

Audit & Accounting Standards Update

CLA Annual Non Profit and Government Training Academy



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Learning Objectives

At the end of this learning session, you will be able to:

- Latest activities of the Not-for-Profit Advisory Committee (NAC)
- New Requirements Issued or Pending by the FASB
- Private Company Council Update

Recent Activities of the NAC

- Net asset classification
- Liquidity
- Statement of Functional Expense
- Financial statement formats
- Statement of cash flows

Not-for-Profit Financial Reporting: Financial Statements – Net Asset Classification

- Generally agreed with the FASB decisions on the net asset classification requirements
- Concerns whether the two-class net asset classification scheme would preclude entities from presenting additional information
- FASB staff clarified that NFPs would not be precluded from going beyond the minimum requirements

Not-for-Profit Financial Reporting: Statement of Functional Expense

- Tentatively decided to require to report expense by their nature and retain the requirement to report expenses by their functions.
- Reporting can be done in one location – statement of activities, a separate statement of expenses (statement of functional expenses) or a schedule in the notes.
- It would include all expenses.
- Investment expenses

Not-for-Profit Financial Reporting: Financial Statements – Financial Statement Formatting

- Mixed views on a one-statement versus two-statement approach
- Urged adoption of the “dynamic presentation”
- Benefits of the detailed roll-forward presenting activities that change each of the components within net asset classes
- Concerns of disclosure overload

Not-for-Profit Financial Reporting: Financial Statements – Liquidity

- Notions of liquidity and asset availability are blurred
- Communications about liquidity solely through presentation/disclosures about NFP's net assets is impractical
- Current practices often do not meet the current U.S. GAAP
- Education may be necessary to close the gap

Not-for-Profit Financial Reporting: Financial Statements – Cash Flow Statement

- Poor alignment between the operating cash flows and operating measures
- Aligning the proposed intermediate measure of current operations with cash flows from operations would be a significant improvement

Accounting Standards Updates and other FASB Initiatives

- ASU 2014-02 Accounting for Goodwill
- ASU 2014-05 Service Concession Arrangements
- ASU 2014-08 Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity
- ASU 2013-04 Obligations Resulting from Certain Joint and Several Liability Arrangements
- ASU 2013-06 Services Rendered from Personnel of an Affiliate
- Going Concern



2014-02 Accounting for Goodwill

- Private Company Council
 - Currently applicable only to private companies
 - FASB fast tracking proposal to make effective for NFP
- Allows goodwill to be amortized
 - Prospective only
 - Amortization straight line over 10 years or less
 - Impact on FP subsidiary of NFP
- Effective date
 - Prospective as of the beginning period of adoption
 - Annual period beginning after December 15, 2014
 - Early application is permitted

ASU 2014-05

Service Concession Arrangements

- Service concession arrangement entered into with a public-sector entity grantor when the arrangement meets both of the following conditions:
 - The grantor controls or has the ability to modify or approve the services that the operating entity must provide with the infrastructure, to whom it must provide them, and at what price.
 - The grantor controls, through ownership, beneficial entitlement, or otherwise, any residual interest in the infrastructure at the end of the term of the arrangement.

ASU 2014-05

Service Concession Arrangements

- Operating entity should not account for a service concession arrangement as a lease in accordance with Topic 840.
- Refer to other Topics as applicable to account for various aspects of a service concession arrangement.
- Infrastructure used in a service concession arrangement should not be recognized as property, plant, and equipment of the operating entity.
- Existing standards did not cover, therefore diversity in practice
- Example: Building

Effective Date

- Modified retrospective basis to service concession arrangements that exist at the beginning of an entity's fiscal year of adoption.
- Requires the cumulative effect to arrangements existing at the beginning of the period of adoption to be recognized as an adjustment to the opening retained earnings balance for the annual period of adoption.
- For annual periods beginning after December 15, 2014. Early adoption is permitted.

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
- Strategic shift that has (or will have) a major effect on the entities operations
 - Disposal of major geographical area
 - Major line of business
 - Major equity method investment

A Non Profit Activity

- An integrated set of *activities and assets that is capable of* being conducted and managed for the purpose of providing benefits, other than goods or services at a profit or profit equivalent, as a fulfillment of an entity's purpose or mission (for example, goods or services to beneficiaries, customers, or members). As with a not-for-profit entity, a nonprofit activity possesses characteristics that distinguish it from a business or a for-profit entity.

Expands Disclosure Requirements

- Requires entities to:
 - Disclose information about individually significant components that are disposed of or held for sale that do not qualify as discontinued ops
 - Reclassification of assets and liabilities of a discontinued op for all comparative periods presented as well as specific disclosures in the statement of cash flows

Some of the Additional Disclosures

- Major classes of line items constituting change in net assets
 - Total operating and investing cash flows
 - Depreciation, amortization, capital expenditures and significant non cash items
- Reconciliation of
 - Major classes of assets/liabilities
 - Major classes of line items from P&L
- ASU includes sample disclosures and flow charts

Effective Date

- All disposals (or classification as held for sale) that occur with annual periods beginning on or after 12/15/2014. Early adoption is permitted.
- Should not apply to a component that is classified as held for sale before the effective date even if the entity is disposed of after the effective date

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

- Provides guidance on obligations resulting from joint and several liability arrangements for which the total amount under the arrangement is fixed at the reporting date
- Applies to debt arrangements, other contractual obligations, and settled litigation and judicial rulings
- Currently there is diversity in practice Some entities record the entire obligation
- Other entities record less than the entire obligation, such as an amount corresponding to the proceeds received

Required Disclosures

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

ASU 2013-6 Services Received from Personnel of an Affiliate

- Specifies the guidance that not-for-profit entities apply for recognizing and measuring services received from personnel of an affiliate
 - party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with an entity

Amendments of the ASU

- 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 a 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 the personnel providing that service or
 - the fair value of that service



Presentation Guidance

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

How does this improve GAAP?

- Similar recognition and measurement bases for services received from personnel of an affiliate that
 - directly benefit the recipient NFP entity and
 - for which the affiliate does not charge the recipient NFP

Effective Dates

- Prospectively for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter.
- 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

Going Concern Accounting

- Exposure draft issued
- Significant focus on disclosure
- Requires substantial doubt consideration and disclosure for public companies

What is Substantial Doubt?

- When information about existing conditions and events, after mitigating factors, indicates that it is known or probable that an entity will not meet its obligations as they become due within 24 months of F/S date

Period to Assess for Disclosure

- Entities inability to meet its obligations
 - More likely than not in 12 months or;
 - Known or probable in 24 months

Other Private Company Council Standards

- ASU 2014-03 Settlement value method for certain interest rate swaps
 - Reduce costs and complexity
 - Helpful for many smaller NFPs that have swaps
 - Currently being considered by FASB to extend to NFP
- ASU 2014-07 Applying variable interest entities guidance to common control leasing arrangements
 - Allows private companies to not apply VIE accounting if:
 - ◇ Entities are under common control
 - ◇ Arrangement is a lease
 - ◇ Substantially all activity between entities is lease, AND
 - ◇ Guarantee of loan by leasing entity does not exceed value of property

FASB Projects

- Revenue Recognition
 - To be issued in 2014...
- Leases
 - Debate continues
- Financial Instruments
 - Anticipated issued final 2014



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