



# Current Topics in Not-for-Profit Accounting and Reporting



# Session Objective(s)

- Discuss and understand:
  - Recently issued ASUs affecting NFP organizations
  - Discuss Impact of proposed standards:
    - ◇ Leases
    - ◇ NFP financial statements
- Get the A&A Update out of the way for the day!



# ASU 2013-04 - Obligations resulting from certain joint and several liability arrangements

Obligations resulting from joint and several liability arrangements (where the total amount of the obligation is fixed) must be reported as the sum of the following:

- The amount the entity agreed to pay based on its arrangement among its co-obligors
- Any additional amount the entity expects to pay on behalf of its co-obligors, using a “best estimate” if necessary

## Effective Date:

- ◇ Fiscal years beginning after December 15, 2013 (Calendar 2014)
- ◇ One year delay for nonpublic entities

# Required Disclosures

- For co-borrowing arrangements disclose
  - Nature of arrangement
  - Total outstanding
  - Carrying amount
  - Recourse provisions
  - How recorded (including changes)

# ASU 2013-06

## Services Received from Personnel of an Affiliate

- Recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity
- Services should be measured at the cost
- If measuring service at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either:
  - the cost recognized by the affiliate for providing that service or
  - the fair value of that service

# Presentation Guidance

- Health Care Entities
  - Report as equity transfer
- For other recipients - No presentation guidance
- All recipient not-for-profit entities – report corresponding decrease in net assets/creation of asset resulting from use of services similar to other such as expenses or assets

# Effective Dates

- Prospectively for fiscal years beginning after June 15, 2014, (June 30, 2015 year ends)
- May apply the amendments using a modified retrospective approach
  - All prior periods presented upon the date of adoption should be adjusted
  - No adjustment should be made to the beginning balance of net assets of the earliest period presented
- Early adoption is permitted

# ASU 2013-12

## Definition of a Public Entity

- Provides a single definition of “public business entity” for use in future guidance
- Excludes all nonprofit entities from the definition of a public entity
- Does **NOT** affect existing requirements



# ASU 2014-08

## Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

- Discontinued Operations may include:
  - A component of an entity
  - A group of components of an entity
  - A business or nonprofit activity
- Effective for years beginning on or after December 15, 2015
  - Those with conduit debt  
adopt a year earlier

will

# ASU 2014-08

## Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (Continued)

- Strategic shift that has major effect on entity's operations
  - Disposal of major geographical area
  - Major line of business
  - Major equity method investment
- Expanded Disclosures
- ASU includes sample disclosures and flow charts

# ASU 2014-09

## Revenue from Contracts with Customers

- Contributions – Not applicable
- Collaborative Arrangements – Not applicable
- Government Grants – Working on...
- Health Care Entities – Working on...
- All forms of revenue
  - Some form of impact
  - AICPA Task Force creating implementation guidance
  - Biggest impact will be transactions at year end

# ASU 2014-09

## Revenue from Contracts with Customers (Continued)

- Not-for-Profit Task force identified following areas for further clarification (among others):
  - ◇ Tuition and Housing Revenue
  - ◇ Government Grants
  - ◇ Subscriptions
  - ◇ Royalties/Licensing
  - ◇ Special Events
  - ◇ Revenue vs. Agency
  - ◇ Membership dues
  - ◇ CRTs

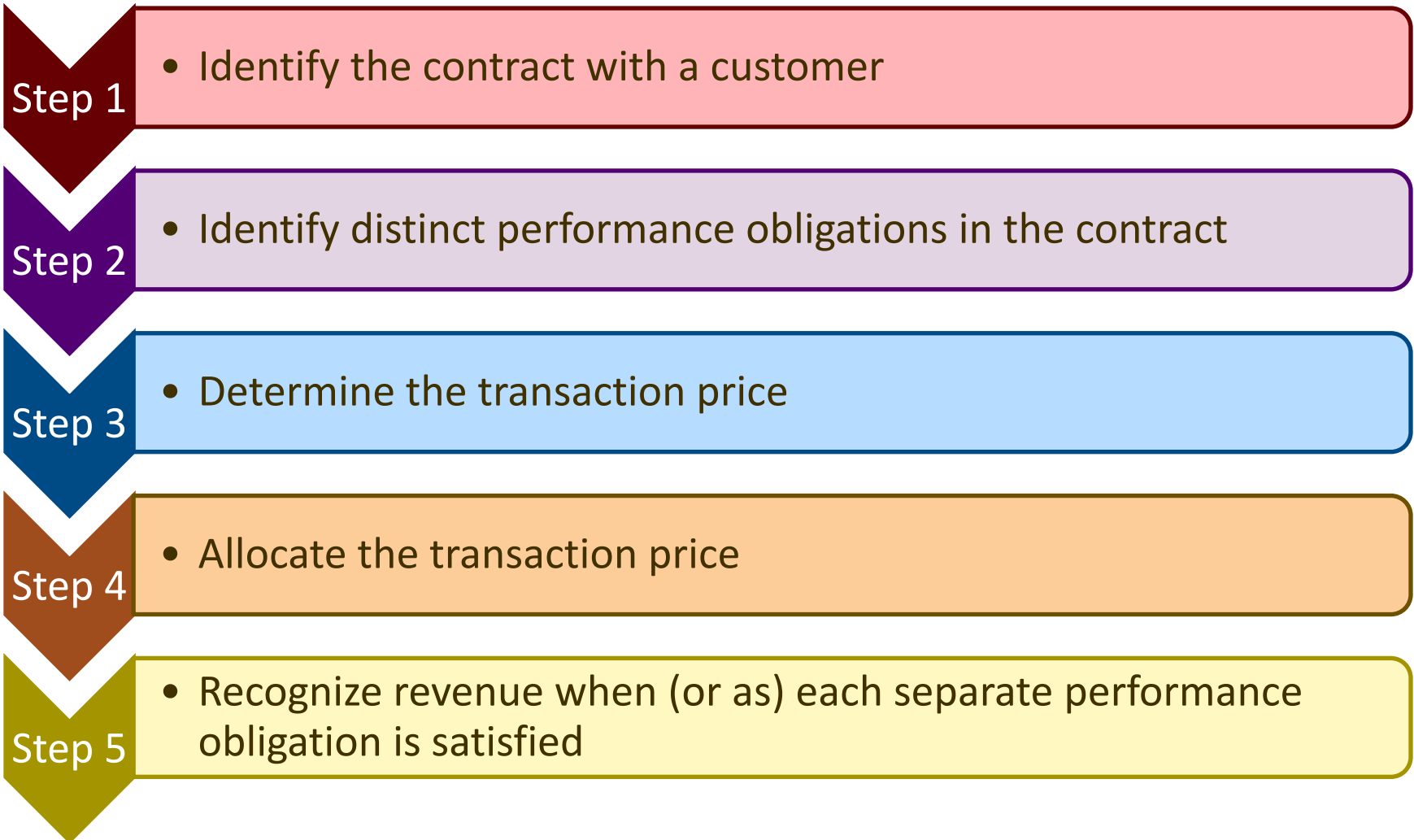
# ASU 2014-09

## Revenue Recognition – Effective Dates

- Per the ASU (for nonpublic entity)
  - Periods beginning after December 15, 2017
    - ◇ Calendar year 2018
- Recent ED proposes deferral (for nonpublic entity)
  - Periods beginning after December 15, 2018
    - ◇ Calendar year 2019
- Can still adopt as early as calendar year 2017

# ASU 2014-09

## Revenue from Contracts with Customers (Continued)



# ASU 2014-15

## Going Concern

- Moves guidance from Audit to Accounting
- Management evaluates
- Significant focus on disclosure
- Requires substantial doubt consideration and disclosure

# What is Substantial Doubt?

- Information about existing conditions indicates known or probable will not meet obligations within 12 months of issuance of financial statements
- Effective date:
  - Periods ending after December 15, 2016 (Calendar 2016)
  - Early adoption is permitted



# Disclosure Requirements

- Conditions giving rise to doubt
- Management's evaluation of significance
- Management's plan to alleviate

## Substantial doubt alleviated

- It must be probable that the plans:
  1. Will be effectively implemented
  2. Will mitigate conditions

# Disclosure Requirements (Continued)

## Doubt not alleviated

- Disclosures of plan consistent with doubt being alleviated

PLUS:

- Statement that  
“there is substantial doubt about the entity’s ability to continue as going concern from one year after F/S issue date

# ASU 2015-01

## Extraordinary Items

- Eliminates the concept of Extraordinary
- Ordinary Income/Loss still excludes:
  - Unusual in nature
  - Infrequent in occurrence
- 9/11 did not qualify per FASB
- Effective for periods beginning after December 15, 2015 (Calendar 2016)
  - Retrospective OR Prospective adoption

# ASU 2015-02

## Consolidation

- Matters to nonprofits who hold interests in Limited Partnerships
- Eliminates presumption that a General Partner should consolidate a Limited Partnership
- Consideration of Kick-Out Rights or Participating Rights to be considered for consolidation
- Effective for Calendar year 2017

# ASU 2015-03

## Presentation of Issue Costs

- Debt Issuance Costs no longer an asset
- Will be presented as a reduction of the debt liability
- For Nonprofit entities, will be effective for periods beginning after December 15, 2015 (Calendar 2016)
  - Should be adopted retrospectively

# The FASB Exposure Drafts Affecting Not-For-Profits

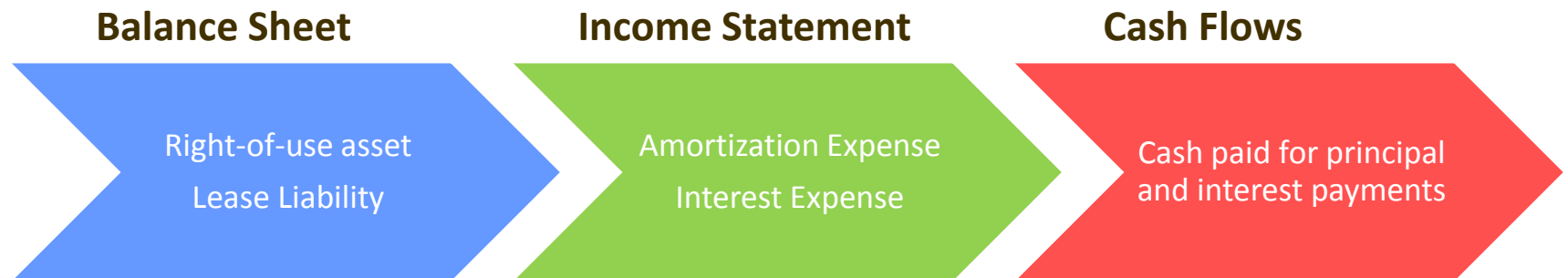
- Key Exposure drafts outstanding
  - Leases
  - Financial Statements of Not-for-Profits

# Accounting for Leases

- “Right-of-use” model should be considered
- Organization leasing an asset would account for it by recording an asset for the lease term and a liability for lease payments (similar to the capital lease model under current standards)
- Would require more leases recorded on an organization’s balance sheet
- Exposure Draft re-issued in May 2013

# Highlights of the Revised Exposure Draft

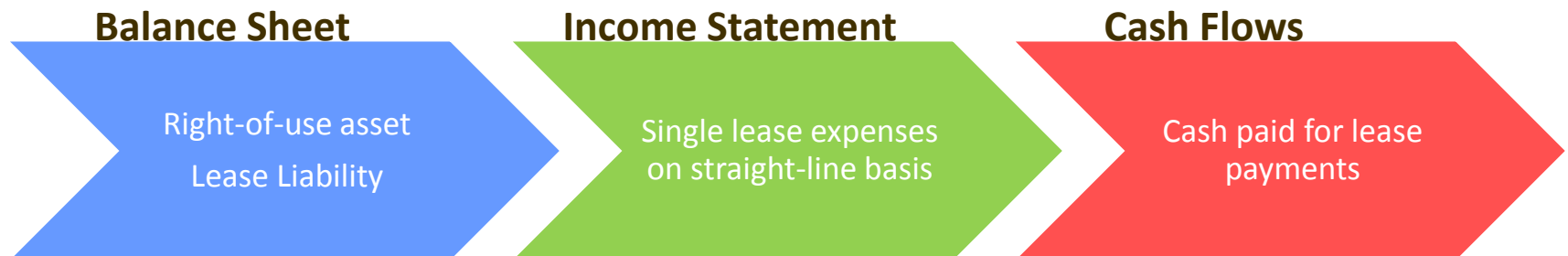
- **Leases of assets other than property (Type A), expense use effective interest (“financing”) method unless:**
  - Lease term is an insignificant portion of estimated economic life of the underlying asset, or
  - PV of fixed lease payments insignificant relative to FV of underlying asset





# Highlights of the Revised Exposure Draft (Continued)

- **Leases of property (Type B) use Straight-Line method unless:**
  - Lease term is for major part of economic life of underlying asset, or
  - PV of fixed lease payments account for substantially all of the FV of underlying asset, or
  - Lessee has a significant economic incentive to exercise an option to purchase the underlying asset



# Highlights of the Revised Exposure Draft (Continued)

**Example:** A lessee enters into a three-year lease and agrees to make annual payments of \$10,000 in Year 1; \$15,000 in Year 2 and \$20,000 in Year 3. The initial measurement of the ROU Asset and Liability to make payments is \$38,000 on a discounted basis

Year	Both Methods		Financing Approach (Type A)				Straight-Line Approach (Type B)		
	Lease Liability		Interest Expense [X]	Amortization Expense [Y]	Total Lease Expense [X]+[Y]	ROU Asset	Lease Expense [Z]	Reduction of ROU Asset [Z]-[X]	ROU Asset
0	38,000					38,000			38,000
1	31,038		3,038	12,666	15,704	25,334	15,000	11,962	26,038
2	18,520		2,481	12,667	15,148	12,667	15,000	12,519	13,519
3	-		1,481	12,667	14,148	-	15,000	13,519	-
Total			7,000	38,000	45,000				

# Highlights of the Revised Exposure Draft (Continued)

- **Lease Term**

- The non-cancellable period for which the lessee has contracted to lease the asset
- Includes options to extend if there is a significant economic incentive to exercise that option (or a disincentive not to)
- Lease term would be re-assessed if there is a significant change in the indicators

- **Short-Term Lease Exception**

- Maximum lease term of 12 months or less

- **More Disclosures!**

# Recent Decisions

- **Remove “property” vs “other than property” distinction**
  - Follow IAS 17 guidance instead
- **Regarding the lease term, replace “significant economic incentive” with “reasonably certain”**
  - Re-assess lease term when changes are directly attributable to the actions of the lessee
- **Align short term lease scope exception with definition of lease term**
  - Use lease term rather than maximum possible lease term

# Factors to Consider

- Current systems
  - Are they adequate to capture all information required under new standard?
- Financial statements
  - What will be the impact on the financial statements?
- Debt Covenants
  - How are current covenants affected?
  - What does this mean for future agreements?
  - Can we renegotiate current covenants with lenders?
- Compensation
  - How is compensation tied to performance metrics affected?

# Famous Quotes

“There is not the slightest indication that nuclear energy will ever be obtainable. It would mean that the atom would have to be shattered at will

**Albert Einstein, 1932**

## Famous Quotes (Continued)

“I think there is a world market for maybe five computers...”

**Thomas Watson**– Chairman of IBM, 1943

## Famous Quotes (Continued)

“The NFP Reporting Project changes will help the reader better understand the liquidity position of NFP Organizations”

**Ron Bossio – FASB Staff**

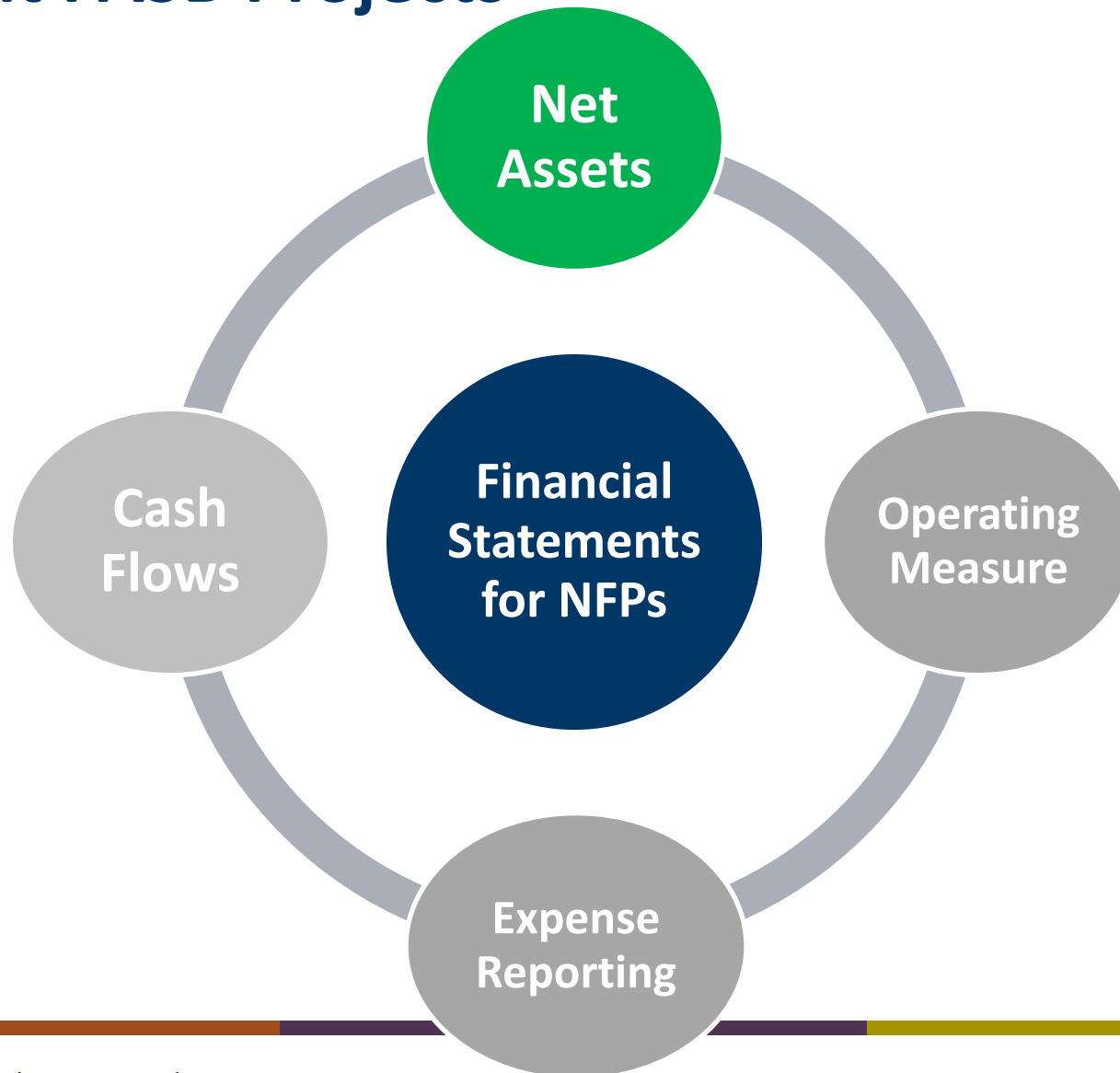
AICPA NFP Conference – June 2014



# FASB Exposure Draft – Presentation of F/S

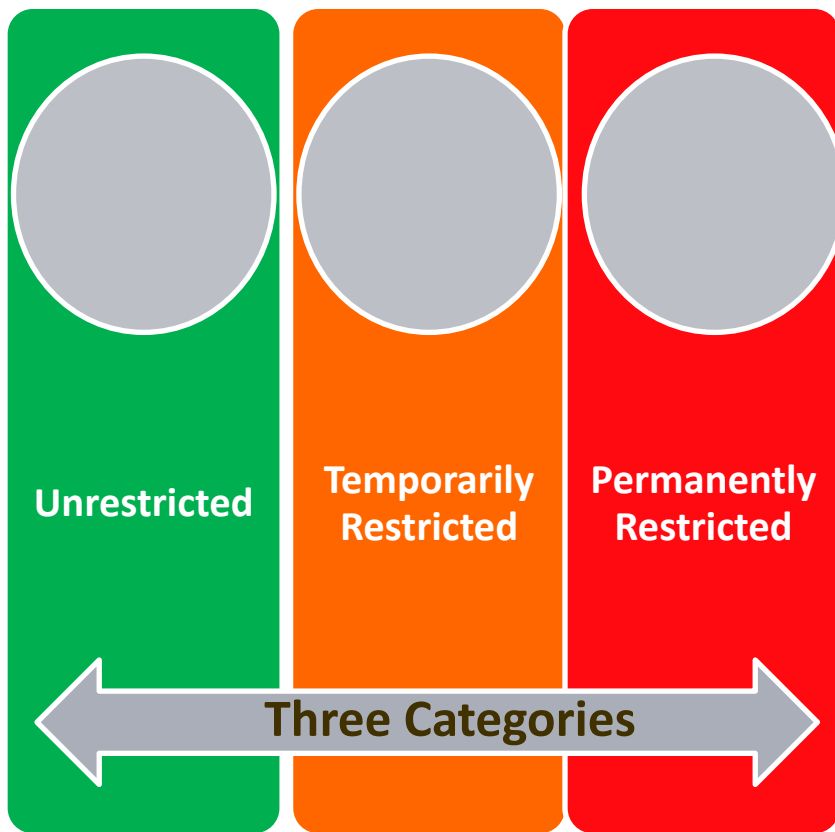
- Exposure draft issued April 22, 2015
- Comment letter due August 20, 2015
- Addressing following four issues:
  1. Net Asset classification complexities
  2. Inconsistencies in reporting operating measure
    - ◇ Liquidity
    - ◇ Financial performance
  3. Inconsistencies in expense reporting
  4. Misunderstanding of statement of cash flows

# Current FASB Projects

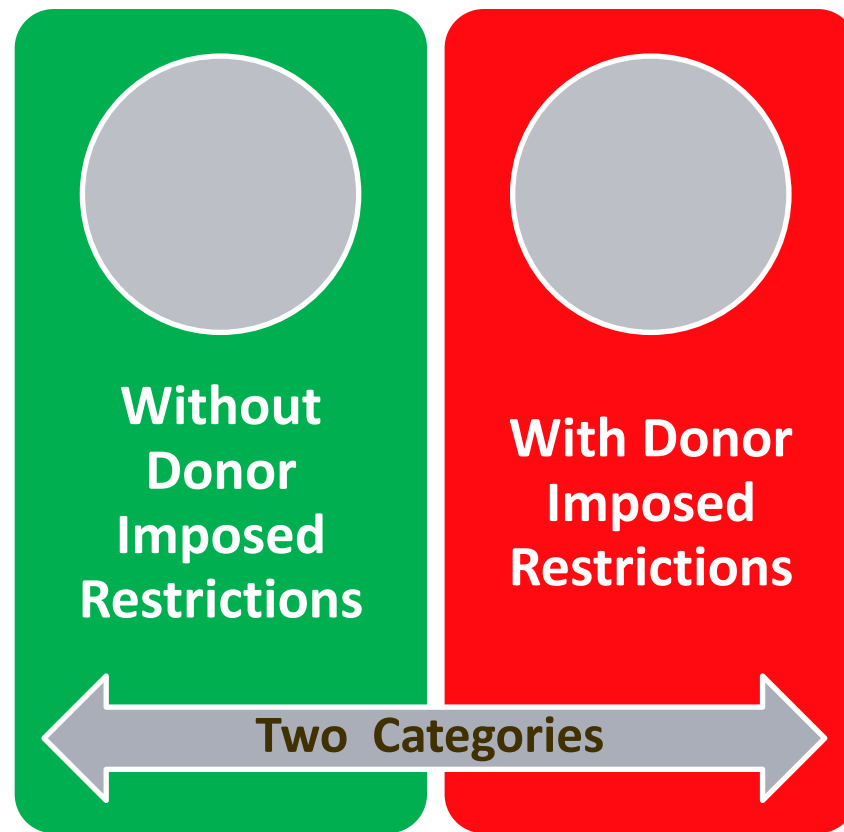


# Net Assets

## Current Presentation



## Proposed Presentation



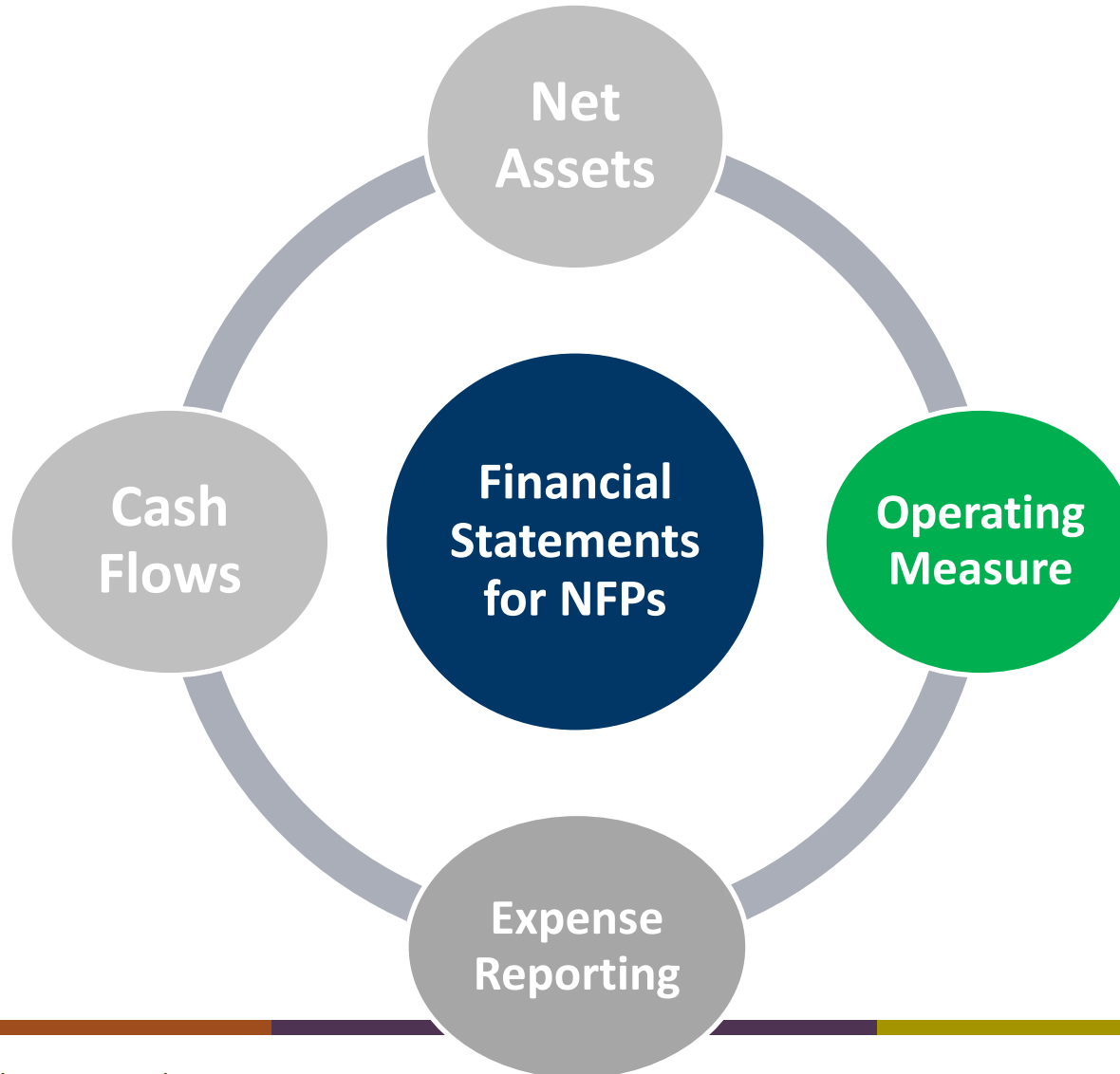
# Net Asset Classification Requirement

- Two classes
  - *Donor-imposed restrictions*
    - ◇ Includes perpetual and temporary
  - *Without donor-imposed restrictions*
    - ◇ Includes board designated
- Disclosure requirement:
  - Remove distinction between temporary and permanent restrictions
  - Emphasis on how/when resources (net assets) can be used
    - ◇ Specified purpose
    - ◇ Specified time
    - ◇ Perpetual (endowment)
  - Purposes of board designations

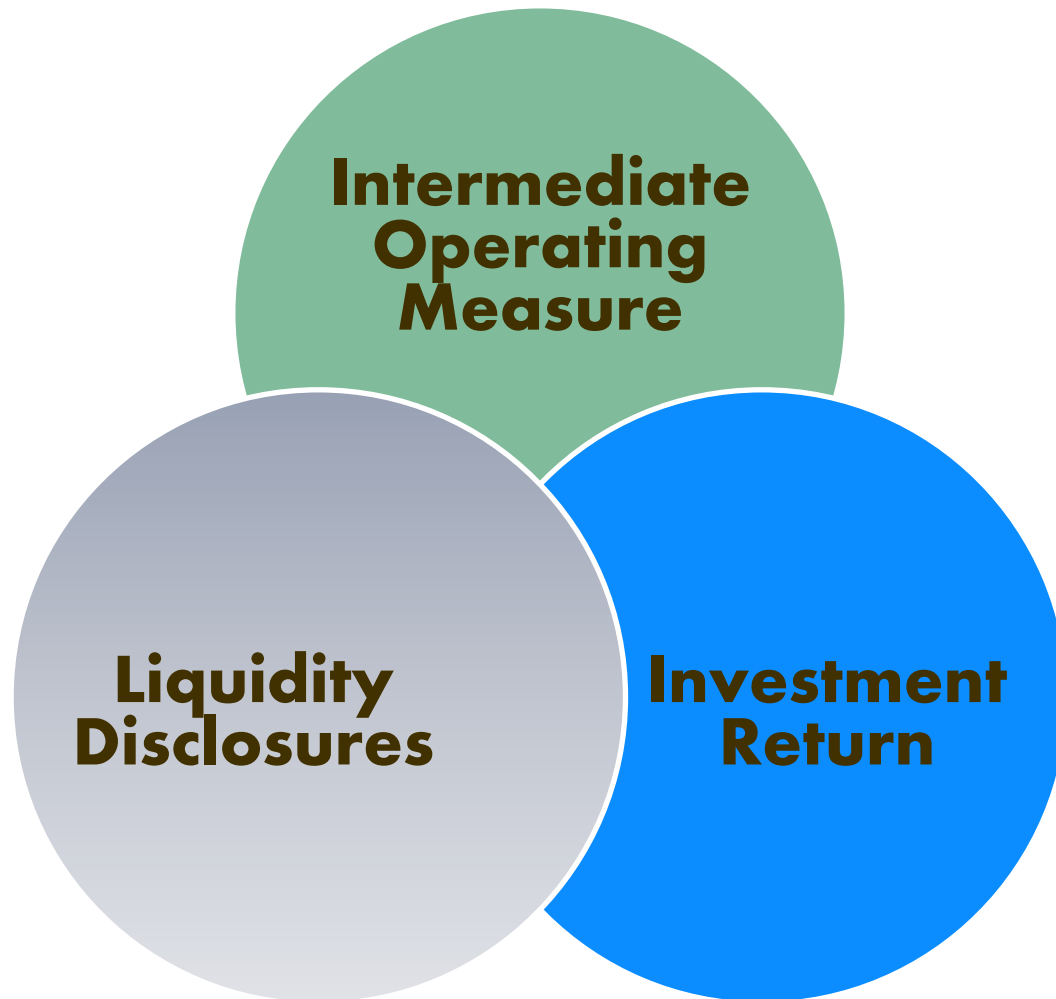
# Underwater Endowments

- Reported within “with donor restrictions” class of net assets
- Disclose
  - Policy to spend from underwater funds
  - Original gift of underwater funds (in aggregate)
  - Fair value of underwater funds (in aggregate)

# Current FASB Projects



# Operating Measures



# Financial Performance – Intermediate Operating Measure

- Required to present intermediate measure of current operations
  - Currently optional
  - Replaces Performance Indicator in Health Care Entities
- Defined by two key dimensions:
  - Mission
  - Availability (for current operations)



# Operating Indicators – 2 are better than 1

- **Operating excess, before transfers**
  - Operating indicator #1
  - Mission based
- **Transfers**
  - Items relating to availability
- **Operating excess, after transfers**
  - Operating indicator #2

# Mission

- Present all mission-related revenues prior to reductions for amounts designated by the governing board for use in future periods (vs net)
- Gifts may be from carrying out current period activities
  - Transfer out those not available for current period
- Investing and financing activities generally would NOT meet definition
- Equity transactions are also excluded

# Availability

- For current operations
- Internal availability
  - Board Designated
- External availability
  - Gift of long-lived assets
  - Donor restrictions
- Transfer out in year received, transfer in year used

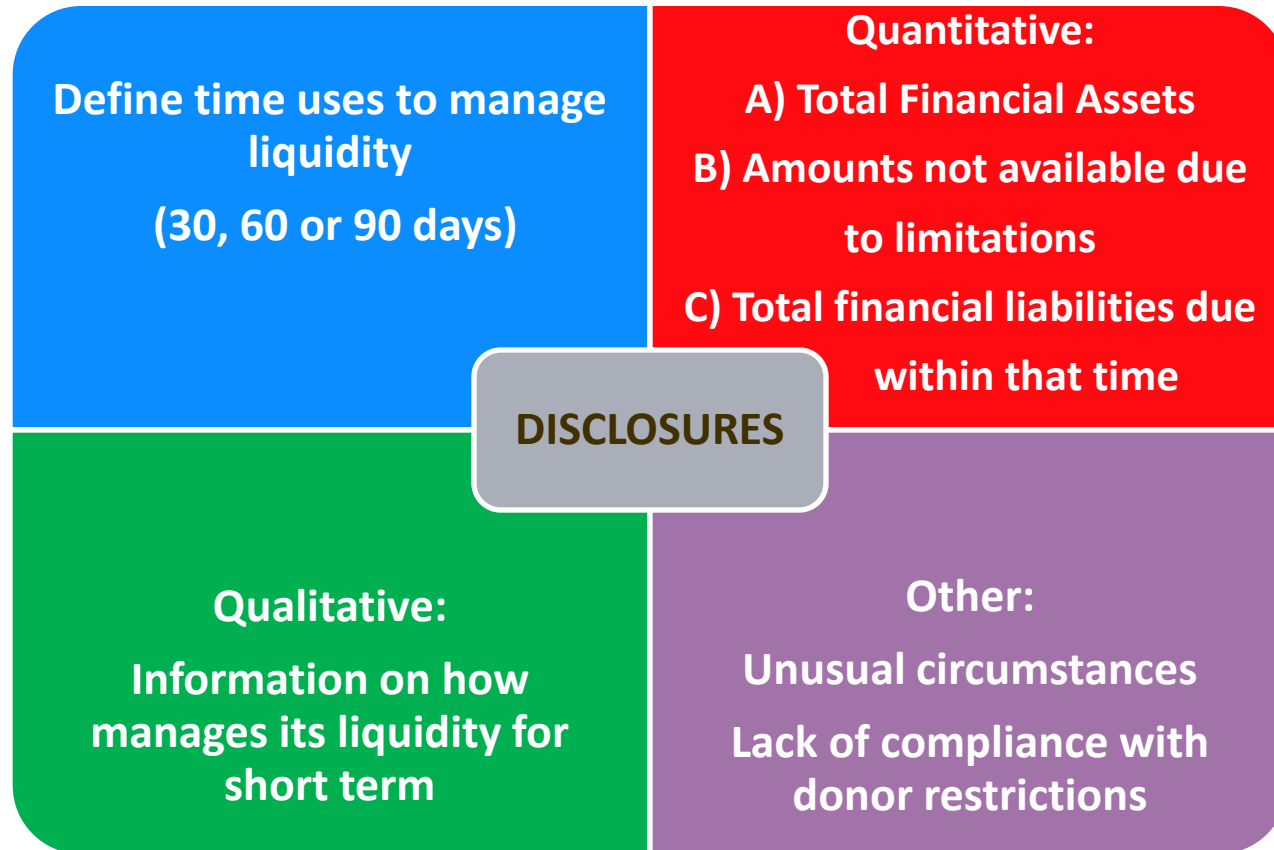
# Items Outside of Operating Indicator

- Investment return (investing)
  - May be able to transfer “available” amount into operations
- Interest expense (financing)
- Equity transactions with affiliates
- Non mission income/expense
- Board designated for future periods
  - Transfers in and out when available
- Pension transactions

# Intermediate Operating Measure

- Will be allowed to present subtotals
  - Healthcare Performance Indicator definition removed from codification
- Still allowed one or two statement approach
- Requirement to show change in unrestricted net assets no longer required.

# Liquidity



# Liquidity (Continued)

We suggest...

- 1) If policy not already in place, adopt policy addressing liquidity
- 2) Review current policy to determine if any changes need to be made prior to implementation of required disclosure
- 3) Periodically review to ensure addresses current economic factors

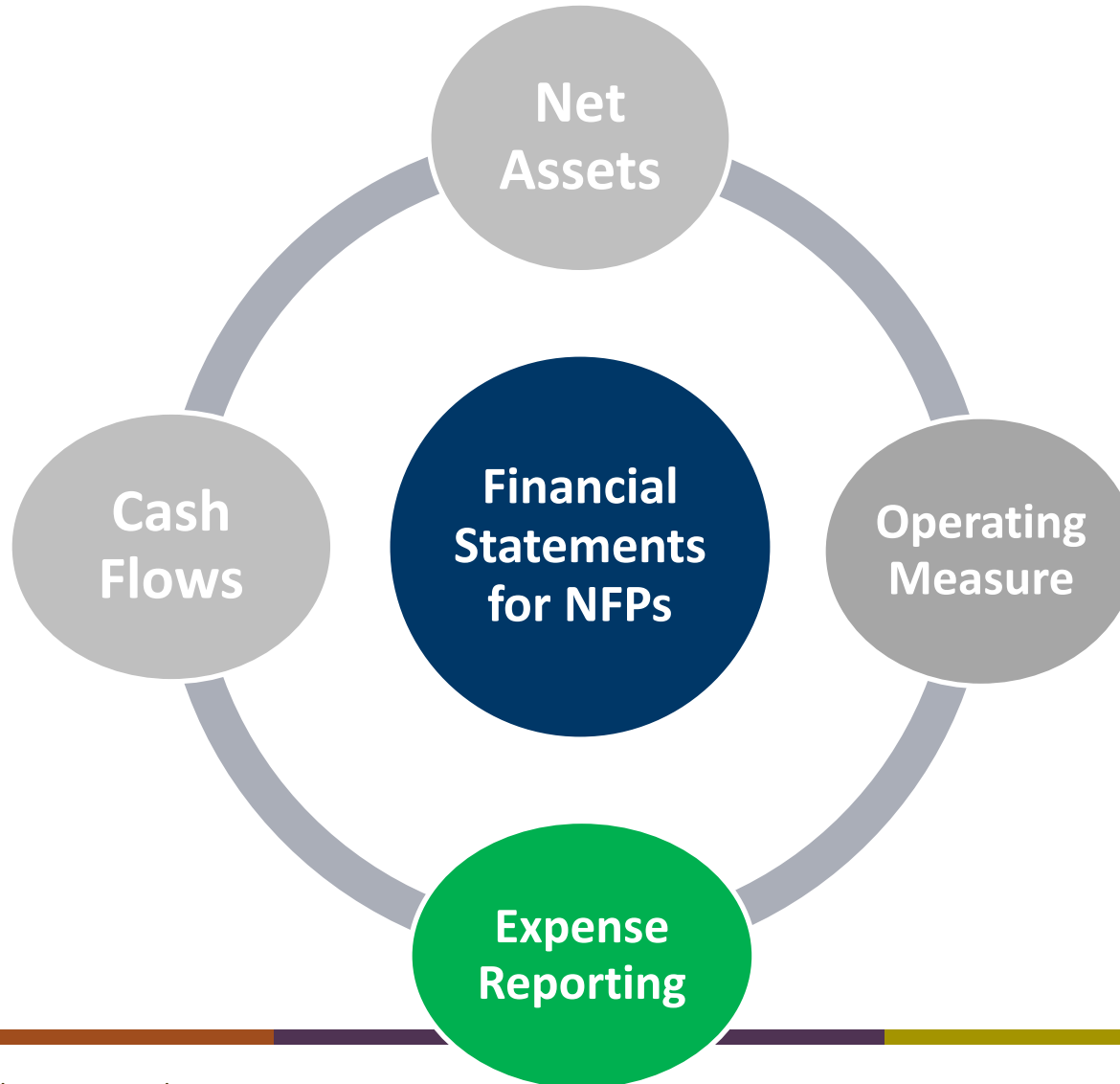
# Investment Return

Net presentation of investment expenses against investment return



- Both EXTERNAL and direct INTERNAL expenses
- **Removes** requirement to disclose the gross investment income and expense



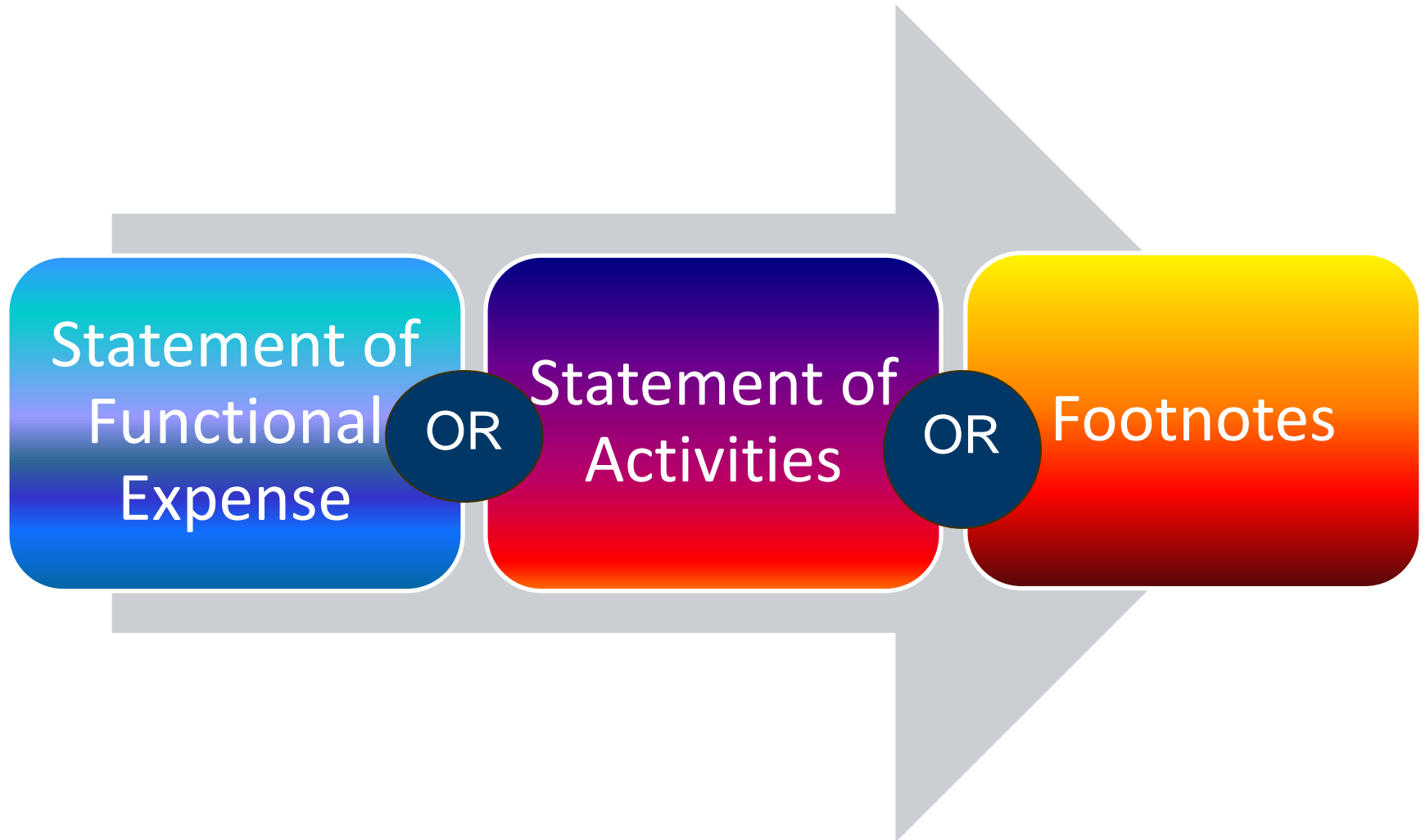
# Current FASB Projects



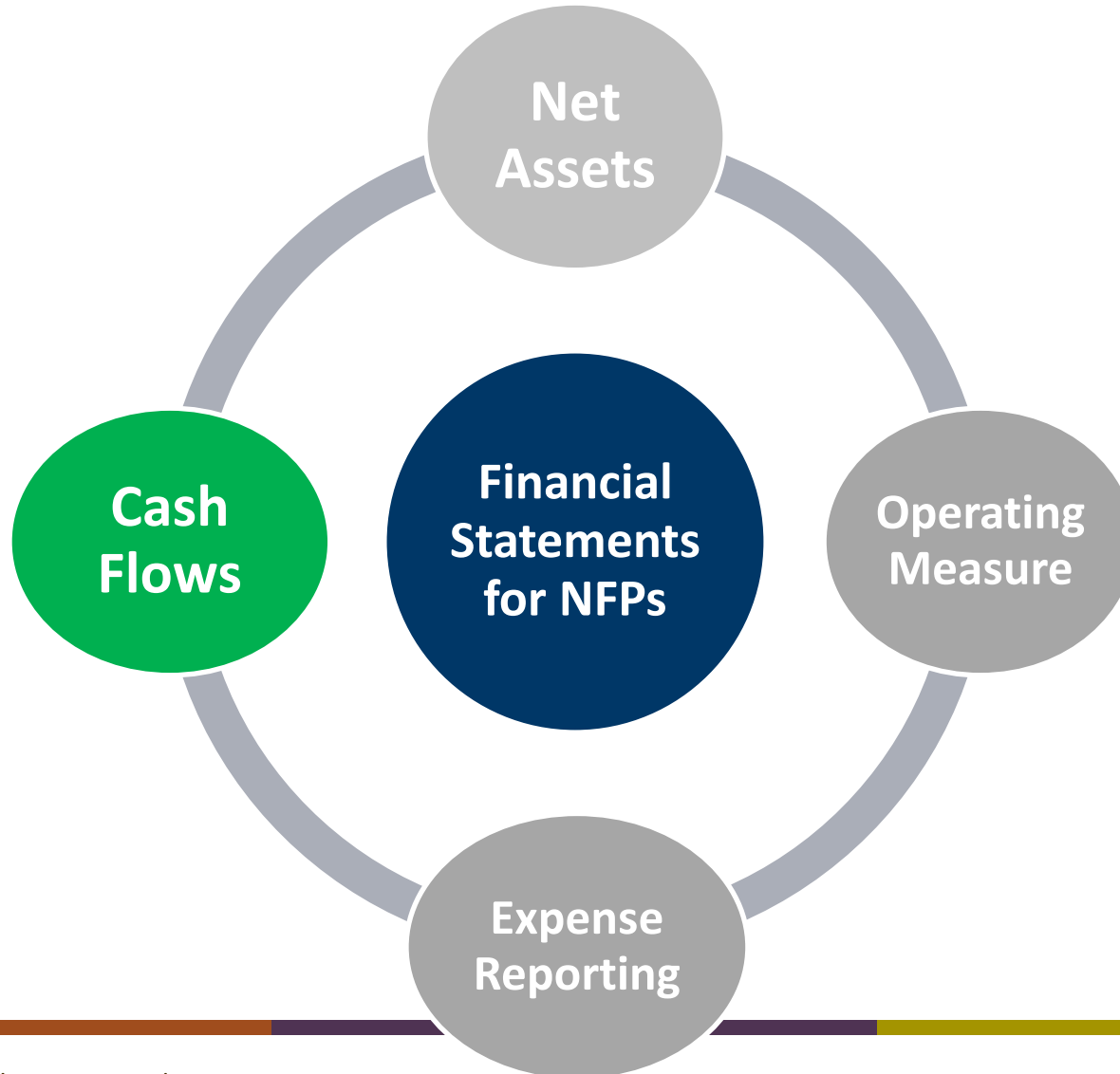
# Reporting of Expenses

- Current requirement  by Function for most NPs
  - No changes for current functional statement requirement if done already , but adds...
- New requirement  by Nature and all NPs must report expenses functionally!

# Reporting of Expenses – One Location



# Current FASB Projects



# Cash Flow Statement

Can no longer use...



Indirect

Must use.....



Direct

# Financial Statements – Cash Flow

Activity	Presentation	Previously...
Cash gifts – for long term assets for operations	Operating	Financing
Cash payments to purchase, construct, or acquire long-lived assets for operating purposes	Operating	Investing
Cash proceeds from sale of long-lived assets	Operating	Investing
Cash dividends and interest income	Investing	Operating
Cash payments of interest expense	Financing	Operating

# Issues Addressed?

- FASB's four main objectives:
  1. Net Asset classification complexities
  2. Inconsistencies in reporting operating measure
    - ◇ Liquidity
    - ◇ Financial performance
  3. Inconsistencies in expense reporting
  4. Misunderstanding of statement of cash flows

**If answer NO to any of the above, submit your comment letter to the FASB!**

# Additional Information

- [www.fasb.org](http://www.fasb.org)
- Next steps
  - Exposure Draft issued April 22, 2015
    - ◇ 261 pages
  - Comment Period deadline August 20, 2015
    - ◇ 22 specific questions
  - Re-deliberation through winter 2016
    - ◇ FASB roundtable discussions
  - Final Standard planned for summer 2016





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