending	$	45,490	$	24,760	$	-

The following initial and annual entries for 20X7, 20X8, and 20X9 would be recorded in connection with the donated warehouse space:

Initial entry to record the donated warehouse asset:		
Contribution receivable, warehouse	$62,370	
Contribution revenue with donor restriction		$62,370

Annual entries to record periodic use on a fair rental value basis:	Year One		Year Two		Year Three	
Occupancy expense	20,000		23,000		26,000	
Contribution receivable, warehouse		20,000		23,000		26,000

Annual entries to record release from time restriction and amortization of discount:	Year One		Year Two		Year Three	
Net assets released from restrictions, net assets with donor restriction	20,000		23,000		26,000	
Net assets released from restrictions, net assets without donor restriction		20,000		23,000		26,000
Contribution receivable, warehouse (unamortized discount)	3,120		2,270		1,240	
Amortization of discount (donor restricted contribution revenue)		3,120		2,270		1,240

Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08)

Grants and Contracts to NFPs—Background

Project added to FASB's Technical Agenda to improve and clarify existing guidance

ASU 2014-09, *Revenue from Contracts with Customers*, including related disclosures, heightened the issue

Raised question as to whether grants and contracts are in scope of that guidance (reciprocal or nonreciprocal)

Long-standing diversity in practice in classifying grants and contracts, particularly from governmental entities

Issue 1: Reciprocal Versus Nonreciprocal	Issue 2: Conditional Versus Unconditional

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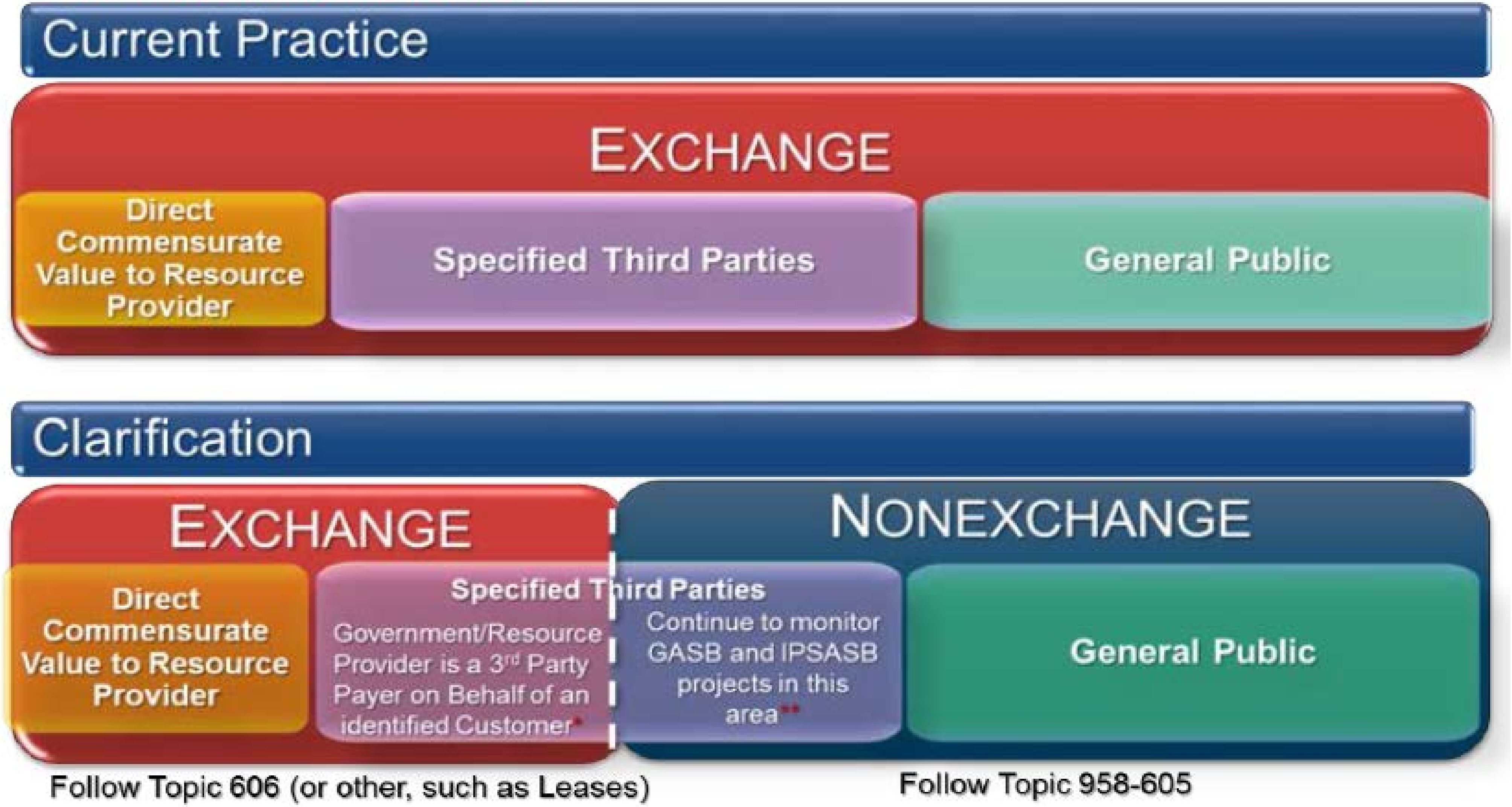
Scope

- Applies to **all entities** (NFPs and business entities) that receive or make contributions unless otherwise indicated.
- Excludes transfers of assets from the government to business entities.
- Applies to both contributions received by a recipient and contributions made by a resource provider. ***The intent is simply that both apply the same guidance, the entities do not need to track each other's accounting to achieve the same reporting results.***
- The term used in the presentation of financial statements to label revenue (for example, contribution, grant, donation) that is accounted for within the Scope of Subtopic 958-605 is not a factor for determining whether an agreement is within the scope of that guidance.

Issue 1: Reciprocal (Exchange) vs. Nonreciprocal (Nonexchange/Contribution) Transactions

Who Receives the Benefit?



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Issue 1: Reciprocal vs. Nonreciprocal Transactions: Key Clarifications to the Scope of Subtopic 958-605

- The resource provider is **NOT** synonymous with the general public, even a governmental entity. If a resource provider receives value indirectly by providing a societal benefit, this would be considered a nonreciprocal transaction.

- If the primary beneficiary of a grant or contract is a third party, an NFP must use judgment to determine if the transaction is reciprocal or nonreciprocal.

- Furthering a resource provider’s mission or “feel good” sentiment does not constitute commensurate value received.

- The type of resource provider should not override the substance of the transaction

Issue 2: Conditional vs. Unconditional Contributions

For a *Donor-Imposed Condition* to Exist:

Final ASU

- A right of return/release must exist; and
- The agreement must include a barrier
  - Indicators and examples to help in determination

Indicators to Determine a Barrier

To determine what is a barrier, an NFP will consider indicators, which will include, but are not limited to, the following:

The inclusion of a measurable performance-related barrier or other measurable barrier.

The extent to which a stipulation limits discretion by the recipient on the conduct of an activity.

The extent to which a stipulation is related to the purpose of the agreement.

The Board decided to remove the additional actions indicator that was originally proposed.

* During redeliberations, the Board decided to make additional clarifications to each indicator

Example #1: Grant from Federal Government

- University D is awarded a grant from the federal government.
- The agreement requires University D to:
  - Follow the rules and regulations established by the Office of Management and Budget (OMB)
  - Incur certain expenses (or costs) in compliance with rules and regulations established by the OMB and the federal awarding agency
  - Obtain an annual audit in accordance with OMB guidelines
  - Submit a summary of research findings to the federal government
- Any unused assets are forfeited, and any unallowed costs that have been drawn down by University D are required to be refunded.
- University D retains the rights to the findings.
- *Is this transaction exchange or nonexchange? If nonexchange, is it conditional or unconditional?*

Example #1: Conclusion

- University D concludes this is a nonexchange transaction (nonreciprocal).
- Explanation:
  - Commensurate value is not being exchanged between the two parties
  - University D retains all the rights to the research and findings and received the primary benefit of the findings
  - The federal government's benefit is considered indirect because the research and findings serve the general public.

Example #1: Conclusion, continued

- University D determines that it should account for this grant as conditional.
- Explanation:
  - The grant agreement limits University D's discretion as a result of the specific requirements on how the assets may be spent (qualifying expenses)
  - There is a right of return and release
  - The audit requirement alone is not a barrier to entitlement because it is not related to the purpose of the agreement

Example #2: Grant from Local Government

- NFP C receives funding from the local government to perform a research study on the benefits of a longer school year.
- The agreement requires NFP C to:
  - Plan the study
  - Perform the research
  - Summarize and submit the research to the local government
- The local government retains all rights to the study.

Is this transaction exchange or nonexchange? If nonexchange, is it conditional or unconditional?

Example #2: Conclusion

- NFP C concludes this is an exchange (reciprocal) transaction.
- Explanation:
  - Commensurate value is exchanged between the two parties
  - The local government retains the rights to the study

Example #3: Grant from a Private Foundation

- NFP B receives a grant from a private foundation for funding in the amount of $400,000 to provide specific career training to disabled veterans.
- The grant requires NFP B to provide training to at least 8,000 disabled veterans during the next fiscal year, with specific minimum targets that must be met each quarter.
- There is a right of release from the obligation in the agreement.
- *Is this transaction exchange or nonexchange? If nonexchange, is it conditional or unconditional?*

Example #3: Conclusion

- NFP B determines that it should account for this grant as non-exchange and conditional.
- Explanation:
  - The foundation does not receive commensurate value in return
  - The agreement contains a right of release from obligation
  - The foundation requires NFP B to achieve a specific level of service that would be considered a measurable performance-related barrier

Example #4: Grant from a Corporate Foundation

- NFP E is a public charity that works with gluten-related allergies as part of its overall mission. It applies for a receives a $100,000 grant from a corporate foundation to perform research on gluten-related allergies over the next year.
- The grant agreement includes:
  - A right of return.
  - A statement that approval must be obtained from the corporate foundation for any significant deviations in spending from the general budget
  - A requirement that at the end of the grant period a report must be filed with the corporate foundation that explains how the assets are spent.
- *Is this transaction exchange or nonexchange? If nonexchange, is it conditional or unconditional?*

Example #4: Conclusion

- NFP E determines that the grant is unconditional.
- Explanation:
  - The general budget included in the grant proposal is not a barrier to entitlement because adherence to a general budget allows for broad discretion
  - There are no additional requirements in the agreement that would indicate a barrier exists
  - The reporting requirement is administrative and not related to the purpose of the agreement.
- The grant is donor-restricted revenue because working on gluten-related allergies is more narrow than NFP E's overall mission.

Example #5: Pledge from an Individual

- University G receives a multi-year pledge from a wealthy individual to build a new “green” building on a college campus. The pledge is for $20 million payable over 3 years.
  - $7 million is payable up front on July 1, 2018 with no associated conditions.
  - A second payment of $6 million is entitled and payable on July 1, 2019 upon evidence that the land was cleared, an architectural design was received, and proper building permits were obtained.
  - A third payment of $7 million is entitled and payable upon receipt of a certificate of occupancy.
- *Is this transaction exchange or nonexchange? If nonexchange, is it conditional or unconditional?*

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Example #5: Conclusion

- University G determines that it should account for this transaction as nonexchange and bifurcates the total pledge. $7 million is unconditional, and $13 million is conditional.

- Explanation:
  - The wealthy individual is not receiving commensurate value for the $20 million transferred
  - University G will receive the initial $7 million payment without having to satisfy any conditions
  - University G will not be entitled to or receive either of the remaining $13 million in payments unless it overcomes their respective performance barriers, demonstrating the wealthy individual's right of release from obligation if the barriers are not met

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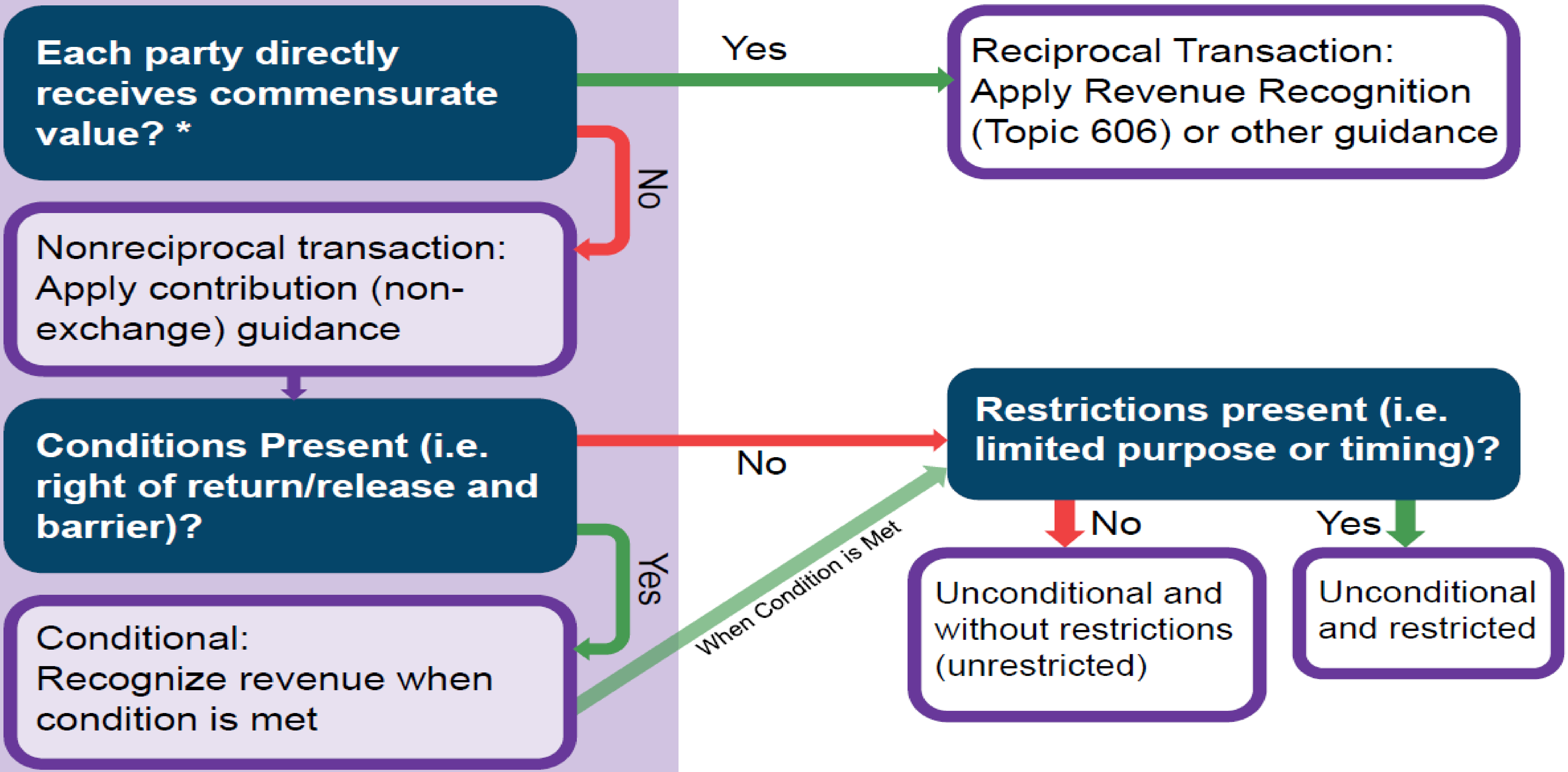
NFP Revenue Recognition Decision Process



Resource providers would apply a similar decision-making process for recognizing expenses.

Likely Impact on Funding from…

Government Agencies

Individuals & Corporations

Foundations

Simultaneous Release

The simultaneous release option allows an NFP to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is met in the same period that the revenue is recognized. This election must be applied consistently to all restricted contributions and investment returns. The ASU creates two “buckets” for restricted: (1) amounts that were initially conditional and (2) other.

Current GAAP

One bucket

Forthcoming

Restricted/conditional bucket

Restricted/other bucket

Contribution Disclosures

Recipients

- No additional recurring disclosures have been added in the guidance.
- Guidance in Topic 958 includes disclosures for unconditional and conditional promises to give.
- For conditional promises to give, recipients are required to disclose:
  - The total of the amounts promised
  - A description and amount for each group of promises having similar characteristics

Resource Providers

- No additional recurring disclosures have been added to the guidance.
- Guidance in Topic 958 includes a cross reference to the disclosures in Topic 450, Contingencies, and in Topic 470, Debt.
- Resource providers also are required to provide information about unconditional promises to give.

Effective Date

Recipients*		Resource Providers	
Annual periods beginning after June 15, 2018, including interim periods: • Public Business Entities • NFP that has issued, or is a conduit bond obligor for securities that are traded, listed, or quoted on exchange or an over-the-counter market.	Annual periods beginning after December 15, 2018, and interim periods beginning after December 15, 2019: • All Other Entities	Annual periods beginning after December 15, 2018, including interim periods: • Public Business Entities • NFP that has issued, or is a conduit bond obligor for securities that are traded, listed, or quoted on exchange or an over-the-counter market.	Annual periods beginning after December 15, 2019, and interim periods beginning after December 15, 2020: • All Other Entities

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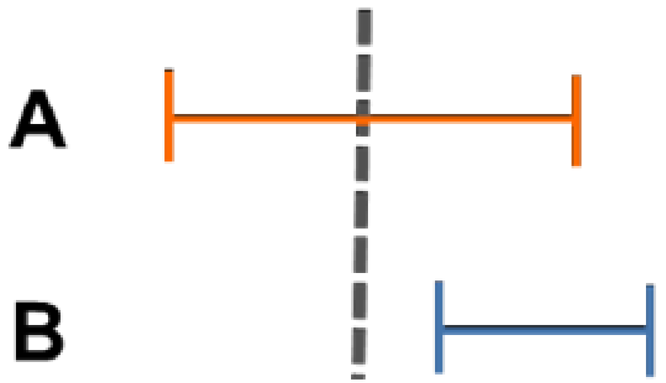
Transition Approach

Effective Date



Existing Agreements

New agreements

- **Modified Prospective**
  - **Apply to all agreements:**
    - Existing at the effective date (only apply to the portion of existing agreements not previously recognized)
    - Entered into after the effective date
- **No restatement of prior amounts recognized**
- **Retrospective Application Permitted**

ASU 2016-18 Restricted Cash in the Statement of Cash Flows

ASU 2016-18 Restricted Cash in the Statement of Cash Flows (SOCF)

- SOCF must explain the change in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents
- Restricted cash and cash equivalents must be reflected in the beginning and ending totals of cash in the SOCF
- Must disclose the SOFP line items and amounts with unrestricted and/or restricted cash and cash equivalents
- The ASU does not define "restricted" cash or cash equivalents

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Examples of Restricted Cash and Cash Equivalents

- Cash received with a donor-imposed restriction that limits use of that cash to long-lived assets
- Cash and cash equivalents included in deposits held by bond trustees or sinking funds
- Cash and cash equivalents required for collateral for line-of-credit or other long term commitments (leases)
- Cash and cash equivalents included in board designated endowment fund (quasi endowment)
- Cash and cash equivalents related to insurance reserves set aside by contractual agreement with insurer
- Cash and cash equivalents held relating to other split-interest agreements
- Cash and cash equivalents held related to charitable gift annuities (subject to state law)

Not intended to include advanced grant funds and funds received with donor imposed restrictions (temp restricted)

Example of change in wording on Statement of Cash Flows:

Net increase in cash ~~and cash equivalents~~, cash equivalents, and restricted cash	1,065
Cash ~~and cash equivalents~~, cash equivalents, and restricted cash at beginning of year	600
Cash ~~and cash equivalents~~, cash equivalents, and restricted cash at end of year	$ 1,665

Example footnote disclosure to reconcile cash, cash equivalents and restricted cash:

	12/31/19X1
Cash and cash equivalents	$ 1,465
Restricted cash	125
Restricted cash included in other long-term assets	75
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	$ 1,665

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Effective Date

- Public Entities: Fiscal years beginning after December 15, 2017, including interim periods within those fiscal years
- All Other: Fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019
- Early application permitted
- If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

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Other Recent ASUs

Improving the Presentation of Net Periodic Pension Cost & Net Periodic Postretirement Benefit Cost—ASU No. 2017-07

Background

- Net benefit cost contains several components with different nature
- No GAAP guidance on presentation
- Reduced predictive value and usefulness of information to users
- Board added project

Presentation of net benefit cost in the income statement (retrospective application)

- Service cost in the same line item or items as other current employee compensation costs
- Remaining components in a separate line item or items, outside operating measure, if presented

Capitalization of only service cost in assets (prospective application)

Effective for CY 2019 (FY 2018-19) for NFPs, but can adopt early

Separation of Service and Nonservice Costs

Expenses	
Program A	$1,187
Program B	982
Management & General	746
Fundraising	311
	$3,226

Financial Instruments – Classification and Measurement Amendments to Current GAAP (Topic 825; ASU 2016-01)

- Targeted improvements, effective for NFPs for CY 2019 (FY 2019-20):

Financial Assets

- Equity investments (other than those under the equity method) measured at each reporting period at fair value through net income, with key exception: those without readily determinable fair value only marked to *observable* price changes
- Healthcare NFPs: no more other-than-trading equity securities

Financial Liabilities

- Fair value change resulting from own credit for financial liabilities measured under fair value option will be recognized through other comprehensive income (OCI)*

Disclosures

- **Entities other than public business entities (includes all NFPs) no longer required to disclose fair value of financial instruments not recognized at fair value on balance sheet***

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**Entities can early adopt these provisions*

Financial Instruments – Credit Losses (Topic 326; ASU 2016-13)

- Effective for NFPs in CY 2021 (FY 2021-22):

Contributions (pledges) receivable are excluded

Trade receivables and student loans (and other programmatic loans) receivable are included

CECL model not expected to result in significant impact on most entities that aren't financial institutions

- Likely already taking CECL considerations into account for their trade and loan receivables

More noteworthy for Healthcare NFPs is the change for Available-for-Sale (Other-than-Trading) Debt Securities: now an allowable approach

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Other FASB Projects

Commercial Computing Today

- Vendors may provide either of the following when a company has a commercial computing need:
  - On-premise software—software that resides on the company's systems
  - A cloud computing solution—internet-based software that resides on the vendor's or third-party's systems
- Cloud computing arrangements (CCAs) are becoming more common among software vendors

Today's Accounting

EITF Issue addresses

	On-premise software	CCAs with a license	CCAs without a license
Balance sheet - asset	Present an asset for the cost of the software	Present an asset for the portion of the CCA fee related to the cost of the software	No asset is presented for the software, but a prepaid asset may be presented if the CCA fee is paid in advance
Balance sheet - liability	Present a liability for any unpaid amounts	Present a liability for any unpaid amounts	No liability is presented until payment is due
Treatment of implementation costs	Costs to implement the software are capitalized as part of the software asset	Costs to implement the software are capitalized as part of the software asset	Diversity today, but many implementation costs are not capitalized as an asset and are expensed
Income statement presentation	1) Generally straight-line amortization of software cost over useful life of software 2) Interest expense on the liability	1) Generally straight-line amortization of software cost over useful life of software 2) Interest expense on the liability 3) Generally G&A expense for the portion of CCA fee related to the hosting service	1) Generally straight-line G&A expense for CCA fee 2) Many implementation costs are expensed as the underlying activities are performed (near contract inception)

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THANK YOU!

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Karen Miessner is the Lead Nonprofit Audit Partner in SingerLewak LLP's Assurance and Advisory practice and is located in the Los Angeles office. Karen's primary focus is serving Nonprofit, Government, and Pension Plan clients.

Experience

Karen is a Certified Public Accountant and Certified Fraud Examiner with over 21 years of experience serving nonprofit organizations in many capacities, including independent auditor, consultant, CFO, board member, and volunteer. Karen's experiences in these various functions as well as in a wide variety of nonprofit organizations have given her a practical and informed approach to serving her clients. Karen provides accounting and advisory services related to audit, accounting transaction support, financial reporting, technical accounting research, and implementation of new accounting pronouncements.

Karen is a member of the *AICPA Not-for-Profit Expert Panel*. Karen is the chair of the *CalCPA nonprofit discussion group* for the Los Angeles Chapter and is on the advisory board for the Valley Nonprofit Resource Group. Karen is on the board of directors of C5 Youth Foundation of Southern California as well as the audit and finance committee. Karen has authored numerous articles, is the firm's designated nonprofit trainer – both developing and delivering training firm-wide and externally, and has been a speaker on various nonprofit topics. She was the headline speaker at the 2018 Colorado Not-for-Profit CPA conference.