

Accounting and Auditing Update

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Harrington Group
CERTIFIED PUBLIC ACCOUNTANTS, LLP

FASB Accounting Standards Codification Updates (ASUs)



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New ASUs – Issued/Clarified in 2016

- [Update 2016-01](#)—Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities
- [Update 2016-02](#)— **Leases (Topic 842)**
 - [Section A](#)—**Leases: Amendments to the *FASB Accounting Standards Codification*[®]**
 - [Section B](#)—**Conforming Amendments Related to Leases: Amendments to the *FASB Accounting Standards Codification*[®]**
 - [Section C](#)—**Background Information and Basis for Conclusions**



New ASUs – Issued/Clarified in 2016

- [Update 2016-03](#)—Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), Consolidation (Topic 810), Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance (a consensus of the Private Company Council)
- [Update 2016-04](#)—Liabilities—Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products (a consensus of the Emerging Issues Task Force)
- [Update 2016-05](#)—Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships (a consensus of the Emerging Issues Task Force)



New ASUs – Issued/Clarified in 2016

- [Update 2016-06](#) – Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments (a consensus of the Emerging Issues Task Force)
- [Update 2016-07](#) – Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting
- [Update 2016-08](#) – Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)



New ASUs – Issued/Clarified in 2016

- [Update 2016-09](#)—Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting
- [Update 2016-10](#)—Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing
- [Update 2016-11](#) —Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting (SEC Update)



New ASUs – Issued/Clarified in 2016

- [Update 2016-12](#)—Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients
- [Update 2016-13](#)—Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments
- [Update 2016-14](#)—**Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities**
- [Update 2016-15](#)—**Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)**



New ASUs – Leases (ASU 2016-02)

Effective dates and purpose:

- 1) Fiscal years beginning after December 15, 2018 - public entities, NPO's with public debt, and EBP's that file with the SEC
- 2) Fiscal years beginning after December 15, 2019 – all other entities
- 3) Guidance on the measurement and disclosure of operating and finance leases (LT) as right-of-use assets and liabilities



Leases (ASC Topic 842)

Lease Accounting (Lessee):

- Finance
 - 1) Right-of-use asset and lease liability
 - 2) Amortization expense and interest expense
 - 3) Cash paid for principal (financing) and interest (operating)



Leases (ASC Topic 842)

Lease Accounting (Lessee):

- Operating
 - 1) Right-of-use asset and lease liability
 - 2) Single lease expense on a straight-line basis
 - 3) Cash paid for lease payment (operating)



Leases (ASC Topic 842)

Lease Accounting Considerations:

- 1) Determine if a lease contract exists
- 2) Make a policy to not recognize lease assets/liabilities when a lease term is less than 12 months
- 3) Optional periods – Only recognize if reasonably certain to exercise option



Leases (ASC Topic 842)

Lease Accounting Considerations:

- 4) Practical expedients are offered (regarding type, initial direct costs, and terms)
- 5) Perform early evaluation/analysis
- 6) May have impact on financial ratios



New ASUs – NFP Financial Statements (ASU 2016-14)

Effective dates and purpose:

- 1) Fiscal years beginning after December 15, 2017
- 2) Guidance on financial statement format utilizing two classes of net assets and the allowance of expanded disclosures of operational vs. non-operational performance



NFP Financial Statements (ASC Topic 958)

NFP Financial Report Project:

- 1) Classification of with restriction and without restrictions
- 2) Ability to show appropriations, board designations, and non-operational components
- 3) Changes to cash flow components and requirement for disclosure of investment fees/returns



| | <u>Without Donor Restriction</u> | <u>With Donor Restriction</u> | <u>Total</u> |
|---|--------------------------------------|-----------------------------------|-----------------|
| Revenue and support | | | |
| Program service fees | \$ 495 | \$ - | \$ 495 |
| Bequests | 600 | | 600 |
| Other contributions | 425 | 1,500 | 1,925 |
| Restricted support released in current period | 1,375 | (1,375) | - |
| Total revenue and support | <u>2,895</u> | <u>125</u> | <u>3,020</u> |
| Expenses | | | |
| Total expenses | <u>1,950</u> | | <u>1,950</u> |
| Excess/(deficit) before appropriation/transfers | <u>945</u> | <u>125</u> | <u>1,070</u> |
| Board appropriations/transfers to/(from) operations | | | |
| Investment returns appropriated from donor endowment | 60 | a | 60 |
| Investment returns appropriated from board quasi- endowment | 90 | b | 90 |
| Bequests transferred to board quasi-endowment | (500) | c | (500) |
| Total appropriation/transfers to/(from) operations | <u>(350)</u> | <u>-</u> | <u>(350)</u> |
| Excess/(deficit) from operations | <u>595</u> | <u>125</u> | <u>720</u> |
| Investment returns, net | 170 | 445 | 615 |
| Board appropriations/transfers from/(to) operations | | | |
| Investment returns appropriated from donor endowment | | (60) | a |
| Investment returns appropriated from board quasi- endowment | (90) | b | (90) |
| Bequests transferred to board quasi-endowment | 500 | c | 500 |
| Total appropriation/transfers from/(to) operations | <u>410</u> | <u>(60)</u> | <u>350</u> |
| Total change in net assets | 1,175 | 510 | 1,685 |
| Net assets, beginning of year | <u>1,500</u> | <u>2,100</u> | <u>3,600</u> |
| Net assets, end of year | <u>\$ 2,675</u> | <u>\$ 2,610</u> | <u>\$ 5,285</u> |



New ASUs – Statement of Cash Flows (ASU 2016-15)

Effective dates and purpose:

- 1) Fiscal years beginning after December 15, 2018
- 2) Guidance on (8) specific financial transactions and their treatment in the Cash Flow statement



Statement of Cash Flows (ASC Topic 230)

Some of the (8) financial transactions that may be applicable to NFP:

- 1) Debt prepayment or extinguishment costs (financing outflow)
- 2) Proceeds from the settlement of insurance claims (nature of loss dictates type of activity)
- 3) Proceeds from the settlement of corporate-owned life insurance (investing inflow); however, payment maybe operating, investing or a combination



FASB Accounting Standards Codification Previous ASUs of Importance



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Revenue from Contracts with Customers (ASU 2014-09 w/amendments)

Effective dates and purpose:

- 1) Effective for fiscal years beginning after December 15, 2018 (1 year earlier for NFPs w/ publicly traded debt)
- 2) Guidance on the recognition of revenue to better depict the transfer of goods or services, including the timing of recognition



Revenue from Contracts with Customers (ASU 2014-09 w/amendments)

- Client should identify all organizational revenues
- Develop and document position on each stream and how to recognize revenue; should have revenue recognition policy
- Consider impact if recognition change required (i.e. processes, contracts, reporting, etc.)
- Consider requirements to retroactively adopt the new standard and impact on financial statements and PY restatement



Debt Issuance Costs (ASU 2015-03)

Simplifying the Presentation of Debt Issuance Costs

- 1) Effective for calendar 2016 (FY ending 2017); early adoption permitted
- 2) Makes presentation consistent with debt discounts/premiums
- 3) Deduct against related debt, not as deferred asset; disclose retroactive change



Debt Issuance Costs (ASU 2015-03)

Presentation:

SFP – Deduction against related debt

SOA – Include amortization as interest exp.

SCF – Payment of costs a financing cash flow

Notes – Include disclosure of unamortized amount in debt disclosure and exclude from maturities



Investments at NAV (ASU 2015-07)

Disclosures for Investments in Certain Entities that calculate at Net Asset Value (NAV)

- 1) Effective for calendar 2017 (FY ending 2018); early adoption permitted
- 2) Note: new definition of readily determinable fair value (RDFV) in ASU 2015-10
- 3) No longer required to put in tabular hierarchy disclosure



Consolidations (ASU 2015-02)

Consolidations

- 1) Conduit debt effective for calendar 2016 and other debt calendar year 2017 (FY ending 2017 and 2018, respectively);
- 2) Eliminated requirement for GP to consolidate LP
- 3) Variable Interest entity (VIE) accounting not applicable to NFPs



Cloud Computing (ASU 2015-05)

Cloud Computing

- 1) Effective for FY beginning after December 15, 2015
- 2) If agreement contains software license, accounting s/b consistent with acquisition of software
- 3) If agreement contains do not contain software license, treat as service contract



Thank You!!

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