



# FASB & GASB: Accounting Update

## Presented By

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# Agenda & Goal

To provide a FASB & GASB accounting update to include items currently in effect, soon to be effective and in process

## **FASB UPDATE**

ASU 2014-09  
ASU 2015-02  
ASU 2015-03  
ASU 2015-07  
ASU 2015-14  
ASU 2016-02  
ASU 2016-08  
ASU 2016-10  
ASU 2016-12  
ASU 2016-13  
ASU 2016-14  
ASU 2016-15  
ASU 2016-17  
ASU 2016-18  
ASU 2016-20  
ASU 2017-02  
ASU 2017-04  
ASU 2017-05  
ASU 2017-07

## **GASB UPDATE**

GASB 72  
GASB 75  
GASB 80  
GASB 81  
GASB 83  
GASB 84  
GASB 85



# ASU 2016-14

## PRESENTATION OF FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ENTITIES

- Effective for financial statements issued for fiscal years beginning after December 31, 2015
- Should be applied retrospectively in the year the update is applied



# ASU 2016-14

## OVERVIEW

Key changes:

- Net assets classes
- Expense reporting
- Investment return
- Statement of cash flows
- Liquidity and availability

# ASU 2016-14

## NET ASSET CLASSES



# With and Without Donor Restriction

Current GAAP	Unrestricted	Temp. Restricted	Perm. Restricted
Revised GAAP	Without Donor Restrictions	With Donor Restrictions	
+			
Disclosures	Amount, purpose, and type of board designations	Nature and amount of donor restrictions	



A stack of three spiral-bound notebooks with black covers and silver metal spirals, resting on a white surface. The notebooks are slightly offset, showing the edges of the pages.

# ASU 2016-14

## DISCLOSURE REQUIREMENTS: NET ASSETS

- Breakdown of net assets with donor restrictions
- Emphasis on how/when net assets can be used:
  - Specific purpose
  - Specific time
  - Perpetual restriction (endowment)
  - Board designations - quantitative and qualitative

# Example Statement of Financial Position

## Presentation: Net Assets

	<u>20X1</u>
<b>Assets:</b>	
Cash	\$ 75,000
Contributions receivable	20,000
Prepaid expenses	5,000
Short-term investments	300,000
<b>Total assets</b>	<u>\$ 400,000</u>
<b>Liabilities:</b>	
Accounts payable	\$ 80,000
<b>Total liabilities</b>	<u>80,000</u>
<b>Net assets:</b>	
Without donor restrictions	300,000
With donor restrictions	20,000
<b>Total net assets</b>	<u>320,000</u>
<b>Total liabilities and net assets</b>	<u>\$ 400,000</u>



# Example Statement of Activities: Two Net Assets Classes

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, gains, and other support:			
Contributions	\$ 8,640	\$ 8,390	\$ 17,030
Fees	5,200		5,200
Investment return, net	6,650	18,300	24,950
Gain on sale of equipment	200		200
Other	150		150
Net assets released from restrictions (Note D):			
Satisfaction of program restrictions	8,990	(8,990)	
Satisfaction of equipment acquisition restrictions	1,500	(1,500)	
Expiration of time restrictions	1,250	(1,250)	
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	7,500	(7,500)	
Total net assets released from restrictions	<u>19,240</u>	<u>(19,240)</u>	<u>-</u>
Total revenues, gains, and other support	<u>40,080</u>	<u>7,450</u>	<u>47,530</u>
Expenses and losses:			
Program A	13,296		13,296
Program B	8,649		8,649
Program C	5,837		5,837
Management and general	2,038		2,038
Fundraising	2,150		2,150
Total expenses (Note F)	<u>31,970</u>		<u>31,970</u>
Fire loss on building	80		80
Actuarial loss on annuity trust obligations		30	30
Total expenses and losses	<u>32,050</u>	<u>30</u>	<u>32,080</u>
Change in net assets	<u>8,030</u>	<u>7,420</u>	<u>15,450</u>
Net assets at beginning of year	<u>84,570</u>	<u>186,070</u>	<u>270,640</u>
Net assets at end of year	<u>\$ 92,600</u>	<u>\$ 193,490</u>	<u>\$ 286,090</u>

# Example Net Assets Footnote

**Subject to expenditure for specified purpose:**

Program A activities:	
Purchase of equipment	\$ 3,060
Research	950
Educational seminars and publications	240
Program B activities:	
Disaster relief	745
Educational seminars and publications	280
Program C activities: general	210
Buildings and equipment	2,150
Annuity trust agreements for research	2,815
	<u>10,450</u>

**Subject to the passage of time:**

For periods after June 30, 20X1	<u>3,140</u>
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**Subject to NFP spending policy and appropriation:**

Investment in perpetuity (including amounts above original gift amount of \$122,337), which, once appropriated, is expendable to support:	
Program A activities	33,300
Program B activities	15,820
Program C activities	16,480
Any activities of the organization	109,100
	<u>174,700</u>

**Subject to appropriation and expenditure when a specified event occurs:**

Endowment requiring income to be added to original gift until fund's value is \$2,500	2,120
Paid-up life insurance policy that will provide proceeds upon death of insured for an endowment to support general activities	80
	<u>2,200</u>

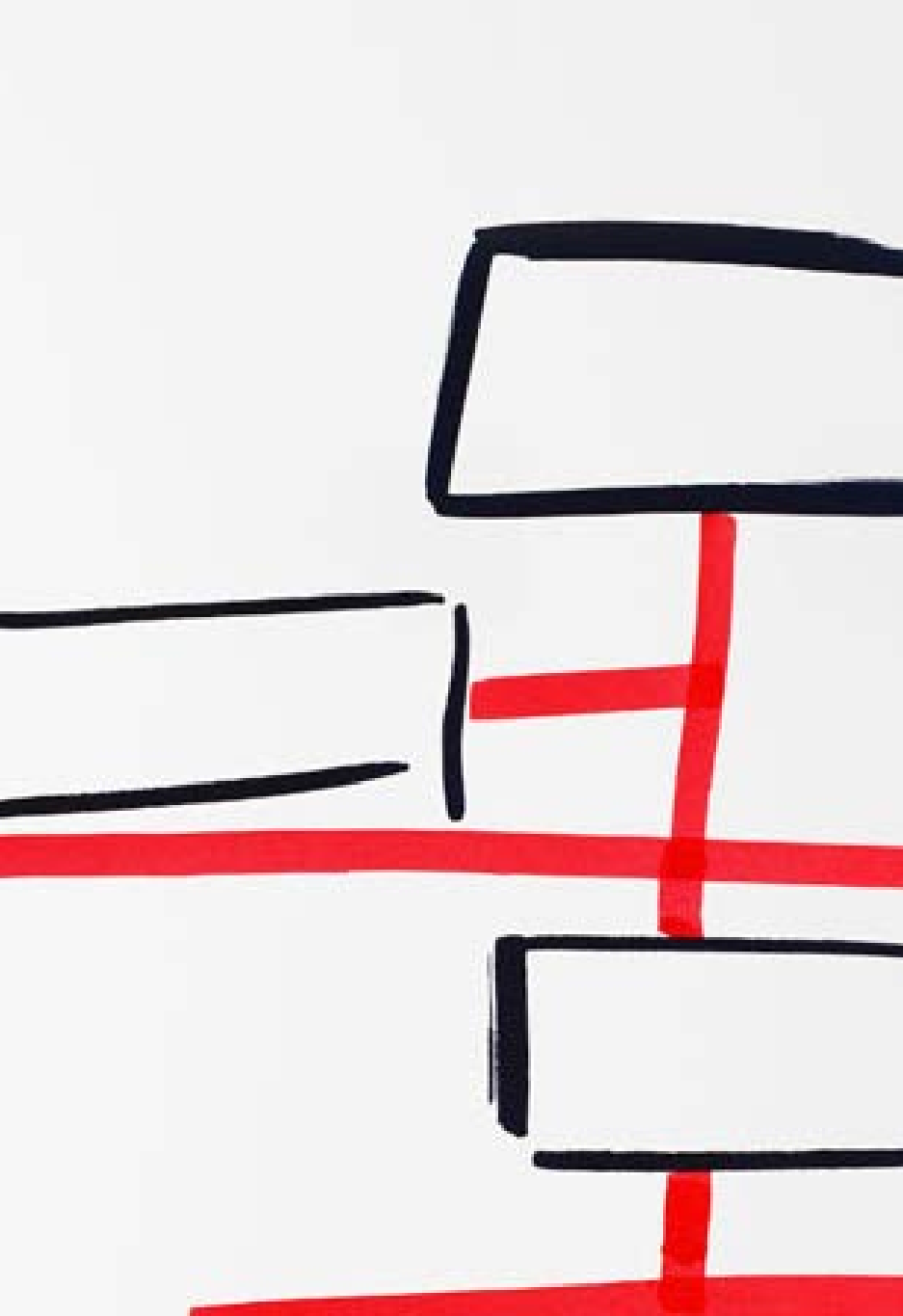
**Not subject to appropriation or expenditure:**

Land required to be used as a recreation area	3,000
Total net assets with donor restrictions	<u>\$ 193,490</u>

# Example Board Designated Net Assets Disclosure

Financial assets, at year-end	\$ 234,410
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	(11,940)
Subject to appropriation and satisfaction of donor restrictions	(174,700)
Investments held in annuity trust	(4,500)
Board designations:	
Quasi-endowment fund, primarily for long-term investing	(36,600)
Amounts set aside for liquidity reserve	(1,300)
	<hr/>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,370</u>

Not-for-Profit Entity A is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Not-for-Profit Entity A must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of Not-for-Profit Entity A's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, Not-for-Profit Entity A invests cash in excess of daily requirements in short-term investments. Occasionally, the board designates a portion of any operating surplus to its liquidity reserve, which was \$1,300 as of June 30, 20X1. There is a fund established by the governing board that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, Not-for-Profit Entity A also could draw upon \$10,000 of available lines of credit (as further discussed in Note XX) or its quasi-endowment fund.



# ASU 2016-14

## EXPENSE REPORTING

- By nature and function
- Options
  - Statement
  - Footnote

Program Services			Management and General	Fundraising and Development	Total
Advisory	Training	Total			

Grants and other assistance  
 Salaries and wages  
 Employee benefits  
 Payroll taxes  
 Professional services  
 Accounting fees  
 Advertising and promotion  
 Legal fees  
 Advertising and promotion  
 Office expenses  
 Information technology  
 Occupancy  
 Travel  
 Conferences, conventions and meetings  
 Interest  
 Insurance  
 Training and development  
 Gift shop cost of goods sold  
 Cost of direct benefits to doctors  
 Depreciation and amortization  
 Bad debt expense  
 Other

Total expenses by function  
 Less expenses included with revenues  
     on the statement of activities  
         Gift shop cost of goods sold  
         Cost of direct benefits to donors

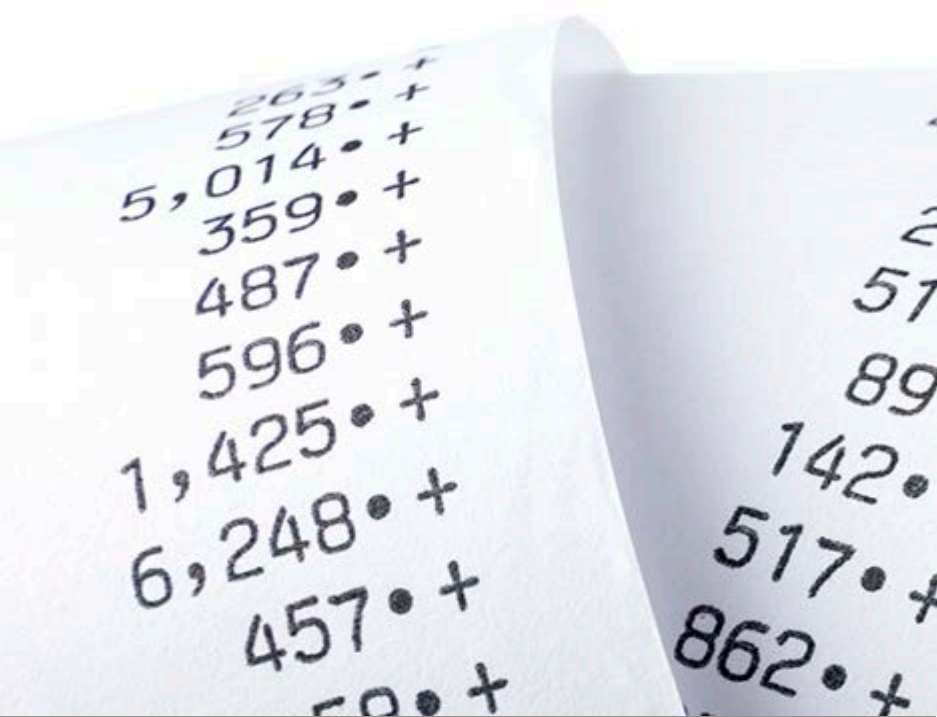
Total expenses included in the  
     expense section on the statement  
     of activities

## Example Expense Reporting

# ASU 2016-14

## EXPENSE REPORTING: WHEN TO ALLOCATE MANAGEMENT & GENERAL EXPENSE

Activities that represent direct conduct or direct supervision of program or other supporting activities require allocation from management and general activities to those program or other supporting activities.



263 • +  
578 • +  
5,014 • +  
359 • +  
487 • +  
596 • +  
1,425 • +  
6,248 • +  
457 • +  
50 • +

51  
89  
142 •  
517 • +  
862 • +

# Example Allocation Method Disclosure

## Note X. Methods Used for Allocation of Expenses from Management and General Activities

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. Those expenses include depreciation and amortization, the president's office, communications department, and information technology department. Depreciation is allocated based on square footage, the president's office is allocated based on estimates of time and effort, certain costs of the communications department are allocated based on estimates of time and effort, and the information technology department is allocated based on estimates of time and costs of specific technology utilized.





# ASU 2016-14

## INVESTMENT RETURN

- Presented on a net basis, with all external and direct internal investment management and custodial expenses netted against the return
- No longer required to report investment income components and related expenses separately

# Example Investment Return

## STATEMENT OF OPERATIONS

### Format 1: Year 1 Presentation of Net Investment Return

Revenue	\$ X,XXX
Expenses	<u>XXX</u>
Excess of revenues over expenses	<u>XXX</u>
Investment return, net	XXX
Less:	
Unrealized gains (losses) on other than trading debt securities excluded from performance indicator	<u>(200)</u>
Performance indicator	<u>XXX</u>
Add:	
Unrealized gains (losses) on other than trading debt securities excluded from performance indicator	<u>200</u>
Change in net assets without donor restrictions	<u>\$ XXX</u>

# Example Investment Return

## STATEMENT OF OPERATIONS

### Format 2: Year 1 Presentation of Net Investment Return

Revenue	\$ X,XXX
Expenses	XXX
Excess of revenues over expenses	<u>XXX</u>
Investment return, net, excluding unrealized gains (losses) on debt securities (other than trading)	<u>XXX</u>
Performance indicator	<u>XXX</u>
Unrealized gains (losses) on other than trading debt securities excluded from performance indicator	<u>200</u>
Change in net assets without donor restrictions	<u>\$ XXX</u>



# ASU 2016-14

## UNDERWATER ENDOWMENTS

### **REVISED NET ASSET CLASSIFICATION**

To be reflected in net assets with donor restrictions rather than in net assets without donor restrictions.

### **ENHANCED DISCLOSURE**

In addition to aggregate amounts by which funds are underwater (current GAAP), also disclose aggregate of original gift amounts (or level required by donor or law) for such funds, fair value, and any governing board policy or decision to reduce or not spend from such funds.

# Example Underwater Endowment Disclosure

AS A DECEMBER 31, 20X1 AND 20X0, WE HAD THE FOLLOWING ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND:

	Without Donor Restriction	With Donor Restrictions	Total
12/31/20X1			
Board-designated endowment funds			
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor			
Accumulated investment gains			

From time to time, certain donor-restricted endowments funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 20X0, funds with original values of \$19,883,738, fair values of \$19,841,061, and deficiencies of \$42,677 were reported in net assets with donor restrictions. These amounts were fully recovered during 20X1 due to favorable market fluctuations.



# ASU 2016-14 STATEMENT OF CASH FLOWS

- Direct or indirect method allowed
- Direct method no longer requires the reconciliation of the change in net assets to cash flows from operating activities



# ASU 2016-14

## LIQUIDITY DISCLOSURES

### **QUALITATIVE INFORMATION**

Availability to meet short term cash needs

### **QUANTITATIVE INFORMATION**

Availability of financial assets



NFP A's financial assets available within one year of the balance sheet date for general expenditure are as follows.

Cash and cash equivalents	\$ 4,575
Accounts and interest receivable	2,130
Contributions receivable	1,825
Short-term investments	1,400
Other investments appropriated for current use	10,804
	<u>\$ 20,734</u>

NFP A's endowment funds consist of donor-restricted endowments and a quasi-endowment. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure. As described in Note Y, the quasi-endowment has a spending rate of 5 percent. \$1.65 million of appropriations from the quasi-endowment will be available within the next 12 months.

As part of NFP A's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, NFP A invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, NFP A has committed lines of credit in the amount of \$20 million, which it could draw upon. Additionally, NFP A has a quasi-endowment of \$33 million. Although NFP A does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its quasi-endowment could be made available if necessary. However, both the quasi-endowment and donor-restricted endowments contain investments with lock-up provisions that would reduce the total investments that could be made available (see Note X for disclosures about investments).

# EXAMPLE LIQUIDITY DISCLOSURE



# POTENTIAL CHANGES TO COME

## PHASE 2

- OPERATING MEASURES  
(All other elements)
- Realignment of certain cash  
flow line items

# Revenue from Contracts with Customers

ASU  
2014-09

ASU  
2015-14

ASU  
2016-08

ASU  
2016-10

ASU  
2016-12

ASU  
2016-20



## OBJECTIVE

- To create a single principles based revenue standard for U.S. GAAP and IFRS
- To improve accounting for contracts with customers by:
  - Providing a robust framework for addressing revenue issues as they arise
  - Increasing comparability across industries and markets
  - Requiring better disclosures

## CHALLENGES

- Interpretation of broad guidance to specific revenue streams
- What is a “customer” in the context of a charitable organization

# Revenue from Contracts with Customers

## SCOPE

### **ALL CONTRACTS WITH CUSTOMERS, EXCEPT:**

- Lease contracts
- Insurance contracts
- Financial instruments
- Guarantees
- Non-monetary exchanges in the same line of business to facilitate sales to customers

### **CONTRACTS NOT WITH CUSTOMERS ARE EXCLUDED:**

- Contributions (currently not explicit)
- Collaborative arrangements

# Revenue from Contracts with Customers

## METHODOLOGY

1

Identify the contract(s) with a customer

2

Identify the performance obligations in the contract

3

Determine the transaction price

4

Allocate the transaction price to the performance obligations in the contract

5

Recognize revenue when (or as) the entity satisfies a performance obligation

# Revenue from Contracts with Customers

## **EFFECTIVE DATE**

- Public entities (including those with public conduit debt) – periods beginning after December 15, 2017
- All other entities – periods beginning after December 15, 2018
- Earlier application is permitted no earlier than the period beginning after December 15, 2016

## **PRACTICAL IMPLEMENTATION TIPS**

- Start analyzing your revenue streams now and not wait for the year of adoption or your accountant.
- Consider cutoff risk based on nature of the transaction. If entire earnings process takes place within your fiscal year, less analysis may be required.
- Inventory all of your revenue streams – Disaggregate your revenue streams based on unique characteristics and determine which ones could potentially have cutoff risk





# ASU 2015-03

## SIMPLIFYING THE PRESENTATION OF DEBT ISSUANCE COSTS

- Public Business Entities – fiscal years beginning after 12/15/15
- All other entities – fiscal years beginning after 12/15/16
- Should be applied retrospectively in the year the update is applied
- Earlier application is permitted



# ASU 2015-07

## DISCLOSURES FOR INVESTMENTS IN CERTAIN ENTITIES THAT CALCULATE NET ASSET VALUE PER SHARE

- Public Business Entities – fiscal years beginning after 12/15/15
- All other entities – fiscal years beginning after 12/15/16
- Should be applied retrospectively in the year the update is applied
- Earlier application is permitted



# ASU 2016-02

## LEASES

- Public Business Entities, Conduit Debt Obligor or SEC EB Plan – fiscal years beginning after 12/15/18
- All other entities – fiscal years beginning after 12/15/19
- Earlier application is permitted



# ASU 2016-13

## FINANCIAL INSTRUMENTS – CREDIT LOSSES

- Public Business Entities that file with the SEC – fiscal years beginning after 12/15/19
- All other entities – fiscal years beginning after 12/15/20
- Earlier application is permitted as of the fiscal year beginning after 12/15/18
- Will be applied as a cumulative effect adjustment to net assets as of the earliest period in which guidance is effective



# ASU 2016-15

## STATEMENT OF CASH FLOWS: CLASSIFICATION OF CERTAIN CASH RECEIPTS AND CASH PAYMENTS

- Public Business Entities – fiscal years beginning after 12/15/17
- All other entities – fiscal years beginning after 12/15/18
- Should be applied retrospectively in the year the update is applied
- Earlier application is permitted



# ASU 2016-18

## STATEMENT OF CASH FLOWS: RESTRICTED CASH

- Public Business Entities – fiscal years beginning after 12/15/17
- All other entities – fiscal years beginning after 12/15/18
- Should be applied retrospectively in the year the update is applied
- Earlier application is permitted





# ASU 2017-02

## NOT-FOR-PROFIT ENTITIES: CONSOLIDATION

- Fiscal years beginning after 12/15/16
- Earlier application is permitted
- If ASU 2015-02 already adopted – Required to apply this update retrospectively to all relevant periods
- If ASU 2015-02 not already adopted – Must apply this update at the same time as 2015-02





# ASU 2017-04

## INTANGIBLES: SIMPLIFYING THE TEST OF GOODWILL IMPAIRMENT

- Public Business Entities that file with the SEC (not conduit debt obligors) – fiscal years beginning after 12/15/19
- Public Business Entities that doesn't file with the SEC (not conduit debt obligors) – fiscal years beginning after 12/15/20
- All other entities – fiscal years beginning after 12/15/21
- Earlier application is permitted for impairment tests after 1/1/17

# GASB Update

GASB  
72

GASB  
75

GASB  
80

GASB  
81

GASB  
83

GASB  
84

GASB  
85

Fair Value  
Measurement  
and  
Application

Accounting and  
Financial  
Reporting for  
Postemployment  
Benefits Other  
than Pensions

Blending  
Requirement  
for Certain  
Component  
Units

Irrevocable  
Split-Interest  
Agreements

Certain Asset  
Retirement  
Obligations  
(ARO)

Fiduciary  
Activities

Omnibus 2017



# GASB 72

## FAIR VALUE MEASUREMENT AND APPLICATION

EFFECTIVE FOR REPORTING  
PERIODS:

Beginning after 6/15/15



# GASB 75

ACCOUNTING AND FINANCIAL  
REPORTING FOR  
POSTEMPLOYMENT BENEFITS  
OTHER THAN PENSIONS

EFFECTIVE FOR REPORTING  
PERIODS:

Beginning after 6/15/17

Earlier application is encouraged



# GASB 80

## BLENDING REQUIREMENTS FOR CERTAIN COMPONENT UNITS

EFFECTIVE FOR REPORTING  
PERIODS:

Beginning after 6/15/16

Earlier application is encouraged



# GASB 81

## IRREVOCABLE SPLIT-INTEREST AGREEMENTS

EFFECTIVE FOR REPORTING  
PERIODS:

Beginning after 6/15/16

Earlier application is encouraged



# GASB 83

## CERTAIN ASSET RETIREMENT OBLIGATIONS (ARO)

EFFECTIVE FOR REPORTING  
PERIODS:

Beginning after 6/15/18

Earlier application is encouraged



# GASB 84

## FIDUCIARY ACTIVITIES

EFFECTIVE FOR REPORTING  
PERIODS:

Beginning after 6/15/18

Earlier application is encouraged





# GASB 85

OMNIBUS 2017

EFFECTIVE FOR REPORTING  
PERIODS:

Beginning after 6/15/17

Earlier application is encouraged



Questions?



## Interested in more?



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