

Accounting & Audit Update

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Not-for-Profit Financial Statements



Overview

- Accounting Standards Update No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities
- Effective for annual financial statements for fiscal years beginning after December 15, 2017
- The ASU simplifies and improves how not-for-profit entities classify net assets as well as the information presented in financial statements and notes about liquidity, financial performance, and cash flows
- Update, not overhaul, the current model



Board-Designated Net Assets

- Net assets without donor restrictions subject to self-imposed limits by action of the governing board. Board-designated net assets may be earmarked for future programs, investment, contingencies, purchase or construction of fixed assets, or other uses. Some governing boards may delegate designation decisions to internal management. Such designations are considered to be included in board-designated net assets.
- The financial statements should include information about the amounts and purposes of governing board designations of net assets without donor restrictions.



Endowment Funds

- An established fund of cash, securities, or other assets to provide income for the maintenance of a not-for-profit entity. The use of the assets of the fund may be with or without donor-imposed restrictions. Endowment funds generally are established by donor-restricted gifts and bequests to provide a source of income in perpetuity or for a specified period. Alternatively, a not-for-profit entity's governing board may earmark a portion of its net assets as a board-designated endowment fund.
- The ASU requires enhanced disclosures about a not-for-profit entity's investment and spending policies for endowment funds and, if applicable, underwater endowment funds.



Analysis of Expenses by Their Nature and Function

- All not-for-profit entities are required to provide, in one location, an analysis of expenses by both natural classification and functional classification.
- The ASU includes clarifying guidance on the definition of management and general activities to assist in better depicting costs that can or cannot be allocated among program services and supporting activities.
- Activities that represent direct conduct or direct supervision of program services or other supporting activities (for example, fundraising activities and membership development activities) require allocation from management and general activities.

Note F

The table below presents expenses by both their nature and their function for fiscal year 20X1.

	Program Activities				Supporting Activities			Total Expenses
	A	B	C	Programs Subtotal	Management and General	Fundraising	Supporting Subtotal	
Salaries and benefits	\$ 7,400	\$ 3,900	\$ 1,725	\$ 13,025	\$ 1,130	\$ 960	\$ 2,090	\$ 15,115
Grants to other organizations	2,075	750	1,925	4,750				4,750
Supplies and travel	890	1,013	499	2,402	213	540	753	3,155
Services and professional fees	160	1,490	600	2,250	200	390	590	2,840
Office and occupancy	1,160	600	450	2,210	218	100	318	2,528
Depreciation	1,440	800	570	2,810	250	140	390	3,200
Interest	171	96	68	335	27	20	47	382
Total expenses	<u>\$ 13,296</u>	<u>\$ 8,649</u>	<u>\$ 5,837</u>	<u>\$ 27,782</u>	<u>\$ 2,038</u>	<u>\$ 2,150</u>	<u>\$ 4,188</u>	<u>\$ 31,970</u>

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and office and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.



Liquidity and Availability of Resources

- The financial statements should include quantitative information about the availability of the not-for-profit entity's financial assets at the date of the statement of financial position to meet cash needs for general expenditures within one year of that date.
- The financial statements should also include qualitative information that is necessary to supplement the quantitative information and that communicates how the not-for-profit entity manages its liquid resources available to meet cash needs for general expenditures within one year of the date of the statement of financial position.

Note G

The following reflects Not-for-Profit Entity A's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Amounts not available include amounts set aside for long-term investing in the quasi-endowment that could be drawn upon if the governing board approves that action. However, amounts already appropriated from either the donor-restricted endowment or quasi-endowment for general expenditure within one year of the balance sheet date have not been subtracted as unavailable.

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 by annuity trust	(4,500)
Board designations:	
Quasi-endowment fund, primarily for long-term investing	(36,600)
Amounts set aside for liquidity reserve	<u>(1,300)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 5,370</u></u>

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.



Revenue Recognition



Overview

- Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606)
- Affects any entity that enters into contracts with customers to transfer goods or services
- Replaces numerous, industry-specific GAAP revenue recognition requirements
- The objective of the new guidance is to establish principles to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue from contracts with customers



Overview

- The core principle of Topic 606 is that an entity should 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

Step 1
Identify the
contract with a
customer

Step 2
Identify the
performance
obligations

Step 3
Determine the
transaction price

Step 4
Allocate the
transaction price to
the performance
obligations

Step 5
Recognize revenue
when (or as) the
entity satisfies a
performance
obligation



Definition of a Contract

- A contract is an agreement between two or more parties that creates enforceable rights and obligations
- A contract can be written, oral, or implied by an entity's customary business practices
- A customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration



Effective Date and Transition

- Effective for annual financial statements for fiscal years beginning after December 15, 2018
- The ASU requires retrospective adoption using either a fully retrospective approach or a modified retrospective approach
- Early adoption is permitted as of an annual reporting period beginning after December 15, 2016



Grants and Contracts



Overview

- Accounting Standards Update No. 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made
- Applies to all entities, including business entities, that receive or make contributions of cash and other assets
- Provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction
- Provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred



Overview

- Provides more robust framework for determining whether a contribution is conditional or unconditional and for distinguishing a donor-imposed condition from a donor-imposed restriction
- The improved guidance on distinguishing contributions from exchange transactions could result in more grants and contracts being accounted for as contributions (often conditional contributions) than under current GAAP

Reciprocal Vs. Nonreciprocal

- Is the transaction one in which each party directly receives commensurate value?
- A resource provider (including a private foundation, a government agency, or other) is not synonymous with the general public.
- A benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider.
- Execution of a resource provider's mission or the positive sentiment from acting as a donor does not constitute commensurate value received by a resource provider.

Conditional Vs. Unconditional

- Is there a donor-imposed condition present?
- A donor-imposed condition must have both a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets.
- For a donor-imposed condition to exist, it must be determinable from the agreement (or another document referenced in the agreement) that a recipient is only entitled to the transferred assets or a future transfer of assets if it has overcome the barrier.



Conditional Vs. Unconditional

- After a contribution has been deemed unconditional, either initially or when all conditions are met, an entity considers whether the contribution includes a donor-imposed restriction.



Indicators of a Barrier

- The recipient must achieve a measurable, performance-related outcome
- The extent to which a stipulation limits the recipient's discretion on the conduct of the activity
- Whether a stipulation is related to the primary purpose of the agreement



Effective Date and Transition

- Effective for annual financial statements for fiscal years beginning after December 15, 2018 for transactions in which the entity serves as a resource recipient
- Effective for annual financial statements for fiscal years beginning after December 15, 2019 for transactions in which the entity serves as a resource provider
- Applied on a modified prospective basis with retrospective application permitted
- Early adoption is permitted



Leases

Overview

- Accounting Standards Update No. 2016-02, Leases (Topic 842)
- Affects any entity that enters into a lease, or sublease, with some specified scope exemptions
- The primary objective of the leases project was to address off-balance-sheet financing concerns related to lessees' operating leases
- The most significant change in the ASU is its lessee model that brings most leases on the statement of financial position
- The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases

	Statement of Financial Position	Statement of Activities	Statement of Cash Flows
Capital lease	Leased asset Lease obligation	<ul style="list-style-type: none"> • Amortization expense • Interest expense 	Operating <ul style="list-style-type: none"> • Interest Financing <ul style="list-style-type: none"> • Principal
Operating lease		Rent expense	Operating
	Statement of Financial Position	Statement of Activities	Statement of Cash Flows
Finance lease	Right-of-use asset Lease liability	Front-loaded <ul style="list-style-type: none"> • Amortization expense • Interest expense 	Operating <ul style="list-style-type: none"> • Interest • Variable payments Financing <ul style="list-style-type: none"> • Principal
Operating lease	Right-of-use asset Lease liability	Lease expense	Operating



Definition of a Lease

A contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration.



Lessee Accounting

- A lessee should recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term.
- The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance lease or an operating lease.
- The ASU requires qualitative and quantitative disclosures to help users of financial statements better understand the amount, timing, and uncertainty of cash flows arising from leases.



Effective Date and Transition

- Originally effective for annual financial statements for fiscal years beginning after December 15, 2019
- FASB recently delayed the private company effective date for the leases standard to annual financial statements for fiscal years beginning after December 15, 2020
- Applied using a modified retrospective approach that includes a number of optional practical expedients
- Early adoption is permitted



Restricted Cash



Overview

- Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)
- Applies to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows
- GAAP currently does not include specific guidance on the cash flow classification and presentation of changes in restricted cash or restricted cash equivalents other than limited guidance for not-for-profit entities
- The ASU does not provide a definition of restricted cash or restricted cash equivalents

Requirements

- Restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.
- Transfers between cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents should not be reported as cash flow activities in the statement of cash flows.
- The financial statements should disclose information about the nature of restrictions on cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents.



Requirements

- When the statement of financial position includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents, a reconciliation of the totals in the statement of financial position and the statement of cash flows must be disclosed either on the face of the statement of cash flows or in the notes to the financial statements.

958-205-55-5 The following facts and transactions are reflected in the illustrative financial statements in Example 1. The transactions are presented by class of net assets to facilitate locating their effects in the statements and notes. The transactions in (a) through (hh) affect **net assets without donor restrictions**. The transactions in (i) through (n), (s), (t), and (w) affect **net assets with donor restrictions**. The transactions in (hhh), (o) through (r), and (u) affect both classes of net assets.

ii. The composition of assets restricted to investment in land, buildings, and equipment as of June 30, 20X1, and 20X0, is shown below. The change in restricted cash below represents a purchase of investments restricted to investment in land, buildings, and equipment.

	6/30/20X1	6/30/20X0
Restricted cash	\$ 60	\$ 160
Contributions receivable	2,440	1,500
Investments	2,710	2,900
	<u>\$ 5,210</u>	<u>\$ 4,560</u>

Not-for-Profit Entity A
 Statements of Financial Position
 June 30, 20X1 and 20X0
 (in thousands)

Assets:	20X1	20X0
Cash and cash equivalents	\$ 4,575	\$ 4,960
Accounts and interest receivable	2,130	1,670
Inventories and prepaid expenses	610	1,000
Contributions receivable	3,025	2,700
Short-term investments	1,400	1,000
Assets restricted to investment in land, buildings, and equipment	5,210	4,560
Land, buildings, and equipment	61,700	63,590
Long-term investments	218,070	203,500
Total assets	\$ 296,720	\$ 282,980
Liabilities and net assets:		
Accounts payable	\$ 2,570	\$ 1,050
Refundable advance		650
Grants payable	875	1,300
Notes payable		1,140
Annuity trust obligations	1,685	1,700
Long-term debt	5,500	6,500
Total liabilities	10,630	12,340
Net assets:		
Without donor restrictions (Note DD)	92,600	84,570
With donor restrictions (Note B)	193,490	186,070
Total net assets	286,090	270,640
Total liabilities and net assets	\$ 296,720	\$ 282,980

Not-for-Profit Entity A
Statement of Cash Flows
Year Ended June 30, 20X1
(in thousands)

Cash flows from operating activities:	
Change in net assets	\$ 15,450
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	3,200
Fire loss	80
Actuarial loss on annuity trust obligations	30
Gain on sale of equipment	(200)
Increase in accounts and interest receivable	(460)
Decrease in inventories and prepaid expenses	390
Increase in contributions receivable	(325)
Increase in accounts payable	1,520
Decrease in refundable advance	(650)
Decrease in grants payable	(425)
Contributions restricted for long-term investment	(2,740)
Realized and unrealized gains on investments	(15,800)
Interest and dividends restricted for reinvestment	(300)
Net cash used by operating activities	<u>(230)</u>
Cash flows from investing activities:	
Purchase of equipment	(1,500)
Proceeds on sale of equipment	200
Insurance proceeds from fire loss on building	250
Proceeds from sale of investments	76,100
Purchase of investments	(75,000)
Net cash provided by investing activities	<u>50</u>

Cash flows from financing activities:

Proceeds from contributions restricted for:

Investment in perpetual endowment	200
Investment in term endowment	70
Investment in land, buildings, and equipment	1,210
Investment subject to annuity trust agreements	200
	<u>1,680</u>

Other financing activities:

Interest and dividends restricted for reinvestment	300
Payments of annuity trust obligations	(145)
Payments on notes payable	(1,140)
Payments on long-term debt	(1,000)
	<u>(1,985)</u>

Net cash used by financing activities (305)

Net decrease in cash, cash equivalents, and restricted cash (485)

Cash, cash equivalents, and restricted cash at beginning of year 5,120

Cash, cash equivalents, and restricted cash at end of year \$ 4,635

Note H

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

	<u>6/30/20X1</u>
Cash and cash equivalents	\$ 4,575
Restricted cash included in assets restricted to investment in land, buildings, and equipment	<u>60</u>
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 4,635</u>

Assets restricted to investment in land, buildings, and equipment on the statement of financial position include restricted cash received with a donor-imposed restriction that limits use of that cash to long-term purposes.



Effective Date and Transition

- Effective for annual financial statements for fiscal years beginning after December 15, 2018
- Applied retrospectively to all periods presented
- Early adoption is permitted

ASU No.	Title	Effective for Calendar Year	
		Issuers/Obligors	All Other NFPs
2016-14	Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities		2018
2014-09, et al.	Revenue from Contracts with Customers (Topic 606)	2018	2019
2018-08	Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made	Various dates 2019-2020	
2017-10	Service Concession Arrangements (Topic 853): Determining the Customer of the Operation Services (a consensus of the FASB Emerging Issues Task Force)	2018	2019
2016-01 and 2018-03	Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities		2019
2016-15	Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)		2019
2016-18	Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)		2019
2017-01	Business Combinations (Topic 805): Clarifying the Definition of a Business		2019
2017-07	Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost		2019
2016-02, et al.	Leases (Topic 842)	2019	2021
2019-03	Not-for-Profit Entities (Topic 958): Updating the Definition of Collections		2020



OMB Compliance Supplement



Background, Purpose, and Applicability

- The OMB Compliance Supplement is a document that identifies existing important compliance requirements the Federal Government expects to be considered as part of a Single Audit
- Part 3 lists and describes the twelve types of compliance requirements and related audit objectives the auditor must consider and provides suggested audit procedures to assist the auditor in planning and performing tests of the auditee's compliance with the requirements of federal programs
- Part 4 discusses program objectives, program procedures, and compliance requirements specific to each federal program included in the Compliance Supplement



Background, Purpose, and Applicability

- Part 7 provides guidance to auditors in both identifying the compliance requirements and designing tests of compliance with such requirements for federal programs not included in the Compliance Supplement
- The 2019 Compliance Supplement is effective for audits of fiscal years beginning after June 30, 2018

A	B	C	E	F	G	H	I	J	L	M	N
Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	N	Y	N	Y	N	N	N	Y	N	Y



New 6-Requirement Mandate

- OMB required federal agencies to limit the compliance requirements subject to the compliance audit to 6 for each federal program included in the 2019 Compliance Supplement
- For this purpose the requirements relating to Activities Allowed or Unallowed and Allowable Costs/Cost Principles are considered one requirement
- The 6-requirement mandate does not apply to federal programs not included in the Compliance Supplement
- Auditees are still required to comply with all applicable regulations



Data Collection Form



Overview

- Form SF-SAC, also known as the Data Collection Form, is prepared at the completion of each Single Audit and submitted electronically to the Federal Audit Clearinghouse
- The Data Collection Form provides key information about the auditee, the federal programs it administers, and the results of the Single Audit
- The 2019 Data Collection Form is to be used for audits covering fiscal periods ending in 2019, 2020, and 2021



Key Changes

- The text of the notes to the schedule of expenditures of federal awards, including a description of the significant accounting policies used in preparing the schedule, whether the auditee elected to use the de minimis cost rate, and any additional notes included in the reporting package, excluding charts, tables, or footnotes
- The full, detailed text of audit findings exactly as it appears in the schedule of findings and questioned costs, excluding charts, tables, or footnotes
- The full, detailed text of the corrective action plan exactly as it appears in the auditee's Corrective Action Plan, excluding charts, tables, or footnotes

Thank You!

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