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Wegner CPAs

Non-Profit Roundtable | November 27, 2018

Accounting & Auditing Update

Presented by: Dana Outhouse, CPA, MBA – Supervisor

Today’s Topics

- Accounting Standards Update
- Upcoming Roundtables
- Questions

Accounting Standards Update

- Financial Statements (Topic 958)
- Revenue Recognition (Topic 606 and 958)
- Leases (Topic 842)
- ASU's Issued Since October 2017 *(handout)*

Not-for-Profit Financial Statement Standard

(Topic 958)

Overview

- Update, not overhaul of the current model
- Improve net asset classification scheme
- Improve the information presented in financial statements and notes about a NFPs liquidity, financial performance, expenses, and cash flows
- Better enable NFPs to “tell their financial story”

Effective Date

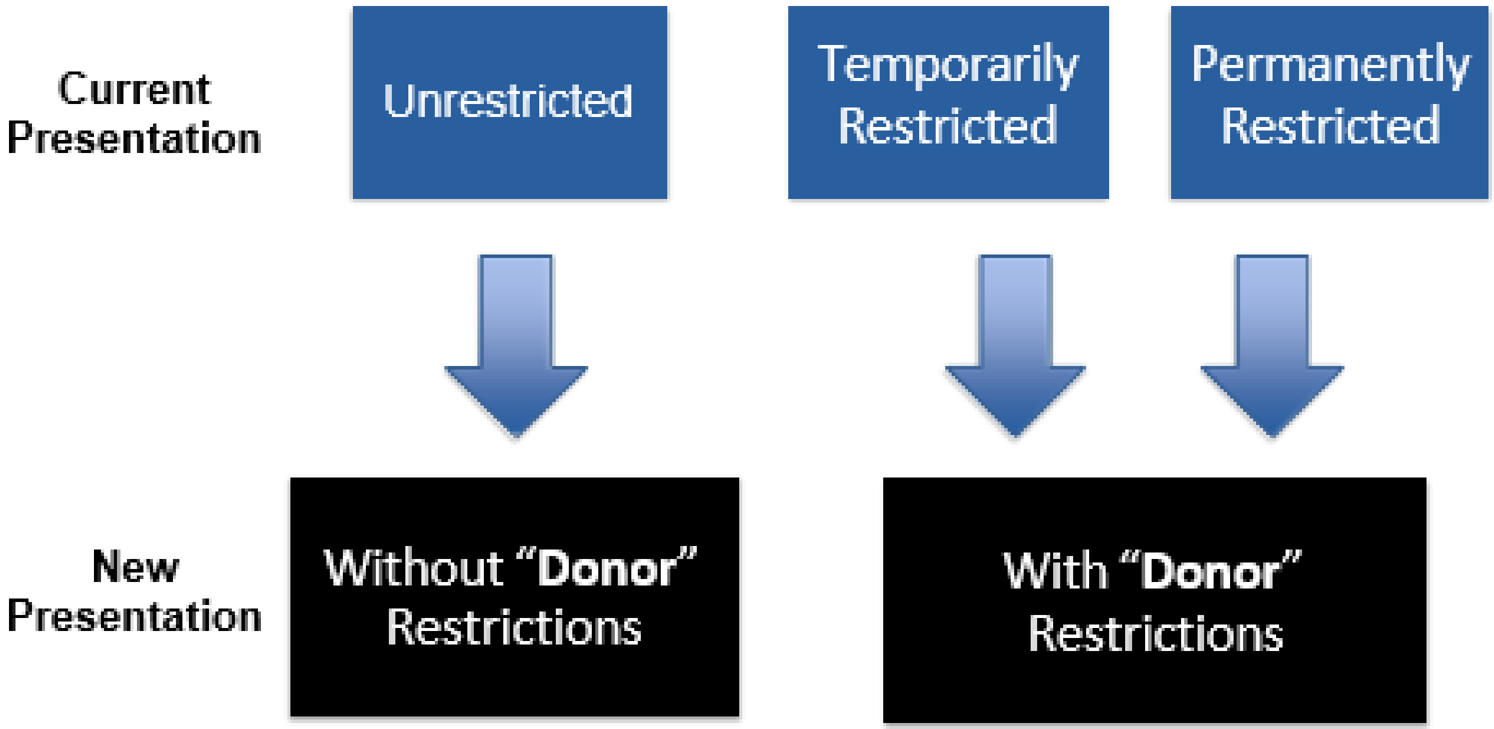
- Fiscal years beginning after 12/15/17
  - Calendar years ending December 31, 2018 or fiscal years ending in 2019

Now!

Key Changes

- Net asset classes
- Liquidity and availability of resources
- Expenses
- Statement of cash flows
- Investment return

Now Two Net Asset Classes



Disclosure Requirements

- Disclosure requirements
  - – Composition of net assets with donor/grantor restrictions
  - – Emphasis on how/when resources (net assets) can be used
    - Specified purpose
    - Specified time
    - Perpetual (endowment)
  - – Quantitative and qualitative information about board designations

Board-Designated Net Assets

- Definition indicates a need for NFPs to have policies and/or practices regarding board-designations on net assets; even if no designations currently exist

Net Assets

- Changes to the accounting for underwater endowments
- Place-in-service approach for the release of restrictions on gifts of/for capital assets

Liquidity and Availability

New Required Disclosures

- **Qualitative** information on **how a NFP manages its liquid resources** available to meet cash needs for general expenditures within 1 year of the balance sheet date

- **Quantitative** information that communicates **the availability of financial assets** at the balance sheet date to meet cash needs for general expenditures within 1 year of the balance sheet date

Example Disclosure

958-210-55-7 NFP A has $395,000 of financial assets available within one year of the balance sheet date consisting of cash of $75,000, contributions receivable of $20,000, and short-term investments of $300,000. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The contributions receivable are subject to time restrictions, but will be collected within one year. NFP A has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 60 days of normal operating expenses, which are, on average, approximately $275,000. As part of its liquidity management, NFP A invests cash in excess of daily requirements in various short-term investments including certificate of deposits and short term treasury instruments. As more fully described in Note xx, NFP A also has committed lines of credit in the amount of $20,000, which it could draw upon in the event of an unanticipated liquidity need.

Expenses

New Requirements

- Present an analysis of expenses by function and nature in one location
  - Functional Classification: A method of grouping expenses according to the purpose for which the costs are incurred (e.g. program services, management and general, and fundraising)
  - Natural Classification: A method of grouping expenses according to the kinds of economic benefits received in incurring those expenses (e.g. salaries, employee benefits, professional services, utilities, etc.)

New Requirements

- Include a description of the method used to allocate costs among program and support functions
- Improved guidance about management & general expenses

Always M&G Expenses per ASU

- Oversight and business management
- General recordkeeping and payroll
- Human resources function (hiring, benefits, etc)
- Budgeting
- Financing costs
- Soliciting funds other than contributions and membership dues
- Producing and disseminating the annual report
- Administering government, foundation, and similar customer-sponsored contracts, including billing and collecting fees and grant and contract financial reporting

Example

Home4U
Statement of Functional Expenses
For the Year 2017

	Program #1	Program #2	Management & General	Fundraising	Total
Salaries and benefits	$45,000	$93,000	$30,000	$10,000	$178,000
Rent and utilities	12,000	20,000	5,000	5,000	42,000
Printing and supplies	6,000	10,000	3,000	5,000	24,000
Depreciation	5,000	8,000	2,000	1,000	16,000
Total	$68,000	$131,000	$40,000	$21,000	$260,000

= NATURE   = FUNCTION

Statement of Cash Flows

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Changes to SCF

- Can continue to use either direct or indirect method
- If you use the direct method, no longer required to show indirect reconciliation

Investment Return

Investment Return

- Investment return is reported net of both EXTERNAL and direct INTERNAL investment expenses
- The amount of investment expenses that have been netted is not required to be disclosed
- No longer required to disclose components of investment return
- Investment expenses netted should be excluded from the analysis of expenses by functional and natural classifications

Effective Date

- Fiscal years <u>beginning</u> after 12/15/17
  - Calendar years ending December 31, 2018 or fiscal years ending in 2019.
- Comparative Prior Years
  - An NFP has the option to omit the following for any years presented before the year of adoption:
    - Analysis of expenses by functional and natural classifications
    - Liquidity and availability disclosure

Revenue Recognition Standards

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Revenue Recognition Standards

- ASU 2014-09 Revenue from Contracts with Customers (Topic 606)
- ASU 2018-08 Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

Effective Date

- ASU 2014-09
  - Nonpublic entities – effective for fiscal years beginning after December 15, 2018 (i.e., CY 2019, FY 2019-2020)
  - Earlier adoption permitted
- ASU 2018-08
  - Resource **recipients** must apply this standard for fiscal years beginning after December 15, 2018 (i.e., CY 2019, FY 2019-2020)
  - Resource **providers** must apply this standard for fiscal years beginning after December 15, 2019

Exchange or Contribution?

- First, determine if the transaction is an exchange or contribution
  - Exchange – direct commensurate/proportionate value is received by the payor
    - Follow Topic 606 guidance
  - Contribution – No value is directly received by the payor
    - Follow 2018-08 guidance
  - Both– Some but not commensurate value is received by the payor.
    - Need to bifurcate the transaction and record it as both an exchange and a contribution

Examples

1. The City provides a grant of $5,000 to Entity ABC to conduct a study on the homelessness patterns in that city. Entity ABC must provide the report, data and findings back to the City. (Approx. cost of the study is $5,000)

Examples

2. The City pays Church XYZ $500 to host a mayoral debate. (Fair value of the rented space is $300)

Examples

3. The City provides a soup kitchen with a grant of $5,000 to provide meals for the homeless 1 night per week.

Revenue Recognition Topic 606 - Exchange

- 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

1. Identify contract(s) with the customer
2. Identify performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the identified performance obligations
5. Recognize revenue when performance obligation is satisfied

Contributions

- Determine if the contribution is conditional or unconditional
- Two criteria for conditional:
  - Right of return/release **<u>AND</u>**
  - Barrier that must be overcome
  - Barrier examples:
    - Measurable performance related barrier
      - Must achieve a certain outcome
    - Limited discretion over the manner in which the activity can be conducted
    - Limited discretion over how the funds will be spent
    - Specific agreement stipulations

Accounting Treatment

- Unconditional Contribution
  – Recognize revenue immediately
- Conditional Contribution
  – Recognize revenue when the conditions have been met/barriers have been overcome

Unconditional vs conditional

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Without restrictions vs with restrictions

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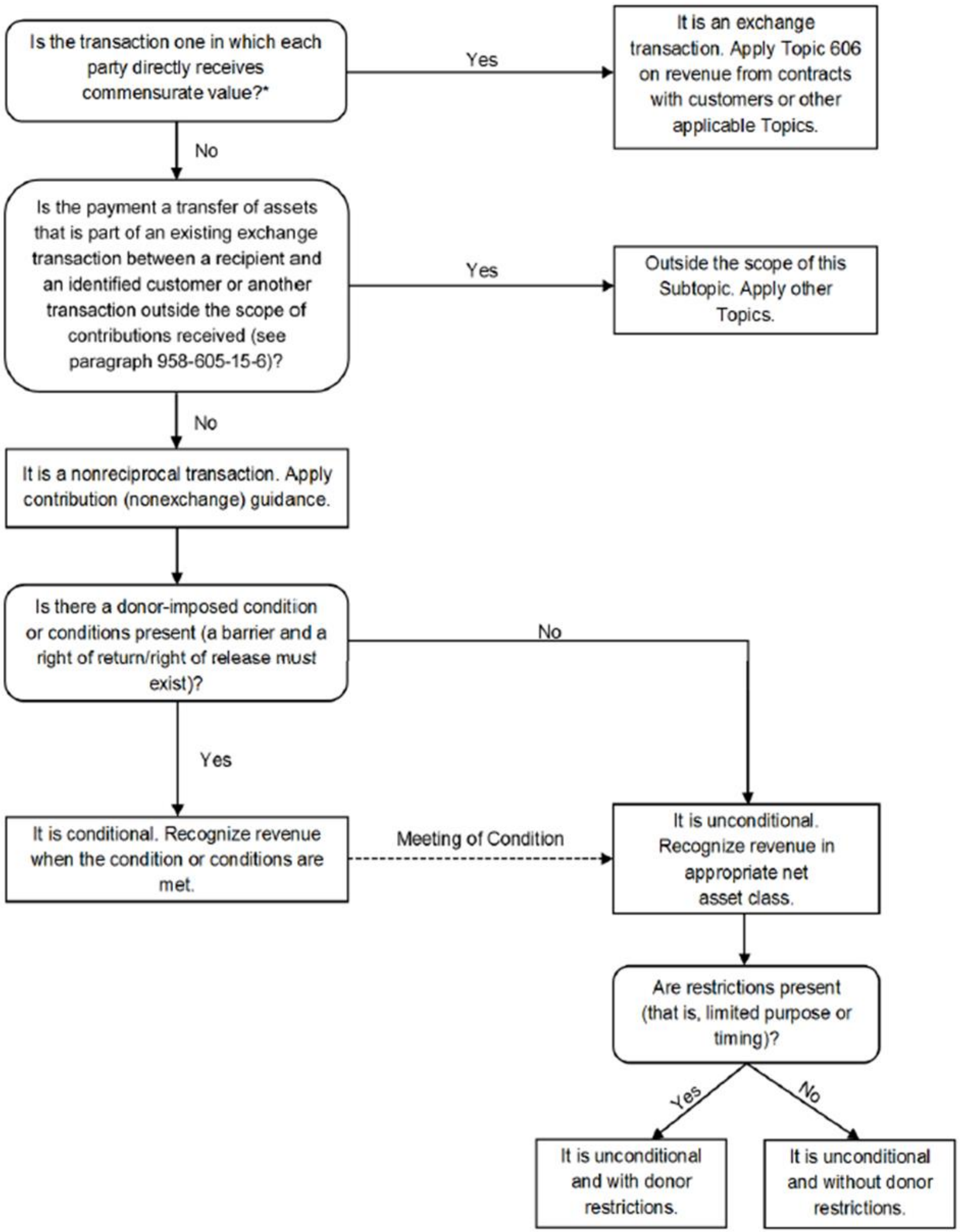
See handout – Decision Tree Flowchart from ASU 2018-08



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Implementation Tips

- ASU 2018-08 is being applied on a modified prospective basis
  - Will be applied to the unrecognized portion of agreements still in place on the effective date
  - Will be applied to new agreements that are entered into after the effective date.
  - No prior period results will be restated and there should be no adjustment to net assets

Implementation Tips

- These standards should be considered for any new contracts signed that will be in effect December 31, 2019 or thereafter.

Lease Standard
(Topic 842)

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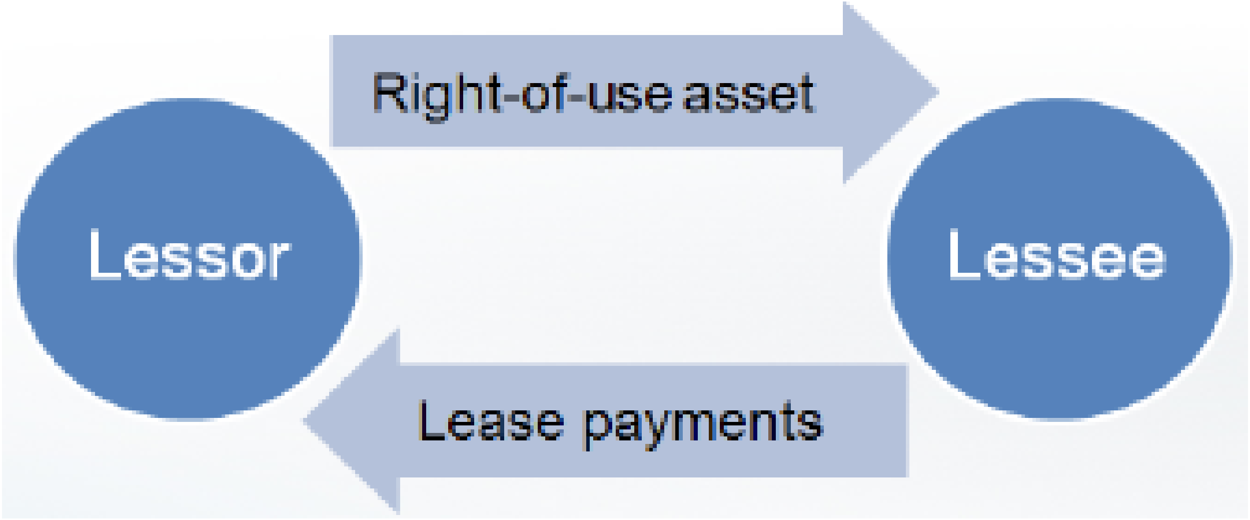
Effective Date

- Right of use accounting model for both lessees and lessors
- Effective Date
  - NFP Entities - effective for fiscal years beginning after December 15, 2019 (i.e., CY 2020, FY 2020-2021)

ASU 2016-02: 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



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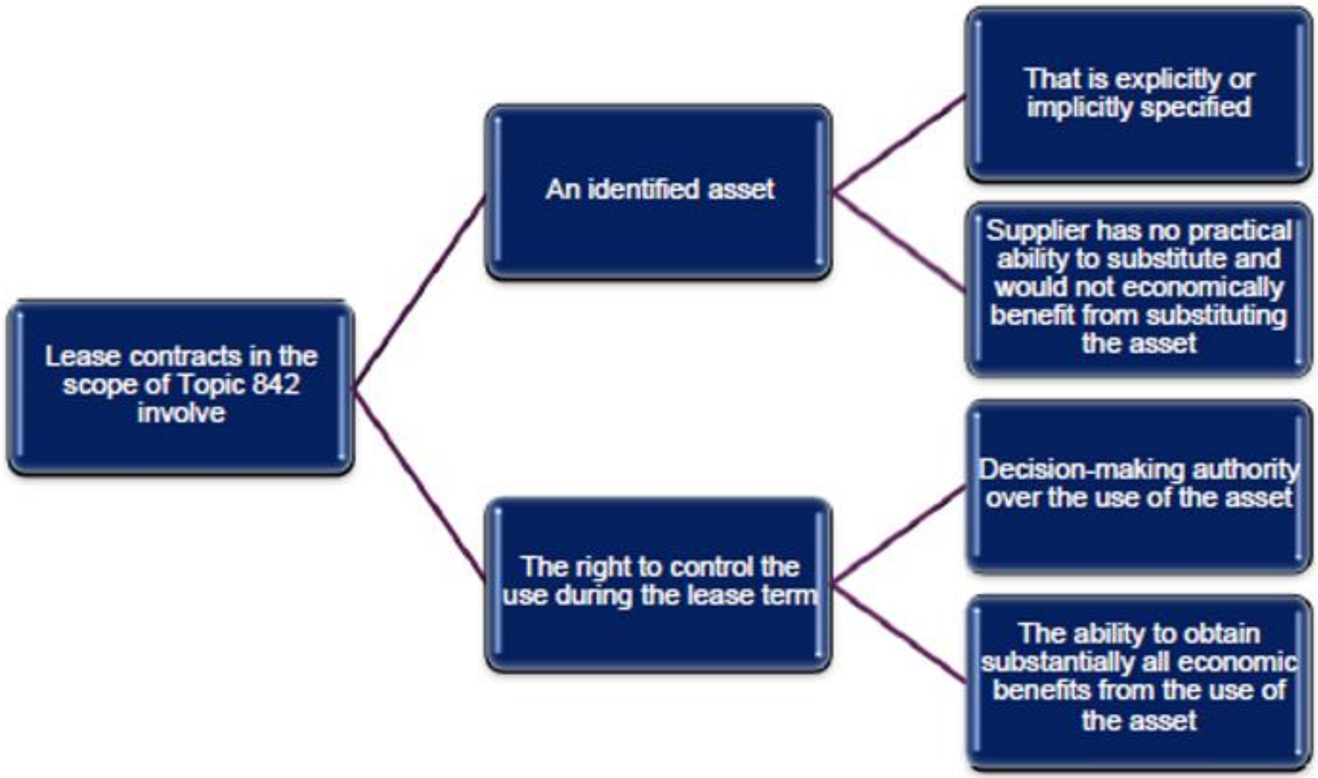
Identifying a Lease

- New primary determinant for on/off balance sheet treatment



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

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

Implementation Tips

- ASU 2016-02 is being applied on a modified retrospective basis
  - There are a number of practical expedients that entities may elect to apply.
  - Lessees will need to record a right of use asset and a lease liability for all operating leases still in place on the effective date
  - Will be applied to new leases that are entered into after the effective date.
  - May require a prior period adjustment

Implementation Tips

- This standard should be considered for any leases that will be in effect December 31, 2020 or thereafter.

Upcoming Roundtables

- New Accounting Standards for Grants and Contracts (January/February)
- Tips and Tricks for Reviewing Your 990 (April/May)
- Developing High Impact Grants (July/August)


Questions

Thank You!

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