



perspective
GAINED

ACCOUNTING UPDATE

The Time Has Come

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GOALS

- To provide an update of recent accounting standards in order to help you prepare financial statements that comply with the new accounting standards
- To help the users of the financial statements obtain a better understanding of the organization and its financial position



CURRENT SITUATION

- Changing accounting landscape
- Not-for-profit financial statements are difficult to understand
- Users want a better sense of a not-for-profit's financial position



1 NOT-FOR-PROFIT REPORTING
STANDARD

2 CONTRIBUTIONS RECEIVED &
CONTRIBUTIONS MADE

3 REVENUE FROM CONTRACTS
WITH CUSTOMERS

4 LEASE ACCOUNTING

5 POTPOURRI OF TOPICS



PRESENTATION OF FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ENTITIES IMPLEMENTATION

- Effective for financial statements issued for fiscal years beginning after December 31, 2017
- Should be applied retrospectively in the year the update is applied



PRESENTATION OF FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ENTITIES OVERVIEW—KEY CHANGES

- Net assets classes
- Liquidity and availability
- Expense reporting
- Investment return
- Statement of cash flows



**WITH DONOR
RESTRICTIONS**



**WITHOUT DONOR
RESTRICTIONS**

NET ASSET CLASSES

WITH AND WITHOUT DONOR RESTRICTION

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	



PRESENTATION OF FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ENTITIES DISCLOSURE REQUIREMENTS—NET ASSETS

- Breakdown of net assets with donor restrictions
- Emphasis on how/when net assets can be used:
 - Specific purpose
 - Specific time
 - Perpetual restriction (endowment)
 - Board designations - quantitative and qualitative

EXAMPLE STATEMENT OF FINANCIAL POSITION PRESENTATION NET ASSETS

	<u>20X1</u>
Assets:	
Cash	\$ 75,000
Contributions receivable	20,000
Prepaid expenses	5,000
Short-term investments	300,000
Total assets	<u>\$ 400,000</u>
Liabilities:	
Accounts payable	\$ 80,000
Total liabilities	<u>80,000</u>
Net assets:	
Without donor restrictions	300,000
With donor restrictions	20,000
Total net assets	<u>320,000</u>
Total liabilities and net assets	<u>\$ 400,000</u>

EXAMPLE STATEMENT OF ACTIVITIES

TWO NET ASSETS CLASSES

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, gains, and other support:			
Contributions	\$ 8,640	\$ 8,390	\$ 17,030
Fees	5,200		5,200
Investment return, net	6,650	18,300	24,950
Gain on sale of equipment	200		200
Other	150		150
Net assets released from restrictions (Note D):			
Satisfaction of program restrictions	8,990	(8,990)	
Satisfaction of equipment acquisition restrictions	1,500	(1,500)	
Expiration of time restrictions	1,250	(1,250)	
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	7,500	(7,500)	
Total net assets released from restrictions	<u>19,240</u>	<u>(19,240)</u>	<u>-</u>
Total revenues, gains, and other support	<u>40,080</u>	<u>7,450</u>	<u>47,530</u>
Expenses and losses:			
Program A	13,296		13,296
Program B	8,649		8,649
Program C	5,837		5,837
Management and general	2,038		2,038
Fundraising	2,150		2,150
Total expenses (Note F)	<u>31,970</u>		<u>31,970</u>
Fire loss on building	80		80
Actuarial loss on annuity trust obligations		30	30
Total expenses and losses	<u>32,050</u>	<u>30</u>	<u>32,080</u>
Change in net assets	<u>8,030</u>	<u>7,420</u>	<u>15,450</u>
Net assets at beginning of year	<u>84,570</u>	<u>186,070</u>	<u>270,640</u>
Net assets at end of year	<u>\$ 92,600</u>	<u>\$ 193,490</u>	<u>\$ 286,090</u>

EXAMPLE NET ASSETS FOOTNOTE

Subject to expenditure for specified purpose:

Program A activities:	
Purchase of equipment	\$ 3,060
Research	950
Educational seminars and publications	240
Program B activities:	
Disaster relief	745
Educational seminars and publications	280
Program C activities: general	210
Buildings and equipment	2,150
Annuity trust agreements for research	2,815
	<u>10,450</u>

Subject to the passage of time:

For periods after June 30, 20X1	<u>3,140</u>
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Subject to NFP spending policy and appropriation:

Investment in perpetuity (including amounts above original gift amount of \$122,337), which, once appropriated, is expendable to support:	
Program A activities	33,300
Program B activities	15,820
Program C activities	16,480
Any activities of the organization	109,100
	<u>174,700</u>

Subject to appropriation and expenditure when a specified event occurs:

Endowment requiring income to be added to original gift until fund's value is \$2,500	2,120
Paid-up life insurance policy that will provide proceeds upon death of insured for an endowment to support general activities	80
	<u>2,200</u>

Not subject to appropriation or expenditure:

Land required to be used as a recreation area	3,000
Total net assets with donor restrictions	<u>\$ 193,490</u>

EXAMPLE BOARD DESIGNATED NET ASSETS DISCLOSURE

Financial assets, at year-end	\$ 234,410
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	(11,940)
Subject to appropriation and satisfaction of donor restrictions	(174,700)
Investments held in annuity trust	(4,500)
Board designations:	
Quasi-endowment fund, primarily for long-term investing	(36,600)
Amounts set aside for liquidity reserve	(1,300)
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Financial assets available to meet cash needs for general expenditures within one year	\$ 5,370
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Not-for-Profit Entity A is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Not-for-Profit Entity A must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of Not-for-Profit Entity A's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, Not-for-Profit Entity A invests cash in excess of daily requirements in short-term investments. Occasionally, the board designates a portion of any operating surplus to its liquidity reserve, which was \$1,300 as of June 30, 20X1. There is a fund established by the governing board that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, Not-for-Profit Entity A also could draw upon \$10,000 of available lines of credit (as further discussed in Note XX) or its quasi-endowment fund.



PRESENTATION OF FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ENTITIES LIQUIDITY DISCLOSURES

- Qualitative Information – Availability to meet short-term needs
- Quantitative Information – Availability of financial assets

EXAMPLE LIQUIDITY DISCLOSURE

NFP A's financial assets available within one year of the balance sheet date for general expenditure are as follows.

Cash and cash equivalents	\$ 4,575
Accounts and interest receivable	2,130
Contributions receivable	1,825
Short-term investments	1,400
Other investments appropriated for current use	10,804
	<hr/>
	\$ 20,734

NFP A's endowment funds consist of donor-restricted endowments and a quasi-endowment. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure. As described in Note Y, the quasi-endowment has a spending rate of 5 percent. \$1.65 million of appropriations from the quasi-endowment will be available within the next 12 months.

EXAMPLE LIQUIDITY DISCLOSURE

As part of NFP A's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, NFP A invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, NFP A has committed lines of credit in the amount of \$20 million, which it could draw upon. Additionally, NFP A has a quasi-endowment of \$33 million. Although NFP A does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its quasi-endowment could be made available if necessary. However, both the quasi-endowment and donor-restricted endowments contain investments with lock-up provisions that would reduce the total investments that could be made available (see Note X for disclosures about investments).



PRESENTATION OF FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ENTITIES EXPENSE REPORTING

- By nature and by function
- Options for presentation
 - Face of the statement of activities
 - Separate statement of functional expenses
 - Footnote to financial statements



**PRESENTATION OF FINANCIAL STATEMENTS OF
NOT-FOR-PROFIT ENTITIES
EXPENSE REPORTING—ALLOCATION OF MANAGEMENT &
GENERAL EXPENSES**

Activities that represent direct conduct or direct supervision of program or other supporting activities require allocation from management and general activities to those programs or other supporting activities

EXAMPLE EXPENSE REPORTING

	Program Services			Management and General	Fundraising and Development	Total
	Advisory	Training	Total			
Grants and other assistance						
Salaries and wages						
Employee benefits						
Payroll taxes						
Professional services						
Accounting fees						
Advertising and promotion						
Legal fees						
Advertising and promotion						
Office expenses						
Information technology						
Occupancy						
Travel						
Conferences, conventions and meetings						
Interest						
Insurance						
Training and development						
Gift shop cost of goods sold						
Cost of direct benefits to doctors						
Depreciation and amortization						
Bad debt expense						
Other						
Total expenses by function						
Less expenses included with revenues on the statement of activities						
Gift shop cost of goods sold						
Cost of direct benefits to donors						
Total expenses included in the expense section on the statement of activities						

EXAMPLE ALLOCATION METHOD DISCLOSURE

Note X. Methods Used for Allocation of Expenses from Management and General Activities

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. Those expenses include depreciation and amortization, the president's office, communications department, and information technology department. Depreciation is allocated based on square footage, the president's office is allocated based on estimates of time and effort, certain costs of the communications department are allocated based on estimates of time and effort, and the information technology department is allocated based on estimates of time and costs of specific technology utilized.



PRESENTATION OF FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ENTITIES INVESTMENT RETURN

- Presented on a net basis, with all external and direct internal investment management and custodial expenses netted against the return
- No longer required to report investment income components and related expenses separately

PRESENTATION OF FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ENTITIES UNDERWATER ENDOWMENTS

- Revised Net Asset Classification
 - Previously recorded as a reduction to unrestricted net assets
 - Will be reflected as a component of net assets with donor restrictions
- Enhanced Disclosure Requirements
 - Still need to disclose the aggregate amounts by which funds are underwater
 - Additional disclosure of aggregate original gift amounts (or level required by donor or law) for such funds, fair value and any governing board policy or decision to reduce or not spend such funds



EXAMPLE UNDERWATER ENDOWMENT DISCLOSURE

As a December 31, 20X1 and 20X0, we had the following endowment net asset composition by type of fund:

	Without Donor Restriction	With Donor Restrictions	Total
12/31/20X1			
Board-designated endowment funds			
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor			
Accumulated investment gains			

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 20X0, funds with original values of \$19,883,738, fair values of \$19,841,061, and deficiencies of \$42,677 were reported in net assets with donor restrictions. These amounts were fully recovered during 20X1 due to favorable market fluctuations.



PRESENTATION OF FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ENTITIES STATEMENT OF CASH FLOWS

- Have the option to use either the Direct or Indirect Method for the operating section of the cash flow
- Direct method no longer requires the reconciliation of the change in net assets to cash flows from operating activities



POTENTIAL CHANGES IN PHASE 2

- Operating Measures
 - Whether and how to define the term “Operations”
 - Align measures as presented in Statement of Activities to the measures of operations in the Statement of Cash Flows
- Realignment of Statement of Cash Flows
 - Interest expense classified as financing instead of operating
 - Property and equipment purchases (and related contributions) classified as operating



CLARIFYING THE SCOPE AND THE ACCOUNTING GUIDANCE FOR CONTRIBUTIONS RECEIVED AND CONTRIBUTIONS MADE IMPLEMENTATION

- Conduit Debt Obligor – fiscal years beginning after June 15, 2018
- All other entities – fiscal years beginning after December 15, 2018
- Earlier application is permitted



CLARIFYING THE SCOPE AND THE ACCOUNTING GUIDANCE FOR CONTRIBUTIONS RECEIVED AND CONTRIBUTIONS MADE

ISSUE 1

Characterizing grants and similar contracts with governmental agencies and others as (1) reciprocal transactions (exchanges) or (2) nonreciprocal transactions (contributions)

ISSUE 2

Distinguishing between conditional and unconditional contributions

Is the transaction one in which each party directly receives commensurate value?*

YES

It is an exchange transaction. Apply Topic 606 on revenue from contracts with customers or other applicable Topics.

NO

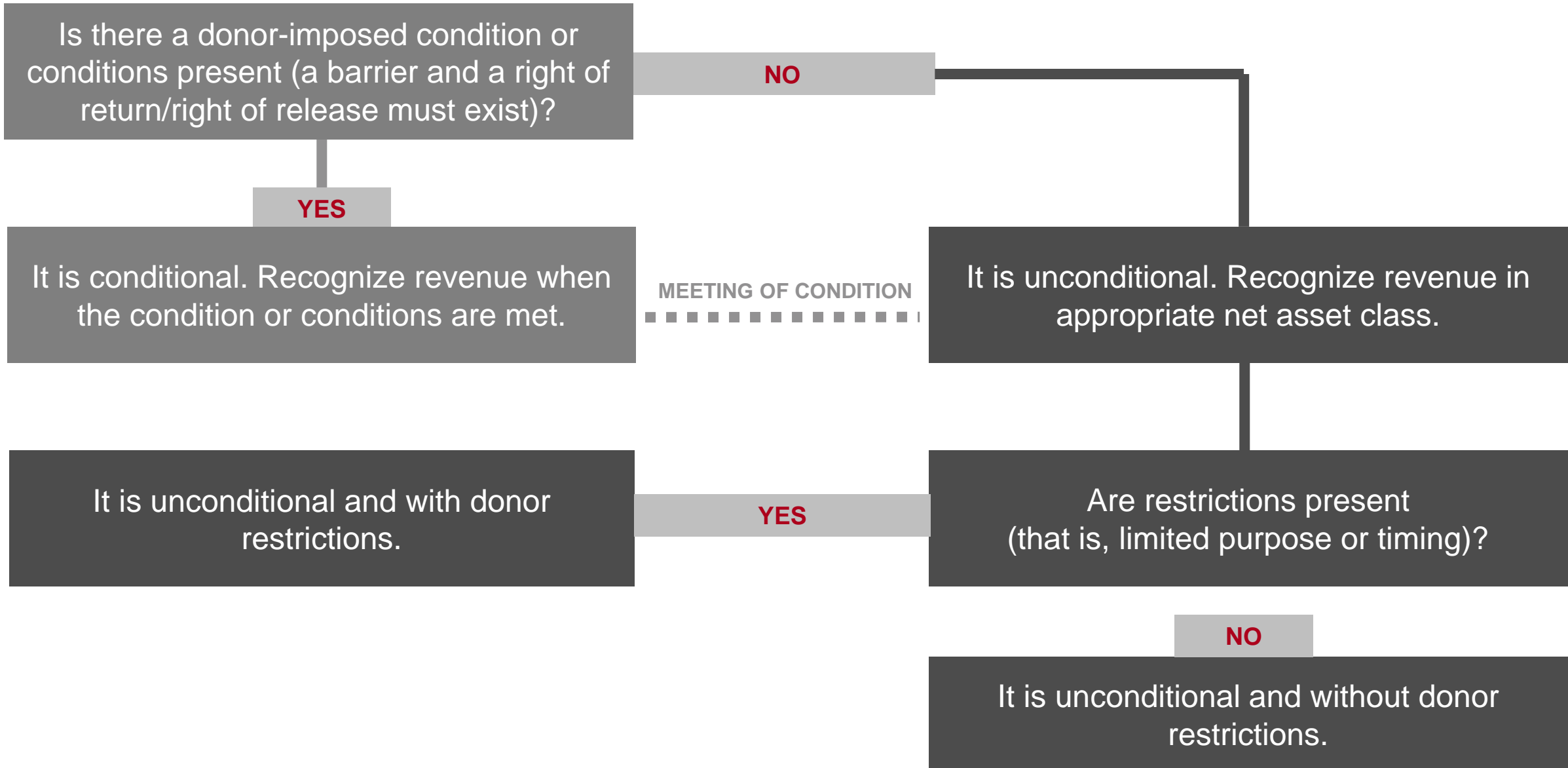
Is the payment from a third-party payer on behalf of an existing reciprocal transaction?

YES

It is a balance-sheet only transaction. No effect on an entity's revenue recognition

NO

It is a nonreciprocal transaction. Apply contribution (non-exchange) guidance.



REVENUE FROM CONTRACTS WITH CUSTOMERS

ASU 2014-09

ASU 2015-14

ASU 2016-08

ASU 2016-10

ASU 2016-12

ASU 2016-20

ASU 2017-13

OBJECTIVE

- To create a single principle based revenue standard for U.S. GAAP and IFRS
- To improve accounting for contracts with customers by:
 - Providing a robust framework for addressing revenue issues as they arise
 - Increasing comparability across industries and markets
 - Requiring better disclosures

CHALLENGES

- Interpretation of broad guidance to specific revenue streams
- What is a “customer” in the context of a charitable organization

REVENUE FROM CONTRACTS WITH CUSTOMERS

ASU 2014-09

ASU 2015-14

ASU 2016-08

ASU 2016-10

ASU 2016-12

ASU 2016-20

ASU 2017-13

SCOPE

ALL CONTRACTS WITH CUSTOMERS, EXCEPT:

- Lease contracts
- Insurance contracts
- Financial instruments
- Guarantees
- Non-monetary exchanges in the same line of business to facilitate sales to customers

CONTRACTS NOT WITH CUSTOMERS ARE EXCLUDED:

- Contributions
- Collaborative arrangements

REVENUE FROM CONTRACTS WITH CUSTOMERS

ASU 2014-09

ASU 2015-14

ASU 2016-08

ASU 2016-10

ASU 2016-12

ASU 2016-20

ASU 2017-13

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

REVENUE FROM CONTRACTS WITH CUSTOMERS

ASU 2014-09

ASU 2015-14

ASU 2016-08

ASU 2016-10

ASU 2016-12

ASU 2016-20

ASU 2017-13

EFFECTIVE DATE

- Public entities (including those with public conduit debt) – periods beginning after December 15, 2017
- All other entities – periods beginning after December 15, 2018
- Earlier application is permitted no earlier than the period beginning after December 15, 2016

IMPLEMENTATION OPTIONS

- Retrospectively to each prior reporting period presented
- Retrospectively with the cumulative effect of initially applying the update recognized at the date of initial application

REVENUE FROM CONTRACTS WITH CUSTOMERS

ASU 2014-09

ASU 2015-14

ASU 2016-08

ASU 2016-10

ASU 2016-12

ASU 2016-20

ASU 2017-13

PRACTICAL IMPLEMENTATION TIPS

- Start analyzing your revenue streams now and not wait for the year of adoption or your accountant
- Consider cutoff risk based on nature of the transaction. If entire earnings process takes place within your fiscal year, less analysis may be required
- Inventory all of your revenue streams – Disaggregate your revenue streams based on unique characteristics and determine which ones could potentially have cutoff risk

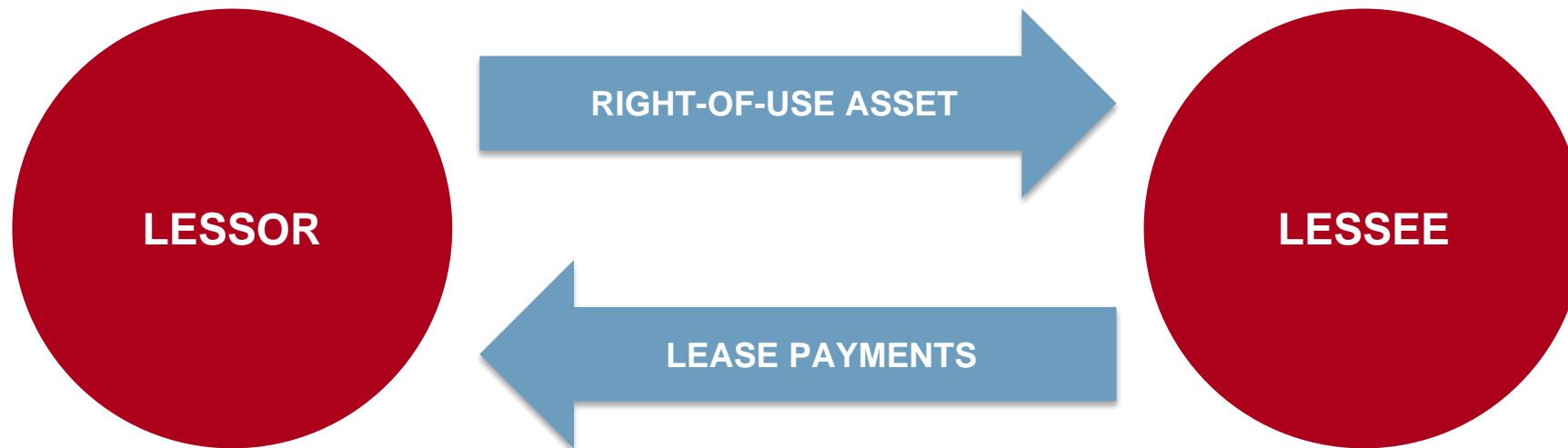


LEASES: IMPLEMENTATION

- Public Business Entities, Conduit Debt Obligor or SEC EB Plan – fiscal years beginning after December 15, 2018
- All other entities – fiscal years beginning after December 15, 2019
- Earlier application is permitted

LEASES: TOPIC 842

A lease contract conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration



LEASES

	BALANCE SHEET	INCOME STATEMENT	CASH FLOW STATEMENT
FINANCE	<ul style="list-style-type: none"> • Right-of-use asset • Lease liability 	<ul style="list-style-type: none"> • Amortization expense • Interest expense 	Cash paid for principal and interest payments
OPERATING	<ul style="list-style-type: none"> • Right-of-use asset • Lease liability 	Single lease expense on a straight-line basis	Cash paid for lease payments



EXAMPLES

EXAMPLE 1

FACTS

- Office space
- 3-year lease
- \$12,000 per year
- 6.25% annual borrowing rate
- No option to transfer ownership
- No option to purchase at bargain
- Lease term is not a major part of the economic life
- PV of lease payments is not substantially all of the fair value
- Not specialized in nature

EXAMPLE 1 OPERATING LEASE

	INCEPTION	YEAR 1	YEAR 2	YEAR 3	TOTAL
Statement of Activities					
Lease expense		\$12,000	\$12,000	\$12,000	\$36,000
<i>Lease expense is comprised of:</i>					
<i>Interest expense (declines over time)</i>		1,757	1,098	397	3,251
<i>Amortization expense (increases over time)</i>		10,243	10,902	11,603	32,749
		12,000	12,000	12,000	36,000
Statement of Financial Position					
Right-of-use asset	\$32,749	\$22,506	\$11,604	–	
Liability to make lease payments	\$(32,749)	(\$22,506)	(\$11,604)	–	
Cash Flow Statement					
Operating outflows		\$12,000	\$12,000	\$12,000	\$36,000

KEY POINT:

interest expense + amortization expense =
lease payment amount

EXAMPLE 2

FACTS

- Office space
- 3-year lease
- \$12,000 per year
- 6.25% annual borrowing rate
- No option to transfer ownership
- Option to purchase at bargain
- Lease term is not a major part of the economic life
- PV of lease payments is not substantially all of the fair value
- Not specialized in nature

EXAMPLE 2

FINANCE LEASE

	INCEPTION	YEAR 1	YEAR 2	YEAR 3	TOTAL
Statement of Activities					
Interest expense		\$ 1,757	\$ 1,098	\$ 396	\$ 3,251
Amortization expense		10,916	10,916	10,917	32,749
Total expense		\$12,673	\$12,014	\$11,313	\$36,000
Statement of Financial Position					
Right-of-use asset	\$32,749	\$21,833	\$10,917	–	
Liability to make lease payments	\$(32,749)	(\$22,506)	(\$11,604)	–	
Cash Flow Statement					
Operating outflows (interest expense)		\$ 1,757	\$ 1,098	\$ 396	\$ 3,251
Financing outflows (principal)		10,243	10,902	11,604	32,749
Total cash outlays		\$12,000	\$12,000	\$12,000	\$36,000

EXAMPLE 3

FACTS

- Office space
- 10-year lease with option to extend 5 years
- Annual Rent Cost:
 - Years 1-10 - \$50,000
 - Years 11-15 - \$55,000
- \$15,000 initial direct costs
- 5.87% - initial annual borrowing rate
- Option to own at end of lease term
- Payments made at beginning of each year
- At end of year 6, lessee makes significant improvements adding economic value
- As a result, the remaining lease term is 9 years
- 7.83% - subsequent annual borrowing rate

EXAMPLE 3

FINANCE LEASE

	END OF YEAR 6	REMEASURE	YEAR 7	YEARS 8-15	TOTAL
Statement of Activities					
Interest expense			\$ 25,791	\$ 119,810	\$ 145,602
Amortization expense			37,114	296,909	334,023
Total expense			\$ 62,905	\$416,719	\$479,625
Statement of Financial Position					
Right-of-use asset	\$162,807	\$334,023	\$296,909	–	
Liability to make lease payments	(\$183,973)	(\$329,398)	(\$305,189)	–	
Cash Flow Statement					
Operating outflows (interest expense)			\$ 25,791	\$ 119,810	\$ 145,602
Financing outflows (principal)			24,208	305,190	329,398
Total cash outlays			\$ 50,000	\$425,000	\$475,000

ASU 2018-08

POTPOURRI OF TOPICS





FINANCIAL INSTRUMENTS—CREDIT LOSSES IMPLEMENTATION

- Public Business Entities that file with the SEC – fiscal years beginning after December 15, 2019
- All other entities – fiscal years beginning after December 15, 2020
- Earlier application is permitted as of the fiscal year beginning after December 15, 2018
- Will be applied as a cumulative effect adjustment to net assets as of the earliest period in which guidance is effective



STATEMENT OF CASH FLOWS—CLASSIFICATION OF CERTAIN CASH RECEIPTS AND CASH PAYMENTS IMPLEMENTATION

- Public Business Entities – fiscal years beginning after December 15, 2017
- All other entities – fiscal years beginning after December 15, 2018
- Should be applied retrospectively in the year the update is applied
- Earlier application is permitted



STATEMENT OF CASH FLOWS—RESTRICTED CASH IMPLEMENTATION

- Public Business Entities – fiscal years beginning after December 15, 2017
- All other entities – fiscal years beginning after December 15, 2018
- Should be applied retrospectively in the year the update is applied
- Earlier application is permitted



INTANGIBLES

SIMPLIFYING THE TEST OF GOODWILL IMPAIRMENT IMPLEMENTATION

- Public Business Entities that file with the SEC (not conduit debt obligors) – fiscal years beginning after December 15, 2019
- Public Business Entities that don't file with the SEC (conduit debt obligors) – fiscal years beginning after December 15, 2020
- All other entities – fiscal years beginning after December 15, 2021
- Earlier application is permitted for impairment tests after January 1, 2017



CHANGES TO THE DISCLOSURE REQUIREMENTS FOR FAIR VALUE MEASUREMENT

- Fiscal years beginning after December 15, 2019
- Early adoption is permitted



UPDATING THE DEFINITION OF COLLECTIONS

- Fiscal years beginning after December 15, 2019
- Early adoption is permitted

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