



ENDOWMENT ACCOUNTING CONFERENCE

Accounting Update



Chicago, November 2017

Agenda

- Quick review of the Financial Reporting Project
- Focus on liquidity disclosures
- Grants and contracts ED
- Selected new standards
- Selected proposals
- Q&A



ASU 2016-14 – Effective Date

Years beginning after December 15, 2017

Are you ready?

ASU 2016-14 – Effective Date and Transition

- **Effective date**: For fiscal years beginning after 12/15/2017 (e.g., CY 2018 or FY2019)
 - Interim financials the following year
- **Early Adoption**: Permitted, but must apply the regular transition provisions.
- **Transition**:
 - For year of adoption: apply all provisions.
 - For comparative years presented: apply all provisions, except can choose not to present:
 - a) Analysis of expenses by nature and function, and/or
 - b) Disclosures around liquidity and availability of resources

ASU 2016-14 – Net asset classification

Current GAAP	Revised GAAP
Net Assets:	Net Assets:
<ul style="list-style-type: none"> • Unrestricted • Temporarily Restricted • Permanently Restricted 	<ul style="list-style-type: none"> • Without Donor Restrictions • With Donor Restrictions
	Disclosure:
	<ul style="list-style-type: none"> • Amount, purpose and type of board designations • Nature and amount of donor restrictions
“Underwater” Endowments	Net Assets:
<ul style="list-style-type: none"> • Reduce unrestricted net assets 	<ul style="list-style-type: none"> • Reflect in net assets with donor restrictions
	Disclosure:
	<ul style="list-style-type: none"> • Aggregate of original gift amounts, fair value • Board policy

ASU 2016-14 – Donations of Long-lived assets

Current GAAP	Revised GAAP
Net Assets: <ul style="list-style-type: none">• Gifts of cash restricted for acquisition or construction of long-lived assets:<ul style="list-style-type: none">• Implied time restriction, or• Placed-in-service approach	Net Assets: <ul style="list-style-type: none">• All NFPs will be required to use placed-in service approach• Time restriction only if explicit by donor
Note: Healthcare NFPs are already required to use placed-in service approach	

ASU 2016-14 Operating measure

- Improved disclosure
- For those nonprofits that utilize an operating measure and show **governing board designations, appropriations, and similar actions** (internal transfers) in the measure
 - Must report these type of internal transfers appropriately disaggregated,
 - described by type,
 - either on the face of the financial statements or in the notes

ASU 2016-14 – Reporting Impacts

- Statement of cash flows
 - Continue to permit direct or indirect method
 - Indirect reconciliation no longer required for NFP when using direct method
- Expenses, including:
 - Expenses by nature and an analysis of expenses by function and nature
 - Enhanced disclosures about how cost allocations are made between programs and support

ASU 2016-14 – Expense reporting

- Cost allocation disclosure – an example

Certain expenses are attributable to more than one program or supporting function. These expenses are allocated consistently on the following bases:

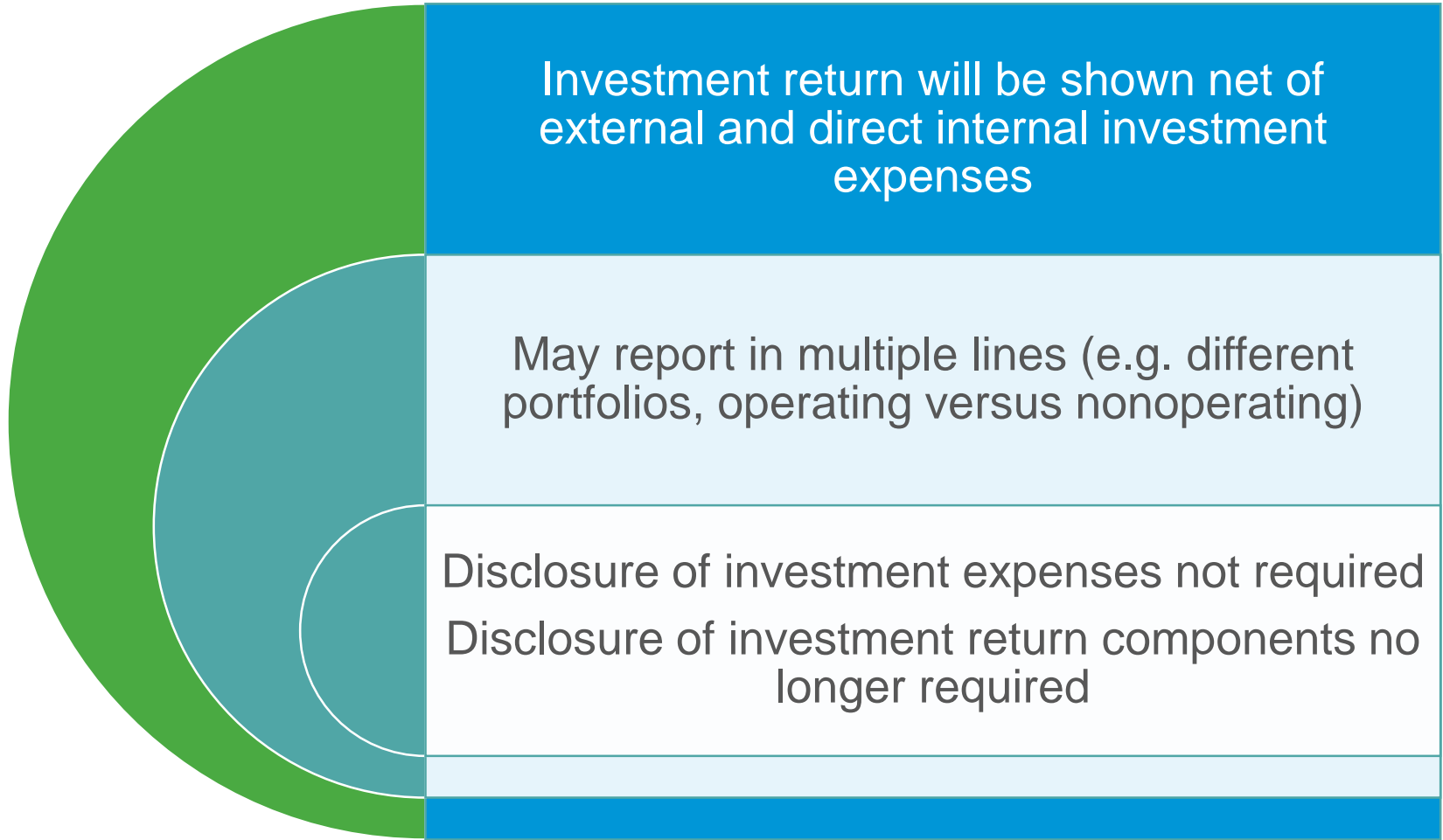
- Depreciation, interest and occupancy costs are allocated based on square-footage used by each function.
- Salaries and benefits are allocated based on estimates of time and effort

- See FASB ASC 958-720-55-176 and 958-205-55-21 for other examples

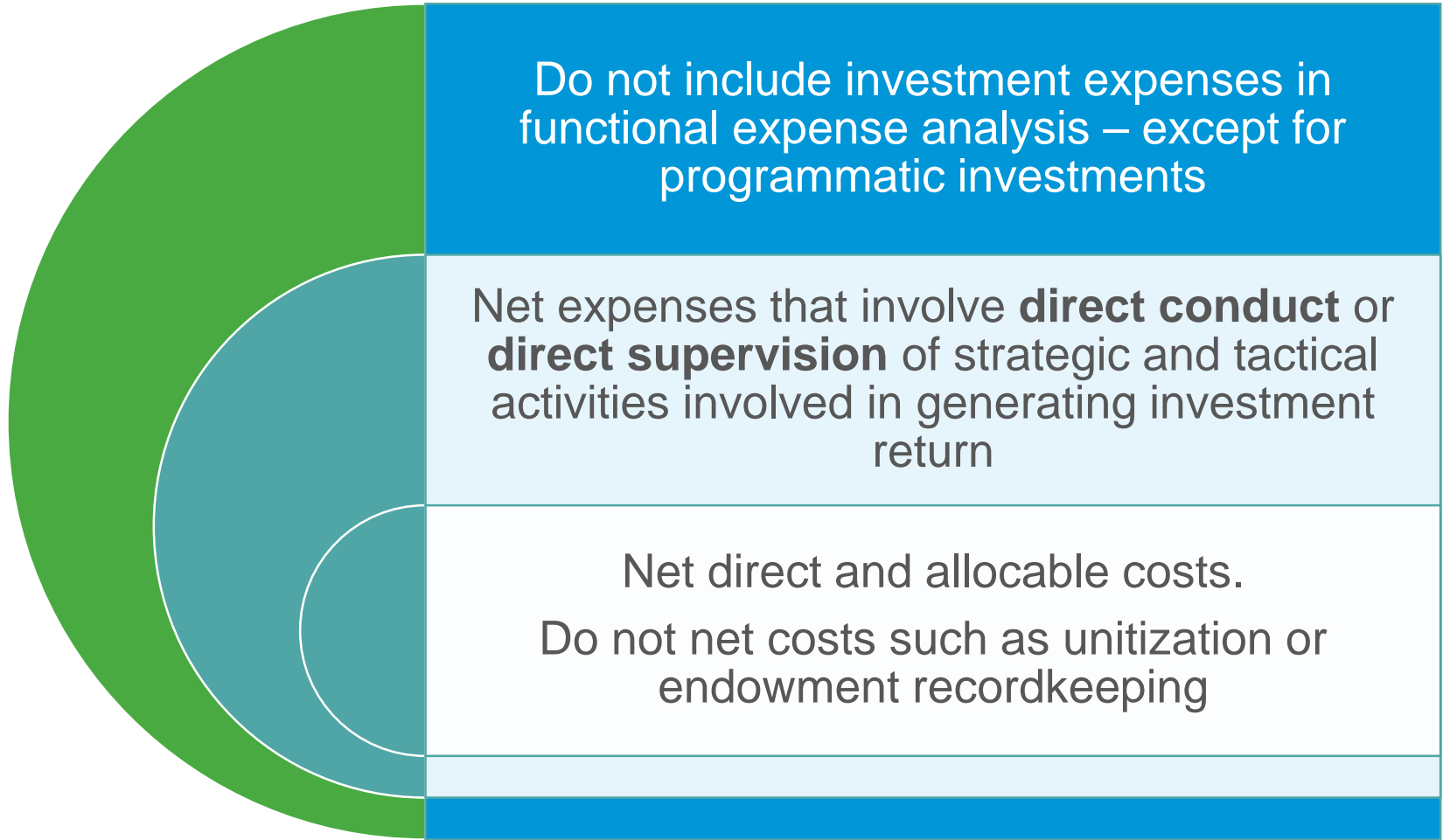
ASU 2016-14 – Expense reporting

- New concept –
 - *Direct conduct* or *direct supervision* of a function should be allocated out of management and general
- Examples:
 - Information technology
 - Direct supervision of program by senior manager
 - Direct conduct of fundraising by CEO

ASU 2016-14 – Presentation of investment return



ASU 2016-14 – Investment Expenses



ASU 2016-14 – Liquidity and Availability of Resources

Qualitative In notes

- How NFP manages its liquid available resources
- How NFP manages liquidity risks

Quantitative In notes and/or on the face

- Information about the availability of financial assets at balance sheet date to meet cash needs for general expenditures within one year

ASU 2016-14 – Liquidity and Availability of Resources

- See your table for examples
- See FASB ASC 958-210-55-5 through 958-210-55-8 for other examples
- AICPA NFP Expert Panel is planning on several examples in the Guide update, including when there is:
 - Sufficient resources to cover donor restrictions
 - Insufficient resources to cover donor restrictions
- Examples are available online to AICPA NFP Section members

Discussion on Liquidity/Availability Disclosures

- **Simple Liquidity Example 1**
 - Most simple
 - Discloses sources and defines what is included
- **Simple Liquidity Example 2**
 - Same information as EX 1
 - Provides all resources, then available for next 12 months
 - Would include same narrative as EX 1
- **Complex Examples**
 - Most complex, donor restrictions and board designations
 - Defines guiding principles
 - Compares non-available amounts to long term donor restricted/board designated net assets

ASU 2016-14 – Steps to Take Now

- Prepare pro-forma with new layout
- Draft new/expanded disclosure requirements
- Determine needed board policies for:
 - Maintenance of liquid resources
 - Evaluating availability
- Most significant new disclosures to consider:
 - Liquidity
 - Availability
 - Expenses

Phase II Redeliberations

- Operating measures
 - Whether to require and how to define
- Statement of cash flows
 - Consideration of realignment of items
- Segment reporting for NFP healthcare entities - **REMOVED**

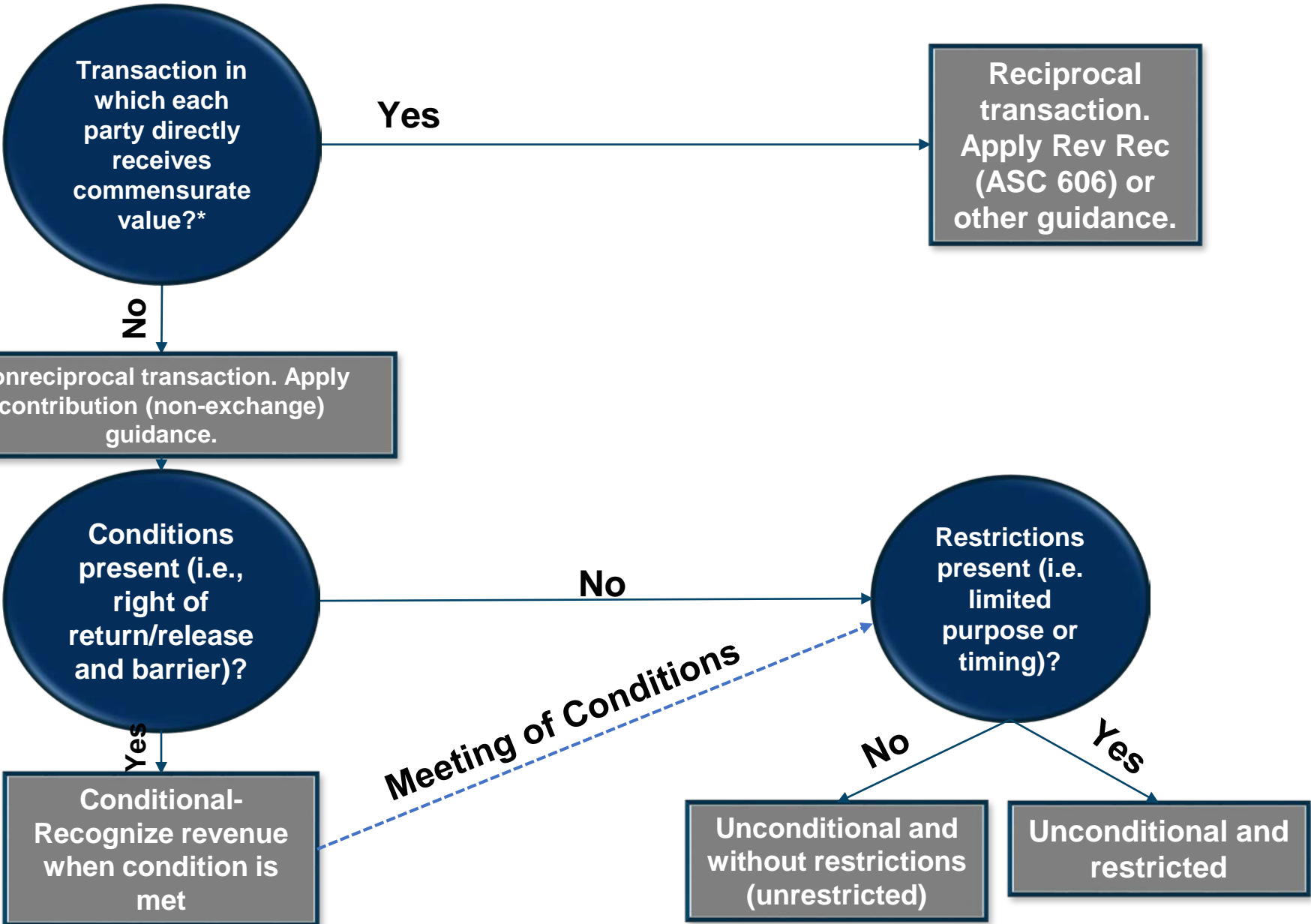
Timing – not yet determined



Grants and Contracts Exposure Draft

The following slides are presented, with thanks to Jeffrey Mechanick of the FASB, from the September 11, 2017 FASB meeting with NAC (Nonprofit Advisory Committee)

NFP Revenue Recognition Decision Process



*Includes third-party payments on behalf of identified customers. These do not create new revenue.

Grants and Contracts to NFPs—Background

Project added to FASB's Technical Agenda to improve and clarify existing guidance



ASU 2014-09, *Revenue from Contracts with Customers*, including related disclosures, heightened the issue

Raised question as to whether grants and contracts are in scope of that guidance (reciprocal or nonreciprocal)



Long-standing diversity in practice in classifying grants and contracts, particularly from governmental entities

Issue 1: Reciprocal Versus Nonreciprocal

Issue 2: Conditional Versus Unconditional

Issue 1: Reciprocal (Exchange) vs. Nonreciprocal (Nonexchange/Contribution) Transactions

Who Receives the Benefit?

Current Practice

EXCHANGE

Direct
Commensurate
Value to Resource
Provider

Specified Third Parties

General Public

Proposed Clarification

EXCHANGE

Direct
Commensurate
Value to Resource
Provider

Specified Third Parties
Government/Resource
Provider is a 3rd Party
Payer on Behalf of an
identified Customer*

NONEXCHANGE

Continue to monitor
GASB and IPSASB
projects in this
area**

General Public

Follow Topic 606 (or other, such as Leases)

Follow Topic 958-605

*The revenue recognized would actually be the underlying contract's patient service revenue, tuition revenue, etc.

**A focus on whether or not there is a "performance obligation" could even ultimately include some contracts where the general public is the primary beneficiary.

Issue 1: Reciprocal vs. Nonreciprocal Transactions: Key Clarifications to the Scope of Subtopic 958-605

The proposed ASU would clarify and refine existing guidance in Subtopic 958-605 by adding paragraphs that would clarify the scope of the Subtopic as well as illustrative examples.

- The resource provider is **not** synonymous with the general public, even a governmental entity. If a resource provider receives value indirectly by providing a societal benefit, this would be considered a nonreciprocal transaction.
- If the primary beneficiary of a grant or contract is a third party, an NFP must use judgment to determine if the transaction is reciprocal or nonreciprocal.
- Furthering a resource provider's mission or "feel good" sentiment does not constitute commensurate value received.
- The type of resource provider should not override the substance of the transaction.

Issue 2: Conditional vs. Unconditional Contributions

For a *Donor-Imposed Condition* to Exist:

Proposed ASU

- A right of return/release must exist; and
- The agreement must include a barrier
 - Indicators and examples to help in determination

Alternative Rejected

- A right of return/release must exist.
- Would have required a probability assessment about whether it is likely a recipient NFP will fulfill the stipulations.

Indicators to Determine a Barrier

To determine what is a barrier, an NFP would consider indicators, which would include, but are not limited to, the following:

The inclusion of a measurable performance-related barrier or other measurable barrier.

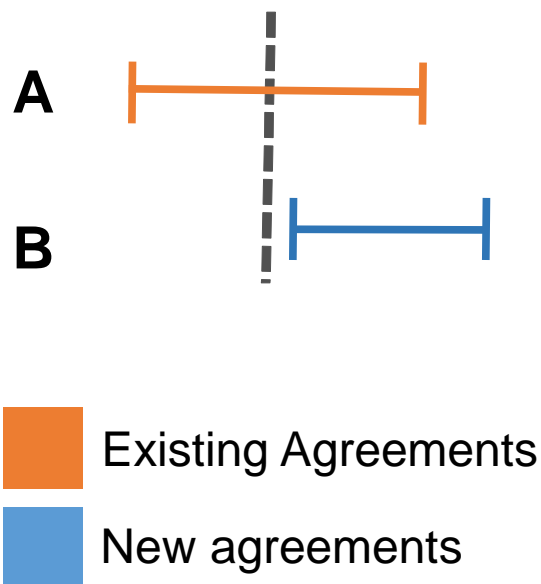
Whether a stipulation is related to the purpose of the agreement.

The extent to which a stipulation limits discretion by the recipient.

The extent to which a stipulation requires an additional action or actions.

Transition Approach

Effective Date



- **Modified Prospective**

- Apply to all agreements:

- Existing at the effective date (only apply to the portion of existing agreements not previously recognized)
- Entered into after the effective date

- **No restatement of prior amounts recognized**

- **Retrospective Application Permitted**

Transition Approach – Modified Prospective Approach

**Completion
of Grant #1**

**Start of
Grant #2**

**Completion
of Grant #2**

**Start of
Grant #3**



Effective Date



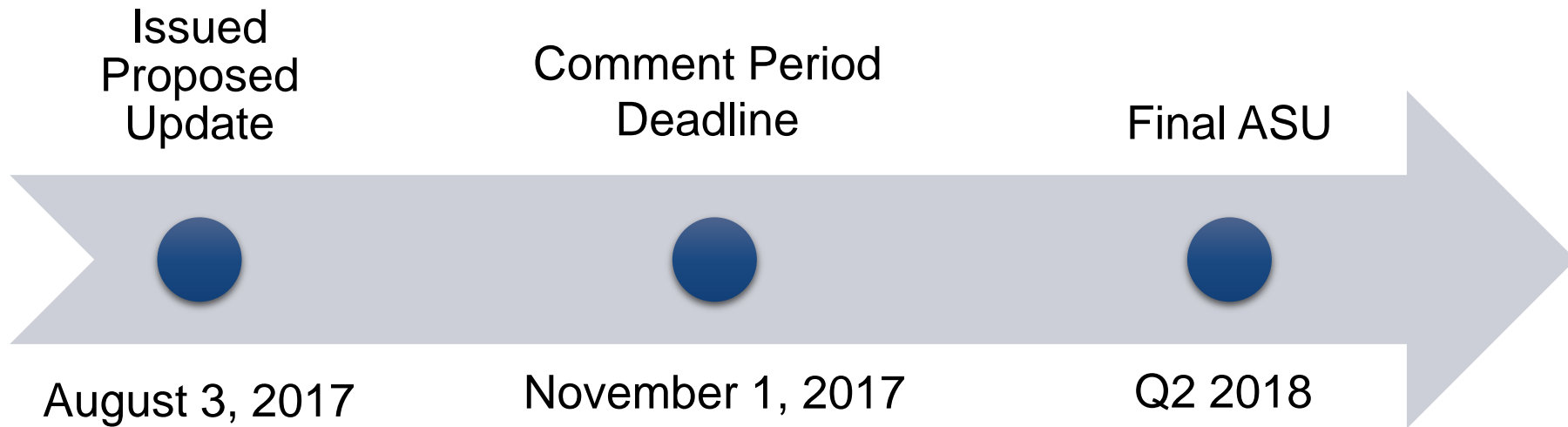
No restatement
of recognized
revenue

No restatement of
revenue
recognized prior
to effective date

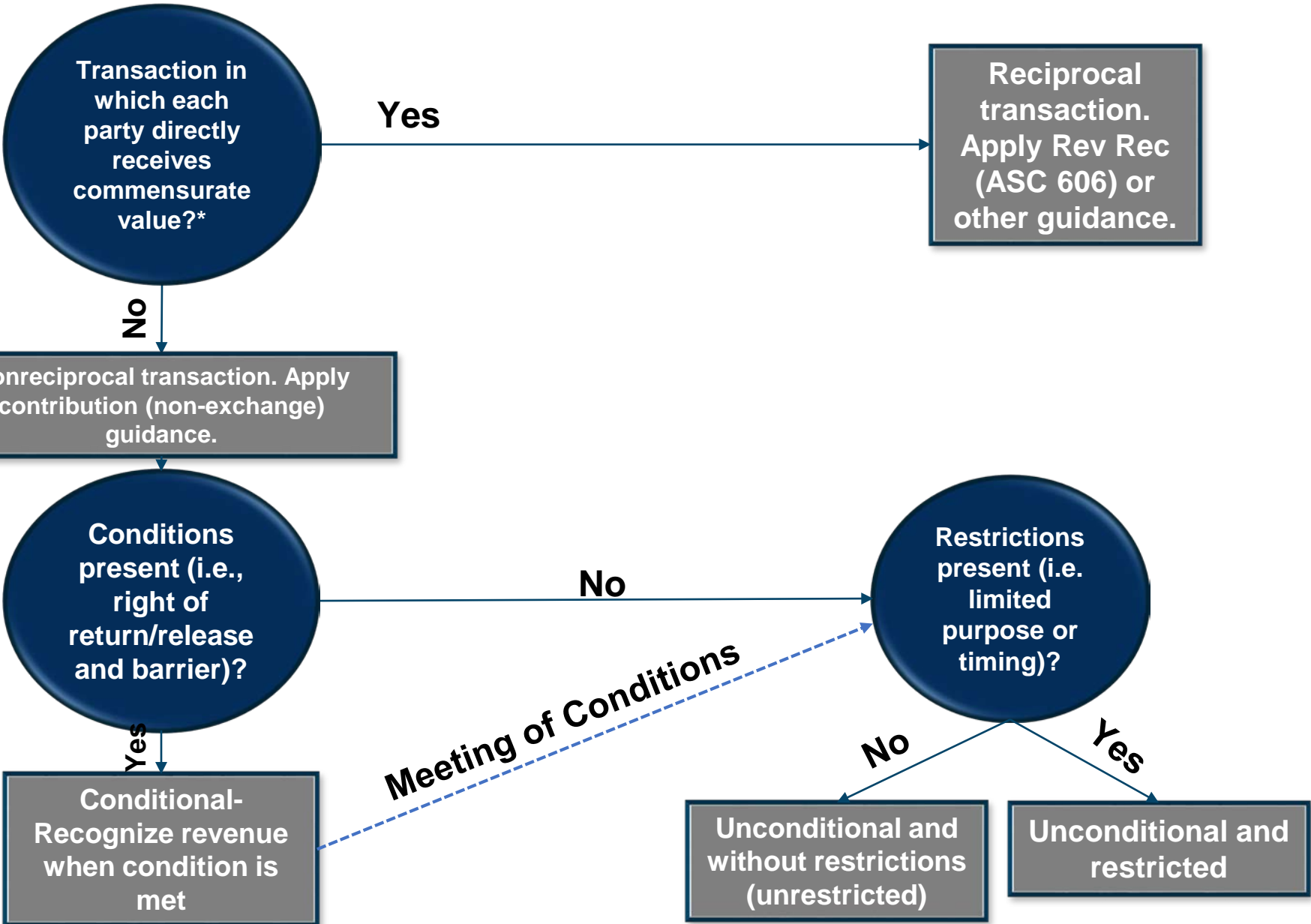
Recognize only
the previously
unrecognized
revenue, using
new guidance

Begin
recognizing
revenue using
new guidance

Timeline of the Project



NFP Revenue Recognition Decision Process



*Includes third-party payments on behalf of identified customers. These do not create new revenue.



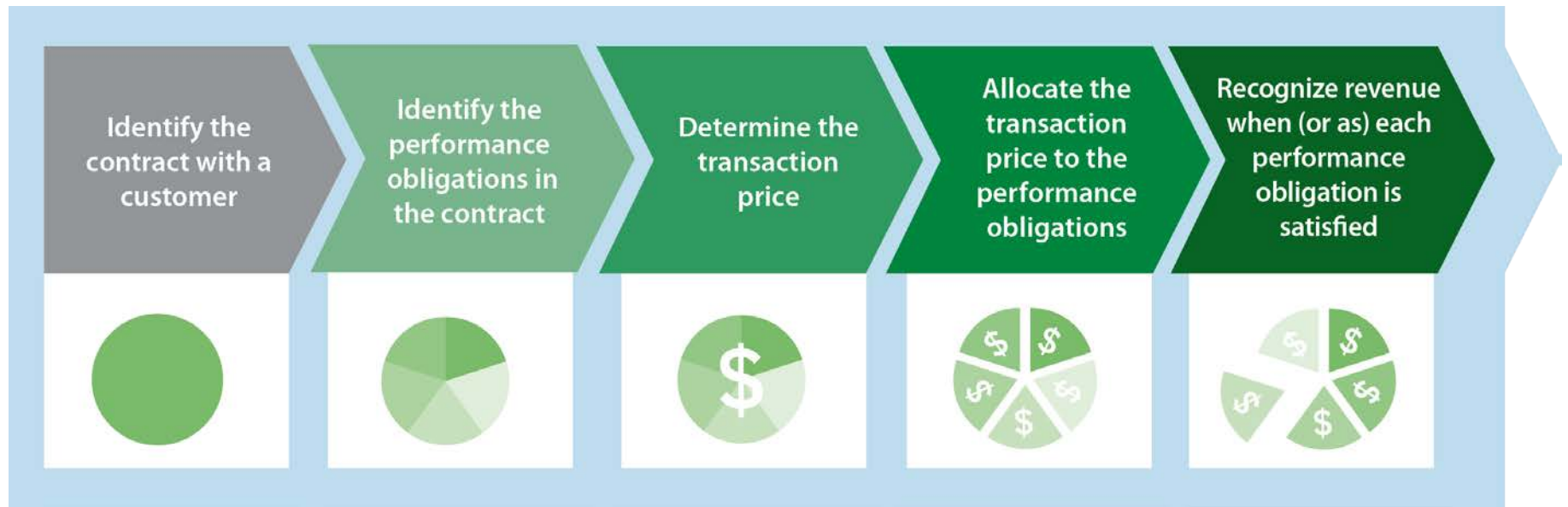
Effective Dates and Selected New Standards and Proposals



Summary of Effective Dates

Project	Public/PBE	Private	Early Adoption
NFP Reporting ASU 2016-14	12/15/2017	12/15/2017	Yes
Topic 606/Revenue/PBE/ including certain NFP	12/15/2017	NA	No
Topic 606/Revenue/Private	NA	12/15/2018	Yes, not before PBE
Leases (Public entity)	12/15/2018	12/15/2019	Yes

Topic 606 Five-Step Revenue Model



Topic 606 Nonprofit Implementation issues

- AICPA's not-for-profit revenue recognition task force has identified the following implementation issues:
 - Tuition and housing revenue
 - Contributions
 - Government grants
 - Subscriptions and membership dues
 - Bifurcation of transactions between contribution and exchange Components
- Separate task force for health care implementation issues

NFP and Revenue Recognition

- Concept of exchange transaction
 - Goes away with effective date of ASU 2014-09/606
 - General consensus, contributions are out of 606
 - Not a contract with a customer
 - Some transactions may be both contribution AND contract

ASU 2016-18 – Restricted cash

- Practice issues identified:
 - Restricted cash is not defined
 - Classification of changes in restricted cash on the SCF
- Requires
 - Disclosure of nature of restrictions
 - Restricted cash to be included in C&CE on SCF
 - Tabular reconciliation
- Effective date
 - PBE fiscal years beginning after December 15, 2017
 - All others, fiscal years beginning after December 15, 2018

Thought Leadership Available from RSM

- Financial Reporting Resource Center
 - www.rsmus.com/FRRC
- Revenue Recognition Resource Center
 - www.rsmus.com/our-insights/revenue-recognition-resource-center.html
- Industry Resources
 - www.rsmus.com/our-insights.html

Contact us

Susan L. Davis
Partner

515 281 9275

susanl.davis@rsmus.com

William J. O'Brien
Partner

312 634 4519

william.o'brien@rsmus.com

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RSM US LLP

+1 800 274 3978
www.rsmus.com

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