

ACCOUNTING TOPICS:

Financial Statement Disclosures





OBJECTIVES

To be familiar with the financial statement disclosures that are:

- ▶ Required by accounting and/or auditing standards
- ▶ Illustrated in SDA Accounting Manual (SDAAM) for transparency
- ▶ Required by North American Division Working Policy



QUESTION #1

How often to you look at the financial statement disclosures?

1. Every time
2. At least once a quarter
3. Only when I receive the audit report
4. Never



QUESTION #2

If you do review the financial statement disclosures, which one(s) do you review?



REQUIRED DISCLOSURES: STANDARDS



ORGANIZATION DESCRIPTION & SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards Codification (ASC) 235

- ▶ May be split into two separate disclosures
 - United States illustrated F/S combine disclosures into one disclosure
 - International illustrated F/S separate organization description and significant accounting policies into two disclosures
- ▶ Tax exempt status, if not reported in another disclosure
 - ASC 740-10-50



BASIS OF SPECIAL PRESENTATION

Audit Standards Clarified 800.16

- ▶ Required when not including a department or subsidiary organization in the financial statements
- ▶ Denomination uses a “special purpose” framework to present organizational F/S



RECEIVABLES

ASC 310

- ▶ Accounts and notes receivables
- ▶ Required only if major categories are not presented on the statement of financial position
- ▶ SDAAM illustrated F/S include separate disclosures for both accounts and notes receivable
- ▶ Include related parties, if applicable



CONTRIBUTION RECEIVABLES

ASC 958-310

- ▶ Calculated at present value
- ▶ Conditional versus unconditional contributions
- ▶ Receivables due in less than 1 year, 1-5 years, and more than 5 years



INVESTMENTS

ASC 320 to ASC 325

- ▶ Present cost, market value, and unrealized gain/loss
- ▶ Major classifications of investments
- ▶ Basis for valuation
 - Usually included in note 1 but can be incorporated into this disclosure



FAIR VALUE MEASUREMENTS

ASC 820

- ▶ Includes both assets and liabilities, if reported at fair value
- ▶ Classes of assets and liabilities determined by
 - Nature, characteristics, and risks
 - Level of fair value hierarchy
 - Level 1 – Observable quoted market prices for identical assets or liabilities



FAIR VALUE MEASUREMENTS, CONT.

ASC 820

- Level of fair value hierarchy, continued
 - Level 2 – Direct or indirect observable market data, such as quoted prices in inactive markets for identical assets or liabilities, quoted prices for similar assets or liabilities, and other observable market data correlated to identical or similar assets or liabilities



FAIR VALUE MEASUREMENTS, CONT.

ASC 820

- Level of fair value hierarchy, continued
- Level 3 – Unobservable inputs and assumptions based on judgement and the best information available
 - A reconciliation of beginning to ending balances that shows gains or losses; purchases, sales, issues, and settlements; transfers into/out level 3



INVENTORY

ASC 330

- ▶ Valuation – FIFO, LIFO, average cost
 - Usually incorporated into note 1 but can be incorporated into this disclosure
- ▶ Major categories
 - Raw materials, work in process, finished goods
- ▶ Allowance, if any



PLANT, PROPERTY, & EQUIPMENT

ASC 360, ASC 958-360

- ▶ Balances of major classes of depreciable assets
- ▶ Accumulated depreciation
- ▶ Depreciation expense
- ▶ General description of method(s) used to compute depreciation expense
 - Usually included in note 1 but can be incorporated into this disclosure



DEBT

ASC 470

- ▶ Significant categories – leases, related parties, loans payable
- ▶ Terms
- ▶ Interest rate
- ▶ Maturity date
- ▶ Current versus non-current



SPLIT INTEREST AGREEMENTS

ASC 958-30

- ▶ Includes charitable gift annuities and trusts
- ▶ Activity classified as without donor restriction and with donor restriction



GUARANTEES

ASC 460

- ▶ Nature of guarantee and amount (including maximum potential payout)
- ▶ Approximate term
- ▶ How the guarantee arose
- ▶ Events or circumstances that would require the grantor to perform under the guarantee



ANALYSIS OF EXPENSES

ASC 958-720

- ▶ Expenses classified by function
- ▶ Show major classes of program services and support activities
- ▶ Description of methods to allocate expenses
 - Depreciation expense
 - Operation and maintenance of plant



DONOR RESTRICTED NET ASSETS

ASC 958-210-45-9

- ▶ Net assets with temporary donor restrictions
- ▶ Net assets with permanent donor restrictions
- ▶ There is no requirement in the standards to use the above terminology. However, the denomination continues to use this terminology to differentiate the different restriction types.



ENDOWMENTS

ASC 958-205-45-13, ASC 958-205-50

- ▶ Description of endowments and spending policies
 - May be part of note 1 or included in this disclosure
- ▶ Board allocated or without donor restriction
- ▶ With temporary donor restrictions
- ▶ With permanent donor restrictions



NON-OPERATING ACTIVITY

ASC 715-80-50

- ▶ Include only if not evident on the statement of changes in net assets
- ▶ There is no requirement to segregate “operating” from “non-operating” activity. But if it is done, then “operating” needs to be defined if it is not apparent from the detail on the face of the statement(s).



RETIREMENT PLANS

ASC 958-220-45-9 to ASC 958-220-45-12

- ▶ Because NAD and Regional Conference retirement plans comingle assets (also known as “multi-employer plans”), this method complies with the requirements.
- ▶ Defined benefit plans
 - Description of the plan
 - Contributions
 - Employer
 - All participating employers



RETIREMENT PLANS, CONT.

ASC 958-220-45-9 to ASC 958-220-45-12

- ▶ Defined benefit plans, continued
 - Plan assets available for benefits
 - Actuarial liability
 - Funded status of the plan



RETIREMENT PLANS, CONT.

ASC 958-220-45-9 to ASC 958-220-45-12

- ▶ Defined contribution plans
 - Description of the plan
 - Employer contributions



RELATED PARTY TRANSACTIONS

ASC 850

- ▶ Description of related parties
- ▶ Transactions with related parties, if not separately disclosed in other notes
 - Yearend balances for accounts receivable and payable
- ▶ Amounts due to/from employees and officers



CONCENTRATIONS OF RISK

ASC 275-10-50-16

- ▶ Revenue
- ▶ Executive/employee transactions
- ▶ Cash exceeds FDIC limits
- ▶ Inventory from limited vendors



LIQUIDITY & AVAILABILITY

ASC 958-210-45-7, ASC 958-210-50-1A(b)

- ▶ Effective for all periods beginning after December 15, 2019
- ▶ Includes activity for the entire organization(s)



SUBSEQUENT AND/OR SIGNIFICANT EVENTS

ASC 855

- ▶ Description of the event and possible outcome, if known



CONTRIBUTED NON-FINANCIAL ASSETS

ASC 958-605-45

- ▶ Effective for periods beginning after June 15, 2021
- ▶ Includes fixed assets and supplies
- ▶ Whether or not contributed assets are monetized or utilized during the reporting period
 - If utilized, describe the programs or other activities in which assets were used



CONTRIBUTED NON-FINANCIAL ASSETS, CONT.

ASC 958-605-45

- ▶ Policy, if any, about monetizing versus using
- ▶ Donor imposed restrictions, if any
- ▶ Valuation techniques
- ▶ Does not change the recognition and measurement requirements for these types of assets





CONTRIBUTED NON-FINANCIAL ASSETS: SAMPLE DISCLOSURES

(next two slides)

Contributed Nonfinancial Assets

For the years ended December 31, contributed nonfinancial assets recognized within the statement of activities included:

	<u>20X9</u>	<u>20X8</u>
Building	\$ 550,000	\$ -
Household goods	95,556	100,486
Food	85,407	86,633
Medical Supplies	90,389	115,173
Pharmaceuticals	111,876	113,982
Clothing	85,765	83,890
Vehicles	127,900	-
Services	73,890	65,392
	<u>\$ 1,220,783</u>	<u>\$ 565,556</u>

NFP K recognized contributed nonfinancial assets within revenue, including a contributed building, vehicles, household goods, food, medical supplies, pharmaceuticals, clothing, and services. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

It is NFP K's policy to sell all contributed vehicles immediately upon receipt at auction or for salvage unless the vehicle is restricted for use in a specific program by the donor. No vehicles received during the period were restricted for use. All vehicles were sold and valued according to the actual cash proceeds on their disposition.

The contributed building will be used for general and administrative activities. In valuing the contributed building, which is located in Metropolitan Area B, NFP K estimated the fair value on the basis of recent comparable sales prices in Metropolitan Area B's real estate market.

Contributed food was utilized in the following programs: natural disaster services, domestic community development, and services to community shelters. Contributed household goods were used in domestic community development and services to community shelters. Contributed clothing was used in specific community shelters. Contributed medical supplies were utilized in natural disaster

Contributed Nonfinancial Assets

	<u>Revenue Recognized</u>	<u>Utilization in Programs/Activities</u>	<u>Donor Restrictions</u>	<u>Valuation Techniques and Inputs</u>
Building	\$550,000	General and Administrative	No associated donor restrictions	In valuing the contributed building, which is located in Metropolitan Area B, NFP K estimated the fair value on the basis of recent comparable sales prices in Metropolitan Area B's real estate market.
Household goods	\$95,556	Domestic Community Development; Community Shelters	No associated donor restrictions	NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Food	\$85,407	Natural Disaster Services; Domestic Community Development; Community Shelters	No associated donor restrictions	NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Medical supplies	\$90,389	Natural Disaster Services	No associated donor restrictions	NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Pharmaceuticals	\$111,876	International Health Services; Natural Disaster Services	Restricted to use outside the United States	In valuing contributed pharmaceuticals otherwise legally permissible for sale in the United States, NFP K used the Federal Upper Limit based on the weighted average of the most recently reported monthly Average Manufacturer Price (AMP) that approximate wholesale prices in the United States (that is, the principal market). In valuing pharmaceuticals not legally permissible for sale in the United States (and primarily consumed in developing markets), NFP K used third-party sources representing wholesale exit prices in the developing markets in which the products are approved for sale.
Clothing	\$85,765	Natural Disaster Services; Domestic Community Development; Community Shelters	No associated donor restrictions	In valuing clothing, NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Vehicles	\$127,900	It is NFP K's policy to sell all contributed vehicles immediately upon receipt unless the vehicle is restricted for use in a specific program by the donor. All vehicles received were sold.	No associated donor restrictions	Proceeds from vehicles sold are valued according to the actual cash proceeds on their disposition.
Services	\$73,890	Various Administrative Legal Matters	No associated donor restrictions	Contributed services from attorneys are valued at the estimated fair value based on current rates for similar legal services.

GOING CONCERN

ASC 205-40-50

- ▶ Substantial doubt about organization's ability to continue as a going concern within one year after the date the F/S are issued
- ▶ Management should make the following evaluations:
 - Current financial condition, including liquidity sources
 - Conditional and unconditional obligations due or anticipated within one year of the F/S issue date
 - Funds necessary to maintain the organization's operations for one year after the F/S issue date



GOING CONCERN, CONT.

ASC 205-40-50

- ▶ If there is doubt, has management developed a plan to mitigate conditions and events to alleviate substantial doubt about the organization's ability to continue as a going concern?
 - Will the plan be implemented within one year of the F/S issue date?
 - Is it probable that the plan will mitigate the substantial doubt about the organization's ability to continue as a going concern for one year after the F/S issue date?



GOING CONCERN, CONT.

ASC 205-40-50

- ▶ Explanatory paragraph must be included in the auditor's opinion for the F/S



ILLUSTRATED DISCLOSURES: SDAAM



ILLUSTRATED DISCLOSURES

To provide clarity and transparency to F/S users and related party information

- ▶ Cash and cash equivalents
- ▶ Accounts payable
- ▶ Agency account activity (beginning balance, additions, withdrawals, ending balance)



REQUIRED DISCLOSURES: NADWP



NAD WORKING POLICY

NADWP S 24 10 – Recommended Working Capital

- ▶ New calculation effective for periods starting on or after January 1, 2022
- ▶ Focus is on ability to survive economic downturn or financial emergency
 - ▶ Separate disclosure from what is required by accounting standards
 - ▶ Only includes operating fund(s) activity



NAD WORKING POLICY: SAMPLE DISCLOSURE



**Sample Reporting - Working Capital and Liquid Assets Report
for 31 December 20XX**

Core Expenses:

Operating Expenses	80,000
Net Outgoing Appropriations	50,000
Total Core Expenses	130,000

Available Working Capital:

Current Assets	140,000
Minus: Current Liabilities	(60,000)
Working Capital	80,000
Minus: Current Assets Held for Donor Restrictions	(10,000)
Available Working Capital	70,000

Recommended Minimum Available Working Capital:

Six months of Core Expenses (50% 130,000)	65,000
Surplus/(Shortfall) in Recommended Minimum Available Working Capital	5,000
Available Working Capital in Months (a minimum of six months is recommended) (70,000 divided by 130,000 x 12)	6.5 Months

(Include, if Applicable:)

The Governing Board Requires the Organization to Have Working Capital of at Least: **XX Months**

Available Liquid Assets:

Cash and Cash Equivalents	40,000
Cash Held for Agency	1,000
Local Church Remittances, as Applicable	14,000
Investments	40,000
Receivable from Higher Organizations	15,000
Total Liquid Assets	110,000
Minus: Current Liabilities	(60,000)
Minus: Current Assets Held for Donor Restrictions	(10,000)
Available Liquid Assets	40,000

Recommended Minimum Available Liquid Assets:

Three Months of Core Expenses (25% of 130,000)	32,500
Surplus/(Shortfall) in Recommended Minimum Available Liquid Assets	7,500

Available Liquid Assets in Months (a minimum of three months recommended)
(40,000 divided by 130,000 x 12) **3.7 Months**

(Include if Applicable:)

The Governing Board Requires the Organization to Have Working Capital of at Least: **XX Months**

QUESTIONS



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