

# MaherDuessel

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# Maher Duessel Not-for-Profit Update

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# Important Information

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- ❑ Implementation dates are for non-public companies.
- ❑ New FASB is in early slides.
- ❑ Included FASB items that are confusing or frequently missed.
- ❑ Use as a review of your financial statements.
- ❑ Only consider items that are material.
- ❑ Separate presentation on leases.

## Gifts In Kind

- ❑ Contributions of **nonfinancial assets** (fixed assets, use of fixed assets, materials and supplies, intangibles, services).  
Note: does not include stock gifts.
- ❑ Effective for annual periods beginning after June 15, 2021 (FY 2021-22 for June year ends).
- ❑ Early adoption is permitted.
- ❑ Retrospective application is required.

# ASU 2020-07, GIK Requirements

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- ❑ Present contributed nonfinancial assets as separate line item in the statement of activities.
- ❑ Disclose a disaggregation by category of nonfinancial asset.
- ❑ For each category, disclose info about how the assets are used (or monetized), including any associated donor/grantor restrictions.
- ❑ Disclose how non-contributed assets are **valued** at initial recognition.

# GIK Disclosure Requirements

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- ❑ Quantitative: Disaggregation of the amount of contributed non-financial assets by CATEGORY (clothes, food, etc.)
- ❑ Qualitative: For each category:
  - Information about whether the assets were monetized or utilized during the reporting period. If utilized, a description of the programs or other activities in which those assets were used.
  - The NFP's policy for monetizing rather than utilizing contributed nonfinancial assets.
  - A description of any associated donor restrictions.
  - A description of the valuation techniques and inputs used to arrive at a fair value measure at initial recognition.
  - The principal market (or most advantageous market) used to arrive at a fair value measurement if it is a market in which the recipient NFP is prohibited by donor restrictions from selling or using the contributed nonfinancial asset.

# GIK Example

## Note X - Donated Services and Assets

The Organization receives significant in-kind contributions of time and pro bono services from members of the community and volunteers related to program operations, special events, and fundraising campaigns. Donated services are recognized as contributions if ....

During the year XX, the Organization received the following:

<u>Program</u>	<u>Donated</u>			
<u>Support Service</u>	<u>Space</u>	<u>Services</u>	<u>Goods</u>	<u>Total</u>
Tax service	XXXX	XXXX	XXXX	XXXX
Fundraising	XXXX	XXXX	XXXX	XXXX
Tax clinic	XXXX	XXXX	XXXX	XXXX

Donated space is valued at the fair value of similar properties available in commercial real estate listings. Donated program services are valued using the most recent Bureau of Labor Statistics average hourly wage for tax preparer ... no restrictions.

Note: whatever you want to disclose must be auditable.

# GIK – Fair Market Value

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- ❑ Highest level of the fair value hierarchy is a quoted price in an active market that the reporting entity can access at the measurement date.
- ❑ An active market may not exist for many nonfinancial assets.
- ❑ If no active market exists, then look for level two type support (inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly...)
- ❑ Other considerations:
  - Look for factors specific to the nonfinancial asset.
  - Principal market is defined as a market with the greatest volume and level of activity that you are able to access.
  - Must have legal ability to be active in the principal market (think zoning ordinance)/donor restriction does not impact identifying the principal market.
  - If principal market is US for example but donor said the goods can only be used in South America, you would disclose that.
  - If the GIK is primarily for the developing world, the developing world would be the principal market (pharmaceuticals).

# ASU 2016-01 Financial Instruments

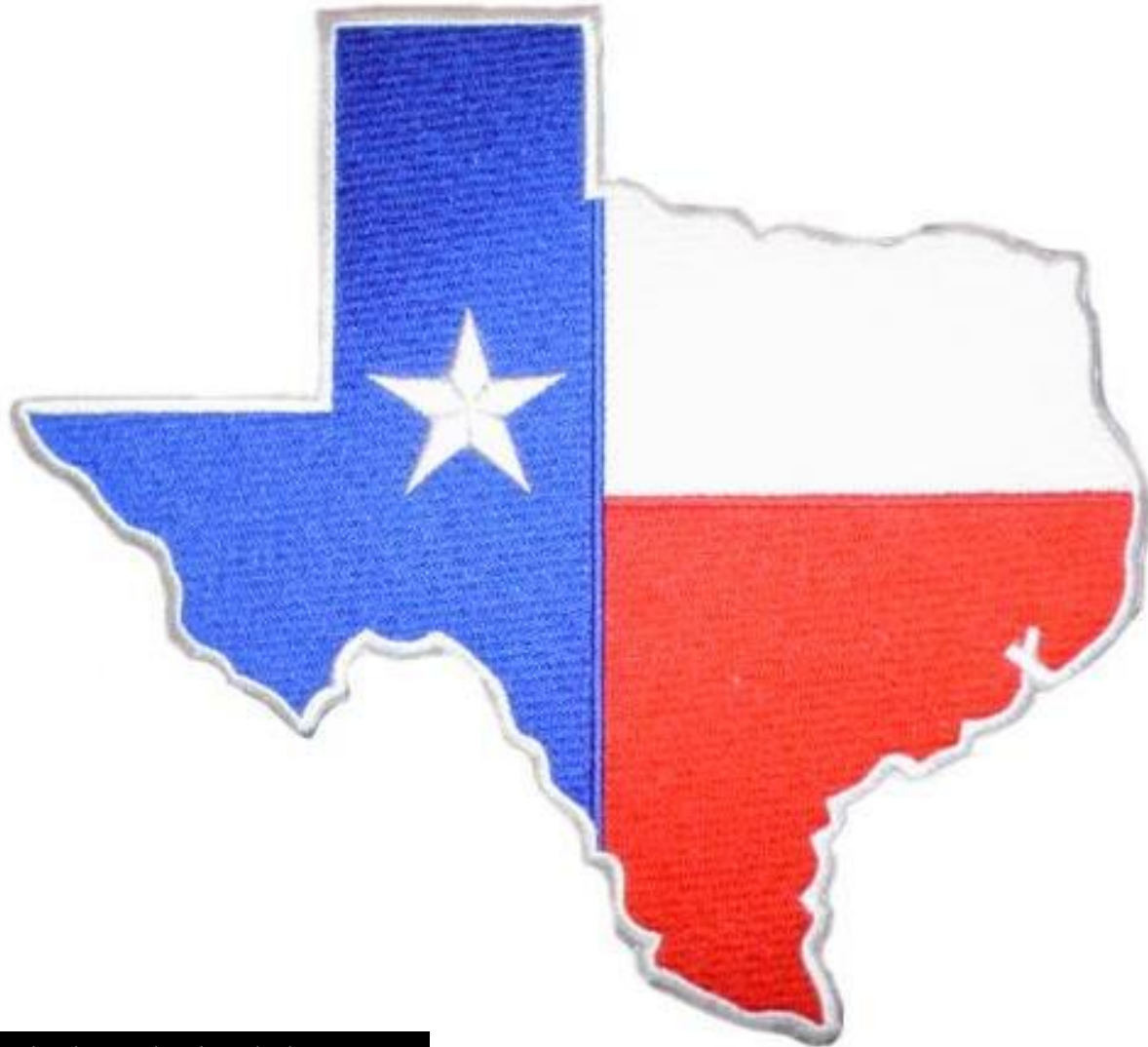
- ❑ Equity investment – Stock you have equity in something or own it. Equity method of accounting if you partially own something - 50% AT COST/first bought it for – FV.
- ❑ Effective for fiscal years beginning after 12/31/18



# Financial Instruments

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- ❑ The concept of cost method investments went away.
- ❑ Equity investments are required to be reflected at fair value and changes through net income.
- ❑ Does not apply to investments utilizing the equity method, those that require consolidation or investments at NAV.
- ❑ Applies to investments in partnerships, LLC's, unincorporated joint ventures.
- ❑ If no readily determinable fair value: measure at cost; minus impairment, plus/minus observable price changes (sale by same issuer).
- ❑ Requires a qualitative impairment assessment. If impaired measure at FV.
- ❑ Also eliminated the concept of trading, available-for-sale or held to maturity securities a for-profit might own.



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## Passcode #1

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What is the official  
nickname of Texas?

Passcode #1 Answer:

## ASU 2016-15 Classification of Certain Cash Receipts and Payments

- ❑ Debt prepayment (financing).
- ❑ Settlement of zero – coupon bonds (financing).
- ❑ Contingent consideration payments made after a business combination (operating and financing).
- ❑ Proceeds from settlement of insurance claims (based on nature of loss).
- ❑ Proceeds from Life settlement contracts (investing).
- ❑ Distributions received from equity method investees (it's complicated).
- ❑ Beneficial interests in securitization transactions (investing).
- ❑ Application of the predominance principle (if no guidance and can't bifurcate).
- ❑ Effective 2019.

## ASU 2016-18 , Restricted Cash

- ❑ Cash Flows must explain the change in total of cash, cash equivalents, restricted cash, and restricted cash equivalents.
- ❑ Restricted cash and cash equivalents must be reflected in the beginning and ending totals of cash.
- ❑ Must disclose the line items and amounts with unrestricted and/or restricted cash and cash equivalents.
- ❑ The ASU does not define restricted cash.
- ❑ Effective for fiscal years beginning after December 15, 2018.

# Restricted Cash - Sample

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## Statement of Cash Flows:

Net increase in cash and cash equivalents, and restricted cash	\$XXX
Cash, cash equivalents, and restricted cash at beginning of year	<u>\$XXX</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$XXX</u>

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts on the statement of cash flows:

Cash and cash equivalents	\$XXX
Restricted cash	\$XXX
Restricted cash included in long-term assets	<u>\$XXX</u>
Total cash, cash equivalents, and restricted cash	\$XXX

# Restricted Cash - Sample (continued)

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- ❑ Amounts included in restricted cash represent those required to be set aside by a contractual agreement with an insurer for the payment of specific worker's compensation claims. Restricted cash included in other long-term assets on the statement of financial position represents amounts pledged as collateral for long-term financing arrangements as contractually required by a lender.
- ❑ Where to look: investments, escrow deposits, bond sinking funds, donor-imposed restriction that limits use to purchase a long-lived asset.

## ASU 2019-06 Intangibles

- ❑ Amortize goodwill over 10 years (or less if appropriate) on a straight-line basis/currently must annually test for impairment.
- ❑ Test for **impairment** upon a triggering event. Need to adopt an accounting policy and test goodwill at the entity level or reporting unit level.
- ❑ A not-for-profit should subsume into goodwill and amortize customer-related intangible assets that cannot be sold or licensed independently from the other assets of a business as well as all noncompete agreements.
- ❑ May 30, 2019 - effective on issuance.

# ASU 2019-06, Intangibles

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- When to test for impairment:
  - Event occurs or circumstances change that indicate FV of the entity may be below it's carrying value.
    - Deterioration in the general economy.
    - Deterioration in the environment in which the company operates.
    - Increase in cost to operate.
    - Financial performance including declining cash flows.
    - Changes in management of key personnel.
    - Disposing of all or portion of a reporting unit.



## ASU 2017-02, Not-for-Profit Entities, Consolidation

- ❑ Clarifies when a not-for-profit entity that is a general partner or a limited partner should consolidate a for-profit limited partnership or similar legal entity.
- ❑ General Partners
  - General partners presumed to control a for-profit limited partnership unless that presumption is overcome.
  - Overcome if the limited partners have either substantive kick – out rights or substantive participating rights.
- ❑ Limited Partners
  - Guidance on consolidation of limited partnerships that are not VIE's.

Effective for fiscal years beginning after 12/15/16.

# ASU 2016-13 Financial Instruments- Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

- ❑ Current GAAP – mostly incurred loss methodology, which is largely based on historic losses.
- ❑ Future GAAP:
  - **CECL** model, which requires entities to estimate credit losses expected over the contractual life of a financial asset.
  - Current conditions and a broader range of reasonable and supportable information used to make credit loss estimates for certain financial assets. Credit loss estimates under the new guidance will require significant judgement.
  - Programmatic loans/ **receivables patients and students**, includes **trade receivables**.
  - Effective FY beginning after 12/15/22.

# Not-for-Profit Entities Topic 958

- ❑ Contributed services must be recognized if employees of separately governed affiliated entities regularly perform services (in other than an advisory capacity) for and under the direction of the donee.
- ❑ Those contributed services should be recognized only if they (1) create or enhance nonfinancial assets or (2) require specialized skills, are provided by individuals possessing those skills, and typically would need to be purchased if not provided by donation.
- ❑ Affiliate: a party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with an entity.



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## Passcode #2

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Name the biggest island of the world.

Passcode #2 Answer:

# Contributed Services

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- ❑ Measure services at cost of affiliate providing the service or if that is misleading record at fair value.
- ❑ Report as an equity transfer if a healthcare entity – not part of operations.
- ❑ Does not apply if affiliate charges the recipient at least the approximate amount of costs or FV of services.
- ❑ Fiscal years beginning after June 15, 2014.

# Functional Expenses

- ❑ Program Services
- ❑ 958-720-45-3 “Program services are the activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfill the purposes or mission for which the NFP exists.
- ❑ ASU 2016-14 for periods beginning after 12/15/17

# Functional Expenses

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- ❑ Supporting Services
  - ❑ 958-720-45-6 “ Supporting activities are all activities of an NFP **other than program services**. Generally, supporting activities include the following activities:
    - Management and general activities
    - Fundraising activities
    - Membership development activities
- Examples: oversight, business management, recordkeeping, payroll, budgeting, financing, soliciting funds, administering contracts including billing and collecting fees, producing annual report, human resources....

# Functional Expenses

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- ❑ Fundraising Activities
- ❑ 958-720-45-9 includes publicizing and conducting fundraising campaigns, maintaining mailing lists, conducting special fundraising events, preparing and distribution fundraising manuals, soliciting contributions
- ❑ Membership Development Activities
- ❑ 958-720-45-11 includes soliciting for prospective members, member relations



# Functional Expenses

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- ❑ Must disclose how costs are allocated:
  - Use staff salaries to allocate benefits and taxes.
  - Use staff hours to allocated shared program and general and admin expenses.
  - Use number of employees for technology expenses.
  - Use clients or client hours for shared program expenses.
  - Use square footage for occupancy expense (rent, maintenance, depreciation, interest).
  - Use % of direct expenses for management and general – NOTE this is not the same as federal indirect cost rate.

Revenue  
ASU 2020-05  
Effective for  
periods  
beginning after  
12/15/19

- ❑ Identify contract with Customer
  - Review each income item on trial balance and determine if contribution or revenue.
  - Can use **portfolio approach** but characteristics must be similar.
- ❑ Identify performance obligations
  - List the promises made especially related to membership dues or other income with multiple deliverables.
- ❑ Determine the transaction price
  - Are there discounts? Lifetime memberships? **Third-party payors?**  
**Refunds?**

# ASC 606

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- ❑ Allocate the transaction price to the performance obligations.
  - Do any deliverables/promises cross fiscal years?
  - Using an estimate? Use best estimate not most conservative estimate.
- ❑ Recognize revenue or **deferred revenue**.
- ❑ Contract has to have commercial substance (no rearranging the chairs on deck).
- ❑ Probable that entity will collect substantially all of the consideration entitled.
- ❑ Financing component? <12 months practical expedient.

# Principal or an Agent?

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- ❑ When an entity **controls** the specified **good or service** before it is transferred to the customer, the entity is acting as a principal and recognizes revenue at gross.
- ❑ When an entity does not control the specified good or service before it is transferred to the customer, the nature of the entity's promise it to arrange for another party to provide the specified good or service to the customer. The entity is acting as an agent and recognizes revenue on a net basis.

# ASC 606 Disclosures

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- ❑ Revenue recognized from contracts with customers, including the disaggregation of revenue.
- ❑ Contract balances, including opening and closing balances of receivables, contract assets and contract liabilities.
- ❑ Performance obligations, including when the entity typically satisfies its performance obligations and the transaction price that is allocated to the remaining performance obligations in a contract; and significant judgments, and changes in judgments, made in applying the requirements to those contracts.

# ASC 606

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- Forgiveness of debt?
  - PPP is other revenue if used loan guidance.
  - If didn't use loan guidance, recognize any remaining amounts as contribution.



## Passcode #3

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Name the largest ocean of the world.

Passcode #3 Answer:

# Liquidity Disclosures

- FASB requires both quantitative and qualitative information:
  - Policies re: how is liquidity managed (Budget process, receivables/billing cycles).
  - Disclose lines-of-credit.
  - Minimum cash reserves.
  - Conditional grants.
  - Operating reserves.
  - Increase in endowment draw for the pandemic.

ASU 2016-14 for fiscal years beginning after 12/15/17



# Going Concern

- ❑ Management follows ASU 2014-15 Presentation of Financial Statements - Going Concern.
- ❑ Effective for fiscal years beginning after 12/15/16

# Going Concern

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- ❑ Substantial doubt about an entity's ability to continue as a going concern is considered to exist when aggregate conditions and events indicate that it is probable the entity will be unable to meet obligations due within one year of the date statements are issued.
- ❑ Management is required to evaluate based on relevant conditions and events that are known or reasonably knowable at the date the statements are issued.
- ❑ Initially do not take into account any plans for mitigation.

# Going Concern

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- ❑ Management to consider quantitative and qualitative factors known or reasonably known at the date the statements are issued:
  - Current financial condition, including liquidity sources.
  - Conditional and unconditional obligations due or anticipated within in year after statements are issued.
  - Funds necessary to maintain the entity's operations considering its current financial condition, obligations, and other expected cash flows within one year.
  - Other conditions that may adversely affect the entity's ability to meet its obligations.

# Going Concern

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- ❑ If management's **plans alleviate** the substantial doubt, the entity should disclose:
  - Conditions or events that raised substantial doubt.
  - Management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations.
  - Management's plans that alleviated the substantial doubt about the entity's ability to continue as a going concern.

OR if management's plans **do not alleviate substantial doubt**, a statement in the footnotes indicating there is substantial doubt about the entity's ability to continue as a going concern.

# Going Concern

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- ❑ Assess management going concern evaluation.
- ❑ Evaluate whether there is substantial doubt about going concern.
- ❑ If there is an indication there is substantial doubt: the auditor reviews management's plans to alleviate such conditions.
- ❑ If doubt remains include explanatory paragraph to reflect the situation in the auditor's report.

# Cloud Computing Accounting Guidance ASC 350-40 and ASU 2018-15

- ❑ ASC 350-40 was issued as ASU 2015-05.
- ❑ ASU 2018-15 for periods beginning after December 15, 2020 (non-public).

Cloud Computing: the practice of using a network of remote servers hosted on the internet to store, manage, and process data, rather than a local server of a personal computer.



## Passcode #4

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Name the largest dam in the world.

Passcode #4 Answer:

# Cloud Computing- ASC 350-15

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- ❑ ASC 350-15: if the cloud computing arrangement included a **software license**, then the contract was treated as internal use software (capitalize). If not, it's a service contract and expense.
- ❑ Did not address implementation costs....



# Cloud Computing 2018-15

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- ❑ All hosting arrangements are now considered to have a software element, regardless of whether the arrangement includes a license (ASU 2018-15).
- ❑ Expense: training costs, data conversion costs, costs related to the preliminary project and post-implementation operation stage.
- ❑ Capitalize: implementation and integration costs, coding and configuration or customization (Show asset on same line as any prepayment of hosting fees).
  - Begin amortizing when component of the hosting arrangement is ready for intended use and typically use straight-line method during the term of the hosting arrangement.
  - Amortization expense is presented on the same line on the income statement as hosting arrangement expense/not where other depreciation is shown.

- ❑ ASU 2018-08 : Effective for fiscal years beginning after 12/15/18
- ❑ Required disclosures:
  - Total amount promised.
  - Description and amount of each group of promises with similar characteristics.
    - (Establish a new program, matching gifts, by a specified date, allowable expenses).

## Conditional Grants



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With assistance from Nolan Beck!!