Keeping up with the Joneses:

A Not-for-Profit Accounting Update

Beyond the Bottom Line
March 2017
Course Description

This course is an introductory-level course designed to review critical accounting standards updates which impact Seventh-day Adventist denominational entities.
Upon completion of this course you will be able to:

- Understand and describe key changes to recent / upcoming accounting standards impacting SDA entities
- Inventory
- Financial statement presentation
- Revenue Recognition
- Leases
Who are the Joneses and do I need to keep up with them?
Accounting Standard Updates

• ASU 2015-11 – Inventory
  • Effective for NFPs for periods beginning after 12/15/16

• ASU 2016-14 – Presentation of NFP Financial Statements
  • Effective for periods beginning after 12/15/17
Accounting Standard Updates

• ASU 2014-09 – Revenue from Contracts with Customers
  • Effective for NFPs for periods beginning after 12/15/18

• ASU 2016-02 – Leases
  • Effective for NFPs for periods beginning after 12/31/19
Inventory

ASU 2015-11
Effective for NFPs for periods beginning after 12/15/2016
Inventory

• Changes valuation for all methods except LIFO and retail inventory method

• Previous: lower of cost or “market”
  – “Market” could have been replacement cost, net realizable value, or net realizable value less an approximately normal profit margin

• New: lower of cost or “net realizable value”
  – “Net realizable value” - the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation
• Implementation
  • Applicable for NFPs for fiscal years beginning after 12/15/2016
    – Calendar year 2017
    – Fiscal years 2017/2018

• Early adoption permitted
• Disclose nature and reason for the change in accounting principle in the year of adoption
Presentation of Not-for-Profit Financial Statements

ASU 2016-14
Effective for NFPs for periods beginning after 12/15/2017
ASU-2016-14
- Issued August 2016

Objectives
- More useful information for users
- Improve / clarify net asset classifications
- Improve information about liquidity, financial performance, expenses, and cash flows
Key Changes in New FASB ASU

- Net Assets Classes
- Statement of Cash Flows
- Liquidity & Availability
- Investment Return
- Expense Reporting
**Net Asset Classifications**

**Current Presentation**
- Unrestricted
- Temporarily Restricted
- Permanently Restricted

**New Presentation**
- Without “**Donor**” Restrictions*
  - Amount, purpose, and type of board designations*
- With “**Donor**” Restrictions**
- Nature and amount of donor restrictions

*New disclosure requirement
**NFPs may choose to disaggregate further
Net Asset Disclosure Requirements

• Composition of net assets with donor/grantor restrictions
• Emphasis on how/when resources (net assets) can be used
• Quantitative and qualitative information about board designations
Underwater Endowments

• New master glossary definition:
  • A donor-restricted endowment fund for which the fair value of the fund at the reporting date is less than either the original gift amount or the amount required to be maintained by the donor or by law that extends donor restrictions

• Underwater amount no longer transferred to unrestricted net assets
Disclosure Requirements for Underwater Endowments

- Interpretation of the ability to spend from underwater endowment funds
- Policy, and any actions taken during the period, concerning appropriation from underwater endowment funds
- For each period a statement of financial position is presented, disclose each of the following, in the aggregate, for all underwater endowment funds:
  1. The fair value of underwater endowment funds
  2. Original endowment gift amount or level required to be maintained by donor stipulations or by law that extends donor restrictions
  3. Amount of the deficiencies of the underwater endowment funds (#1 less #2)
Key Changes in New FASB ASU

- Net Assets Classes
- Liquidity & Availability
- Statement of Cash Flows
- Investment Return
- Expense Reporting
Liquidity & Availability of Resources

• Qualitative
  • In notes to financial statements
  • How entity manages liquid resources to meet cash needs for general expenditures within 1 year

• Quantitative
  • On face of statement of financial position or in notes
  • Availability of resources at statement of financial position date to meet cash needs for general expenditures within 1 year
Key Changes in New FASB ASU

- Net Assets Classes
- Liquidity & Availability
- Statement of Cash Flows
- Investment Return
- Expense Reporting
Expense Reporting

• Analysis of expenses by function and nature
  • Face of statement of activities,
  • Notes to financial statements, or
  • Separate financial statement

• Description of methods used to allocate management & general expenses
Key Changes in New FASB ASU

- Net Assets Classes
- Liquidity & Availability
- Expense Reporting
- Investment Return
- Statement of Cash Flows
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 (permitted but no longer required)
  • Disclosure at net is required wherever investment returns are shown (e.g. Investment footnote, Endowment footnote, etc.)
Key Changes in New FASB ASU

- Net Assets Classes
- Liquidity & Availability
- Investment Return
- Expense Reporting
- Statement of Cash Flows
Planning for Implementation

• Applicable for calendar year 2018 and fiscal years 2018/2019

• Upon implementation
  • Year of adoption, apply ALL new provisions
    • Disclose reclassifications / restatements
  • For comparative years presented, can choose not to present analysis of expenses by nature and function and disclosures about liquidity
Revenue Recognition

ASU 2014-09
Effective for NFPs for periods beginning after 12/15/2018
Revenue Recognition

- Consistency between US GAAP and IFRS
- Consistency between various industries
- Applies to contracts with “customers”
  - Written or unwritten
- Requires more analysis of rights and responsibilities
- May require bifurcation (sub-dividing) of certain transactions
Revenue Recognition

• Some potential revenue streams of clients affected:
  • Subscription revenue
  • Tuition and room/board revenue
  • Licenses and royalties
  • Grants
Revenue Recognition

- Revenue streams not expected to be affected:
  - Contributions (including tithe)
  - Lease contracts
  - Insurance contracts
  - Financial instruments
  - Split-interest agreements
Revenue Recognition

Based on core principle, apply the following steps:

• Step 1: Identify the contract(s) with a customer
• Step 2: Identify the performance obligations in the contract
• Step 3: Determine the transaction price
• Step 4: Allocate the transaction price to the performance obligations in the contract
• Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation
Leases

ASU 2016-02
Effective for NFPs for periods beginning after 12/15/2019
Leases

• Problems with existing accounting standards for leases (840)
  • “Operating” and “capital” leases accounted for very differently
    – Economically similar transactions were accounted for differently
  • No indication on balance sheet of
    – Some assets being used under lease
    – Some liabilities for lease payments
• Leases were written to avoid triggering “capital lease” accounting
Leases – Key Changes

• Essentially all leases recognized in statement of financial position
  • Assets – right to use assets
  • Liabilities – lease obligations
• Exception
  – For leases of 12 months or less, lessee may make an accounting policy election, by asset class, not to place on balance sheet
Leases – Accounting Implications

• Finance (formerly called capital)
  • Balance Sheet – Right of use asset and lease liability (PV of lease payments)
  • Income Statement – Amortization expense and interest expense
  • Cash Flow Statement – Cash paid for principal and interest
Leases – Accounting Implications

• Operating
  • Balance Sheet – Right of use asset and lease liability (PV of lease payments)
  • Income Statement – Single lease expense on straight line basis
  • Cash Flow Statement – Cash paid for lease payments
Leases – Implementation

• Proactive steps to take now
  • Locate all leases
  • Analyze lease terms
  • Prepare for present value calculations
    – Required for both operating and finance leases
  • Consider possible impact on debt covenants, if any
Resources

• Financial Accounting Standards Board (www.fasb.org)
  • Free access to Accounting Standards Codification as well as Accounting Standards Updates
• CPA Canada (www.CPACanada.ca)
  • CPA Canada Handbook - Accounting
• Higher organization
• GCAS
Quiz Question #1

Which inventory valuation method is not impacted by the updated standards in ASU 2015-11?

A. FIFO
B. Net Realizable Value
C. LIFO
D. None of the above
Quiz Question #2

Which net assets classification includes board-designated resources?
A. With donor restriction
B. Without donor restriction
C. All of the above
D. None of the above
Quiz Question #3

What is the most significant change to the standards for leases?

A. Capital leases changes to finance leases
B. Operating leases will be recorded on the balance sheet
C. There are no significant changes