



INSPIRE – ACCOUNTING STANDARDS UPDATE

Karen Angell, CPA, Partner
Ryan Engelstad, CPA, Partner
Bekah Martin, CPA, Partner
Baker Tilly

Note: Certain content utilized in this presentation came from recent presentations by the FASB staff. The information included in this presentation are the views of Baker Tilly and do not represent official positions of the FASB.

AGENDA

- Presentation objectives
- Accounting standards
 - *Revenue from Contracts with Customers (Topic 606), ASU 2014-09*
 - *Interest- Imputation of interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, ASU 2015-03*
 - *Fair Value Measurements (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), ASU 2015-07*
 - *Leases (Topic 842), ASU 2016-02*
 - *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, ASU 2016-01*
 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, ASU 2016-14*
- Other accounting standards
- Discussion and questions



PRESENTATION OBJECTIVES

- Have an increased understanding of the new
 - Financial reporting standard for not-for-profit entities
 - Revenue recognition standard
 - Lease standard
 - Other accounting standards



*ASU 2016-14, Not-for-Profit Entities (Topic 958):
Presentation of Financial Statements of Not-for-
Profit Entities*



NFP FINANCIAL STATEMENTS PROJECT

- Key Objectives (recommended by FASB's NFP Advisory Committee (NAC))
 - Update, not overhaul, the current model
 - Improve net asset classification
 - Improve information in financial statements and notes about:
 - Financial performance
 - Cash flows
 - Liquidity
 - Better enable NFPs to “tell their story”



NFP FINANCIAL STATEMENTS PROJECT

- Exposure draft issued in April 2015
- Redeliberations were broken down into two phases
 - Phase I: Final standard issued in August 2016
 - ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*
 - The key provisions of ASU 2016-14 are discussed on the following slides
 - Phase II: Issues that will take longer to resolve
 - Operating measures
 - Cash flows



ASU 2016-14

TWO NET ASSET CLASSES



* May choose to disaggregate further on face of statement

** New disclosure requirement



ASU 2016-14

CASH FLOW STATEMENT

- Option to use **Direct Method** or **Indirect Method** for the statement of cash flows
 - If utilizing the Direct Method, no longer required to also show indirect reconciliation



EXAMPLE COLLEGE UNDER DIRECT METHOD		
STATEMENTS OF CASH FLOWS		
Years Ended June 30, 20X2 and 20X1		
	20X2	20X1
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from tuition, room and board, student fees	\$ 11,000,000	\$ 10,000,000
Cash received from donors	500,000	400,000
Cash received from government grants	100,000	75,000
Cash received from investment income	50,000	25,000
Cash received from other income	20,000	10,000
Cash payments to employees and suppliers	(10,000,000)	(11,000,000)
Cash payments for interest	(30,000)	(40,000)
Net Cash Flows from Operating Activities	<u>1,640,000</u>	<u>(530,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(1,300,000)	(1,000,000)
Proceeds from sale of investments	3,000,000	400,000
Purchases of investments	(2,000,000)	(100,000)
Net Cash Flows from Investing Activities	<u>(300,000)</u>	<u>(700,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions received restricted for long-term investment	400,000	200,000
Principal payments on long-term debt	(300,000)	(300,000)
Net Cash Flows from Financing Activities	<u>100,000</u>	<u>(100,000)</u>
Net Change in Cash and Cash Equivalents	1,440,000	(1,330,000)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>2,700,000</u>	<u>4,030,000</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,140,000</u>	<u>\$ 2,700,000</u>



ASU 2016-14

EXPIRATION OF CAPITAL RESTRICTIONS

- Gifts of cash restricted for acquisition or construction of long-lived assets
 - In the absence of explicit donor restrictions, NFPs will be required to use the **placed-in-service approach** when releasing the restrictions
 - Over-time approach eliminated (i.e., **no more implied time restrictions**)



ASU 2016-14

UNDERWATER ENDOWMENT FUNDS

- Include amount by which endowment funds are underwater within net assets **with** donor restrictions
- Disclose the following for underwater endowment funds
 - Policies for spending when underwater
 - Aggregate fair value
 - Aggregate original endowment gift amount or level required by donor stipulations or law to be maintained
 - Aggregate amount of deficiencies



ASU 2016-14

EXPENSE REPORTING

- Report expenses, either on the face of financial statements or in the notes, by
 - Functional classification (current GAAP)
 - Natural classification
 - Analysis (disaggregate function by nature)
- NFPs will have flexibility in the presentation
 - Choice of location (on statement of activities, in a separate schedule or in the notes)



ASU 2016-14

EXPENSE REPORTING

- Enhanced disclosures about method(s) used to allocate costs among program and support functions
 - Enhanced guidance was provided in the ASU on definition of management and general activities to better depict types of costs that can be allocated
 - Key concept: **direct conduct** or **direct supervision**



ASU 2016-14

REPORTING INVESTMENT RETURN

- Net external and direct internal investment expenses against investment return
 - May report net return in multiple, appropriately labeled lines
 - Different net asset classes
 - Operating vs. nonoperating
 - Different portfolios
 - Disclosure of investment expenses no longer required
 - If reported, carefully label and don't include in expense analysis
 - Disclosure of investment return components no longer required



ASU 2016-14

OPERATING MEASURE: IMPROVED DISCLOSURES

- Enhanced disclosures for those who present a self-defined operating measure
 - Must report types of internal transfers related to governing board designations, appropriations, and similar actions – disaggregated and explained by type either on the face of the financial statements or in the footnotes



ASU 2016-14

LIQUIDITY AND AVAILABILITY OF RESOURCES

- Disclose **qualitative** information as to how the NFP manages its liquid available resources and its liquidity risk (in the notes)
- Disclose **quantitative** information that communicates availability of financial assets at balance sheet date to meet cash needs for general expenditures (in notes or on face of the balance sheet)



ASU 2016-14

QUANTITATIVE DISCLOSURE FOR FINANCIAL ASSETS AVAILABILITY

EXAMPLE DESCLOSURE		
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 **		(144,500)
Investments held in annuity trust		(4,500)
Amounts held by bond trustees		(30,200)
Board designations:		
Quasi-endowment fund, primarily for long-term investing **		(36,600)
Amounts set aside for liquidity reserve		<u>(1,300)</u>
Financial assets available to meet cash needs for general expenditures within one year		<u>\$ 5,370</u>
* Total assets, less nonfinancial assets (e.g. PP&E, inventory, prepaids)		
** Excludes amounts tht have been appropriated for next 12 months that do not have purpose restrictions		



ASU 2016-14

IMPLICATIONS

- Impact of various financial ratios and debt covenants
 - Definition of “expendable net assets”
 - Department of Education composite score
 - Rating Agency ratio definitions



ASU 2016-14

EFFECTIVE DATE

- Amendments to be applied on a retrospective basis for all years presented
 - Year of adoption: apply **all** provisions
 - However, if preparing comparative financial statements, NFPs may omit the following disclosures for any years presented before the year of adoption
 - Analysis of expenses by both functional and natural classification
 - Disclosures around liquidity and availability of resources
- Effective for financial statements for fiscal years beginning after 12/15/17 (FY 19)
 - Early adoption permitted, but must apply regular transition provisions



ASU 2014-16

ADDITIONAL COMMENTS

- NFPs are **already permitted** to incorporate many of the changes in the ASU
- The only changes that **cannot** be done without formally adopted the ASU are:
 - Presenting one class of restricted net assets
 - Underwater endowment accounting
 - Eliminating disclosures of investment return components and netted expenses
 - Eliminated requirements to provide indirect reconciliation if using the Direct Method for operating cash flows



ASU 2016-14

PHASE II

- Whether to require a measure of operations
- How to define a measure of operations
- Potential realignment within the statement of cash flows
- Segment reporting for NFP health care entities

Timing of Phase II - TBD



ASU 2014-09, *Revenue from Contracts
with Customers (Topic 606)*



ASU 2014-09

OBJECTIVES

- Aims to improve accounting for contracts with customers by:
 - Providing a robust framework for addressing revenue issues as they arise
 - Increasing comparability across industries
 - Requiring better disclosures



ASU 2014-09

SCOPE

- Applies to all contracts with customers, except:
 - Leases, insurance contracts, financial instruments, guarantees and non-monetary exchanges in the same line of business to facilitate sales to customers
- Certain contracts that are not with customers are excluded:
 - Contributions
 - Collaborative arrangements



ASU 2014-09

CONSIDERATIONS FOR HIGHER EDUCATION

- Tuition and housing revenue (transaction price and timing of revenue recognition)
 - Timing of balance sheet transactions may change when academic periods span fiscal years
 - Net tuition presentation – revenue is recognized net of price concessions and rebates
- Subscription and membership dues
- Bifurcation of transactions between contributions and exchange components (e.g., membership dues, bargain purchases, certain grants, naming opportunities, etc.)
- Licenses and royalties



ASU 2014-09

CONSIDERATIONS FOR HIGHER EDUCATION

○ Grants and contracts

- Inconsistencies in current practice
 - Exchange vs. non-exchange (contribution)
 - Conditions vs. restrictions
- FASB has added a project to its agenda to determine what additional guidance might be required
- Major issue yet to be resolved, expect Exposure Draft in late 2016/early 2017



ASU 2014-09

DISCLOSURES

- New disclosures could be significant
 - Disaggregation of revenue
 - Qualitative and quantitative disaggregation that depict how revenue and cash flows are affected by economic factors
 - Information about contract balances
 - Opening and closing balances (roll forward)
 - Amount of revenue recognized from contract liabilities
 - Explanation of significant changes in contract balances
 - Remaining performance obligations
 - Transaction price allocated to remaining performance obligations
 - Qualitative or quantitative explanation of when amounts will be recognized as revenue



ASU 2014-09

IMPLEMENTATION

- Practical steps
 - Read and understand the ASU
 - Identify contracts with customers by reviewing all of the organizational revenues
 - Tuition, royalties, advertising, sponsorships, government grants, retail sales, educational service fees, etc.
 - Understand the revenue streams
 - Determine if a change in revenue recognition is required
 - Identify the performance obligations in the contract
 - Allocate the transaction price to the performance obligations in the contract
 - Recognize revenue when (or as) the entity satisfies a performance obligation



ASU 2014-09

EFFECTIVE DATE

- Effective fiscal years beginning after 12/15/17 (FY 19) for NFP with conduit debt
 - If no conduit debt, effective a year later



ASU 2016-02, *Leases (Topic 842)*



ASU 2016-02

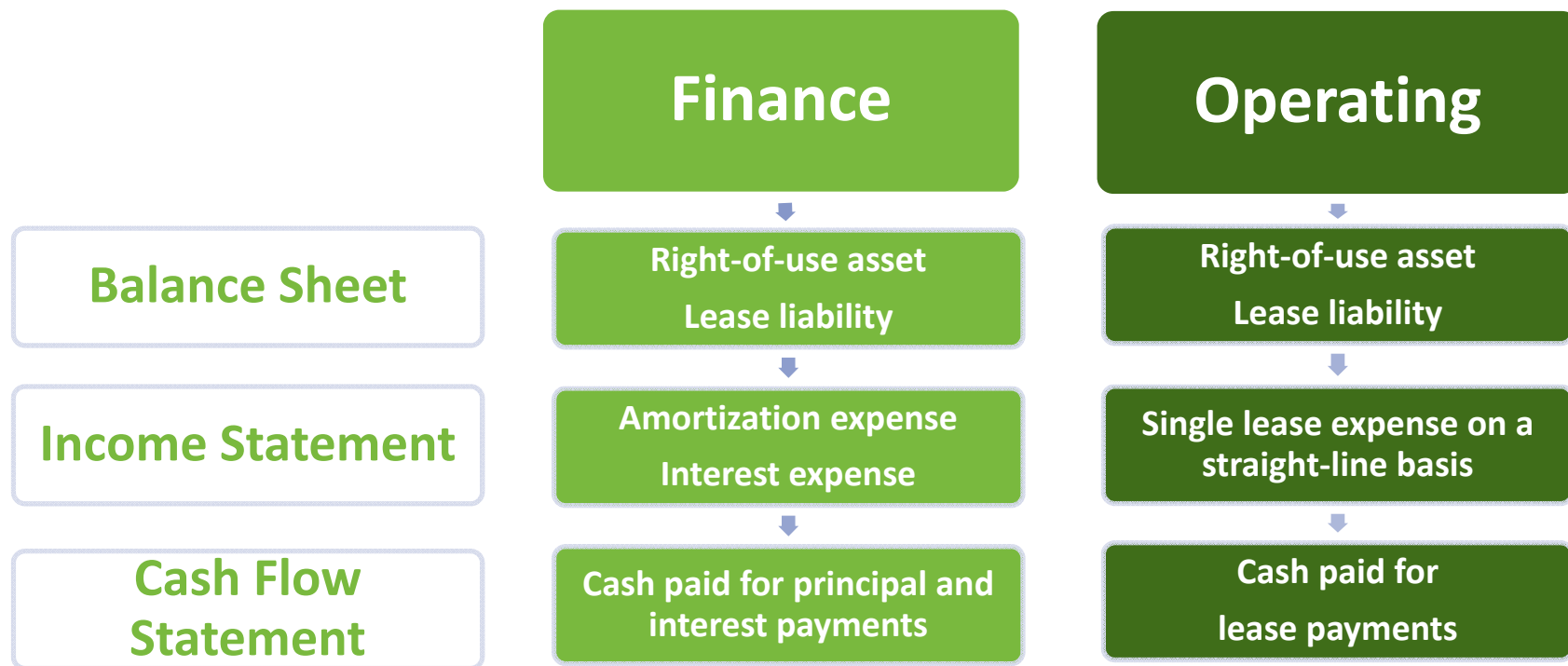
LEASE CONTRACT

A lease contract conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration



2016-02

LEASEE ACCOUNTING OVERVIEW



ASU 2016-02 IMPLEMENTATION

○ Practical steps

- Inventory all existing leases, including options to renew/purchase
- Review leases to determine what type they are
- Consider the new standard when entering into new leases
- Consider affect of the new standard on debt covenants



ASU 2016-02

EFFECTIVE DATE

- Effective fiscal years beginning after 12/15/18 (FY 20) for NFP with conduit debt, early application allowed
 - If no conduit debt, effective a year later
- The standard requires a modified retrospective transition approach for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements
- Exemption for short-term leases



Other Accounting Standard Updates



ASU 2014-15

- *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosures of Uncertainties about an Entity’s Ability to Continue as a Going Concern, ASU 2014-15*
 - Requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date the financial statements are issued, and provide related disclosures
 - Effective FY 17, early adoption is permitted



ASU 2015-03

- *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, ASU 2015-03*
 - Debt issuance costs presented net of long-term debt
 - Retrospective application
 - Effective FY 17, early adoption is permitted



ASU 2016-01

- *Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, ASU 2016-01*
 - Eliminates the requirement to include fair value disclosures for financial instruments measured at amortized cost for organizations that are not public business entities (e.g. debt, contributions receivable, etc.)
 - This provision may be early adopted for all financial statements not yet issued
 - Effective FY 20, early application allowed for entire standard after 12/15/17



ASU 2015-07

- *Fair Value Measurements (Topic 820) - Disclosure for Certain Investments in Certain Entities that Calculate Net Asset Value, ASU 2015-07*
 - Investments measured at net asset value, as a practical expedient for fair value, are excluded from the fair value hierarchy disclosure requirements
 - Clarified that certain disclosures (e.g. redemption restrictions) only required when practical expedient is actually used
 - Effective FY 18, early adoption is permitted



Questions?



Thank you!

Connect with us:

bakertilly.com/higher-education

