



2019

# Association CONFERENCE

## Accounting Update

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# Session Overview

- Identify new and proposed FASB Accounting Standards Updates (ASUs) and effective dates
- Gain a deeper knowledge of the new standards
- Determine which new standards apply, and under what circumstances
- Learn implementation considerations, challenges, and approaches

# Agenda

Implementing Major Standards: NFP Financial Statements, Revenue Recognition, Leases

Grants & Contracts to NFPs

Other Recent ASUs

- Improving the Presentation of Net Periodic Pension Cost and Net Post Retirement Benefit
- Financial Instruments – Recognition and Measurement, Credit Losses, Hedge Accounting
- Cloud Computing Arrangements
- Direct Care of Collections

Other FASB Projects

- Balance Sheet Classification of Debt

Q&A

# Upcoming Effective Dates: The “Big Three” for NFPs

**Not-for-Profit  
Financial  
Statements**

**Revenue**

**Leases**

CY 2018\* (All)

CY 2018\* (Public)  
CY 2019\* (Non-public)

CY 2019\* (Public)  
CY 2020\* (Non-public)  
Potentially deferred

\*or FYs beginning in those years

NOTE: “Public” for Revenue and Leases includes NFPs with publicly-traded conduit (or direct) debt

# CLA Implementation Assistance (CLAconnect.com)

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## Nonprofits

Professionals who work with nonprofits have to know more than standards and regulations. They have to understand the context surrounding the organization, the motivation of leadership, and the perspective of the people served. CLA has the broad experience needed to help strengthen and guide your organization.

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REGULATIONS | ARTICLE  
FASB ASU 2018-08 Clarifies Revenue Accounting for Nonprofit Grants and Contracts



REGULATIONS | TOOL  
Download FASB ASU 2016-14 Nonprofit Financial Reporting Checklist



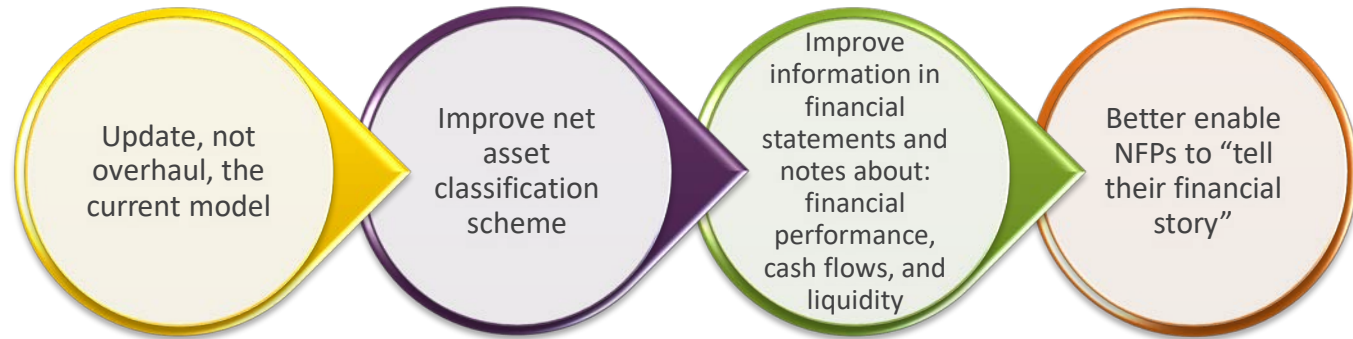
# Presentation of Financial Statements of NFP Entities

ASU 2014-16

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# NFP Financial Statements ASU – Key Objectives (recommended by FASB’s NFP Advisory Committee (NAC))



Issued August 18, 2016, ASU No. 2016-14

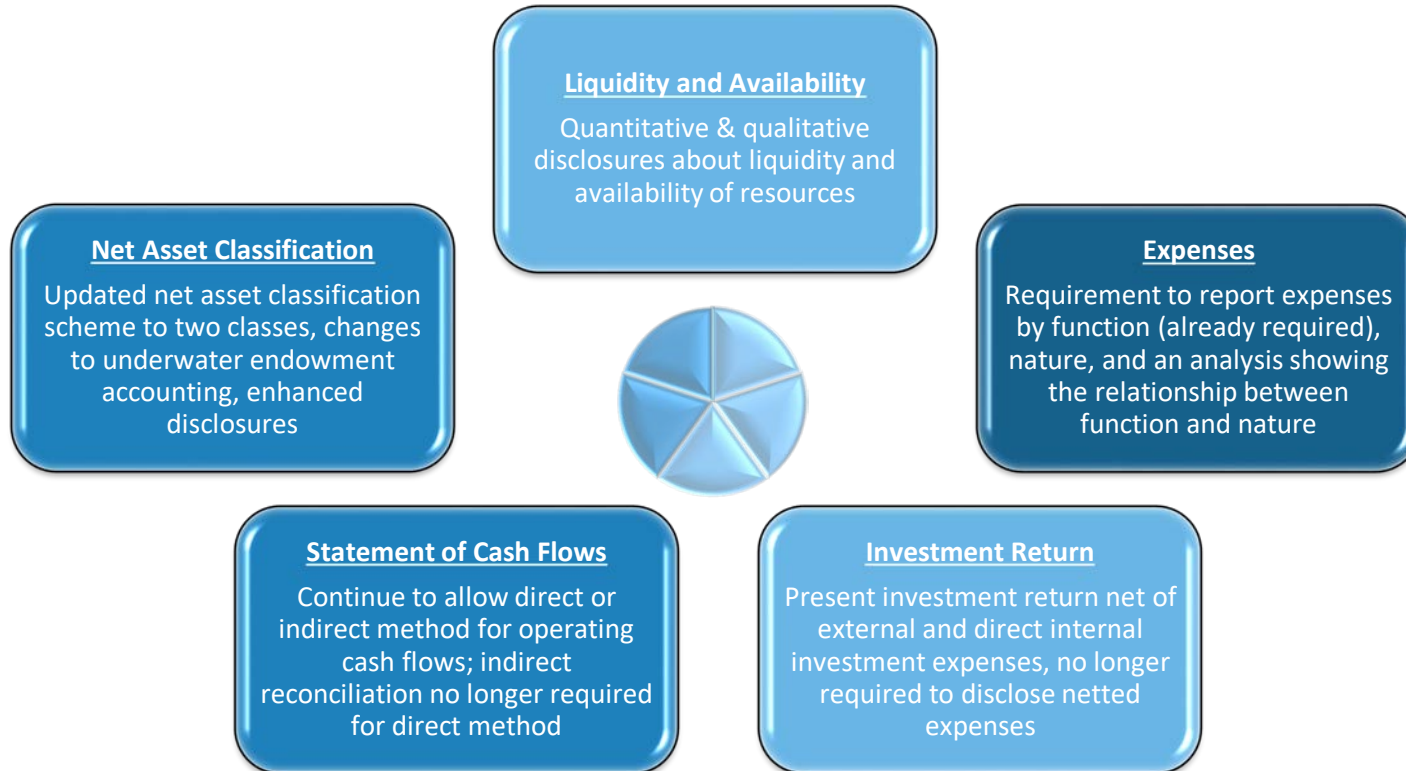
# Effective Now! Transition Guidelines

For year of  
adoption:  
apply all  
provisions.

- For comparative years presented: apply all provisions, except can choose not to present:
  - Analysis of expenses by nature and function\*, and/or
  - Disclosures around liquidity and availability of resources
  - *\*unless already required to do so under current GAAP*



# Key Provisions of ASU 2016-14 (Phase 1)



Phase 2 folded into Financial Performance Reporting Research Project

# Liquidity and Availability of Resources

NFPs required to provide:

**Qualitative** information on how an NFP manages its liquid available resources and its liquidity risk (in the notes)

**Quantitative** information that communicates the availability of an NFP's financial assets at the balance sheet date to meet cash needs for general expenditures within one year (on the face and/or in the notes)

## Example – NFP with Deficiency in the Composition of Assets to Comply with Donor-Imposed Restrictions

	<u>Option 1</u>	<u>Option 2</u>
Cash	\$ 1,050	\$ 1,050
Receivables	<u>3,210</u>	<u>3,210</u>
Total financial assets	4,260	4,260
Receivables scheduled to be collected in more than one year	(2,200)	(2,200)
Contractual or donor-imposed restrictions:		
Donor contributions restricted to specific purposes	(3,750) *	(1,910) *
Funds restricted by lender	<u>(150)</u>	<u>(150)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ (1,840)</u>	<u>\$ -</u>

\* Donations restricted for purposes more limited than general expenditures total \$3,750.

### *Codification references:*

**958-210-50-2** An NFP shall disclose the following, if applicable, in the notes to the financial statements and may include that information in qualitative disclosures on the availability of an NFP's financial assets in accordance with paragraph 958-210-50-1A(b):

b. The fact that the NFP has not maintained appropriate amounts of cash and cash equivalents to comply with donor-imposed restrictions (see paragraph 958-450-50-3)

**958-450-50-3** If the noncompliance results from a not-for-profit entity's (NFP) failure to maintain an appropriate composition of assets in amounts needed to comply with all donor restrictions, the amounts and circumstances shall be disclosed.

# Reporting of Investment Return - Examples

- Direct internal investment expenses involve the *direct conduct* or *direct supervision* of the strategic and tactical activities involved in generating investment return. The following are some examples:
  - **CIO's Compensation:** Potentially all of expense
  - **CFO's Compensation:** Potentially a partial allocation of expense
  - **Investment Accountant's Compensation:** Potentially a partial allocation of expense
  - **CIO's Travel Expenses to Visit Fund Managers:** Potentially all of expense
  - **Accountant Performing Endowment Allocations:** None

# Revenue Recognition (Topic 606)

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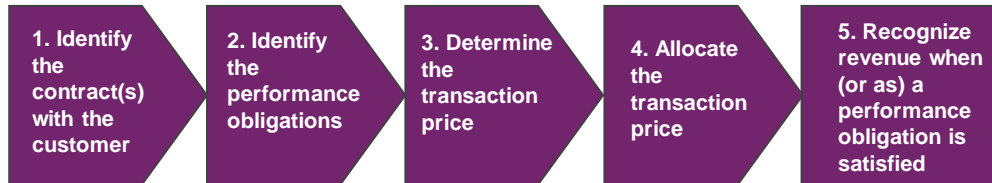
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# GAAP Model for Revenue Recognition

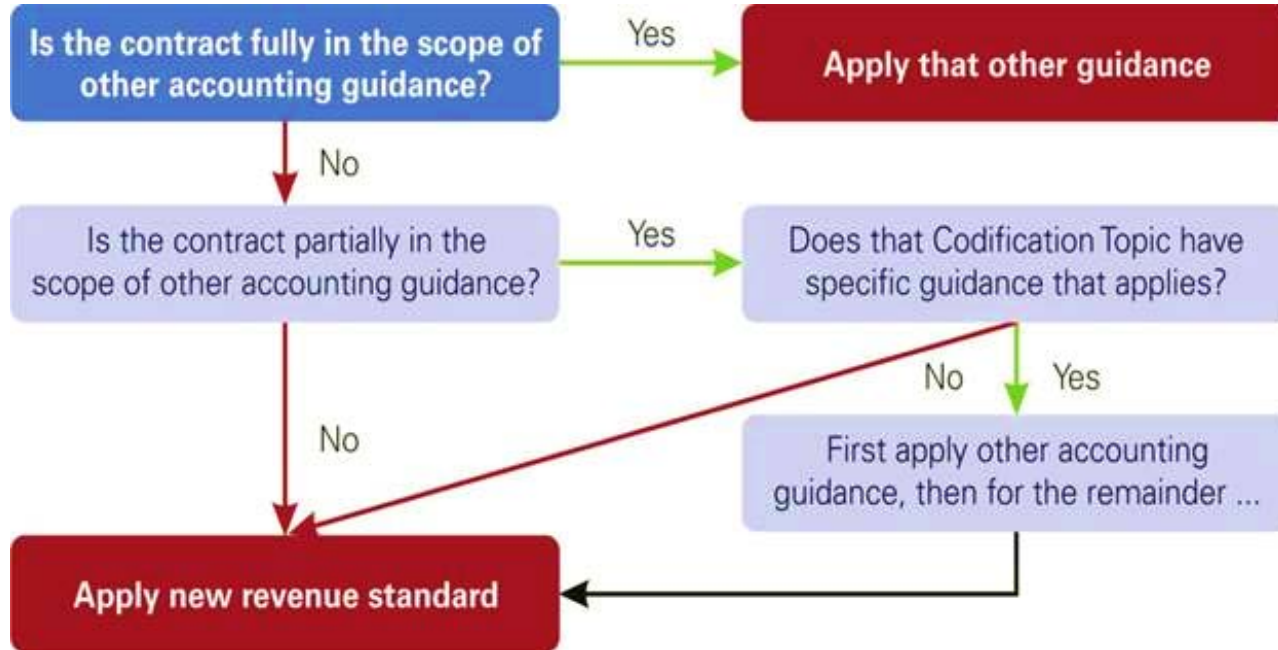
## Core Principle:

Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services

## Steps to apply the core principle:



# Determining the Application of Topic 606



# AICPA Revenue Recognition Guide

- Chapter 7: Health Care Entities
  - Self pay patients
  - Medicaid/Medicare payments (and subsequent audits)
  - CCRC: entrance fees and other issues
- Chapter 8: Not-for-Profit Entities
  - Subscriptions and membership dues
  - Tuition and Fees
- Examples included in guide



# Disclosure

## Disaggregation of revenue

- Qualitative and quantitative\* disaggregation of revenue into categories that depict how revenue and cash flows are affected by economic factors

## Information about contract balances

- Opening and closing balances \*
- Amount of revenue recognized from contract liabilities \*
- Explanation of significant changes in contract balances \*

## Remaining performance obligations

- Transaction price allocated to remaining performance obligations \*
- Quantitative or qualitative explanation of when amounts will be recognized as revenue \*

## Interim requirements

- Quantitative disclosures \*

\* for public entities only, including conduit debt obligors

# Revenue Recognition – Effective Dates

## New (deferred) effective dates

- CY 2018 (FY 2019) for public entities\* (including interim)
- CY 2019 (FY 2020) for nonpublic entities (no interim, just annual period; interims in subsequent years)
- Early adoption permitted, but not before the original effective date

## Previous effective dates

- CY 2017 (FY 2018) for public entities\* (including interim)
- CY 2018 (FY 2019) for nonpublic entities (no interim, just annual period; interims in subsequent years)
- Nonpublic entities permitted to adopt early, but no earlier than public entities

\*Public entities include a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market

## ASC 606 – Getting Ready

*Inventory of Revenue Streams– What's out there outside of contributions? Know your revenue.*

*Timing – Practical Expedient allows looking through standard if earnings process complete during fiscal year.*

*Materiality – How material is non contribution revenue to total revenue? How much falls outside of fiscal year?*

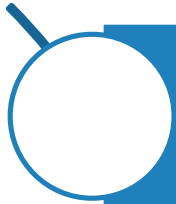
# Grants & Contracts to NFPs

Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made

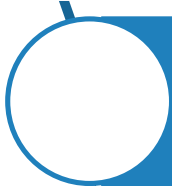
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# Scope



Applies to **all entities** (NFPs and business entities) that receive or make contributions unless otherwise indicated.



Excludes transfers of assets from the government to business entities.



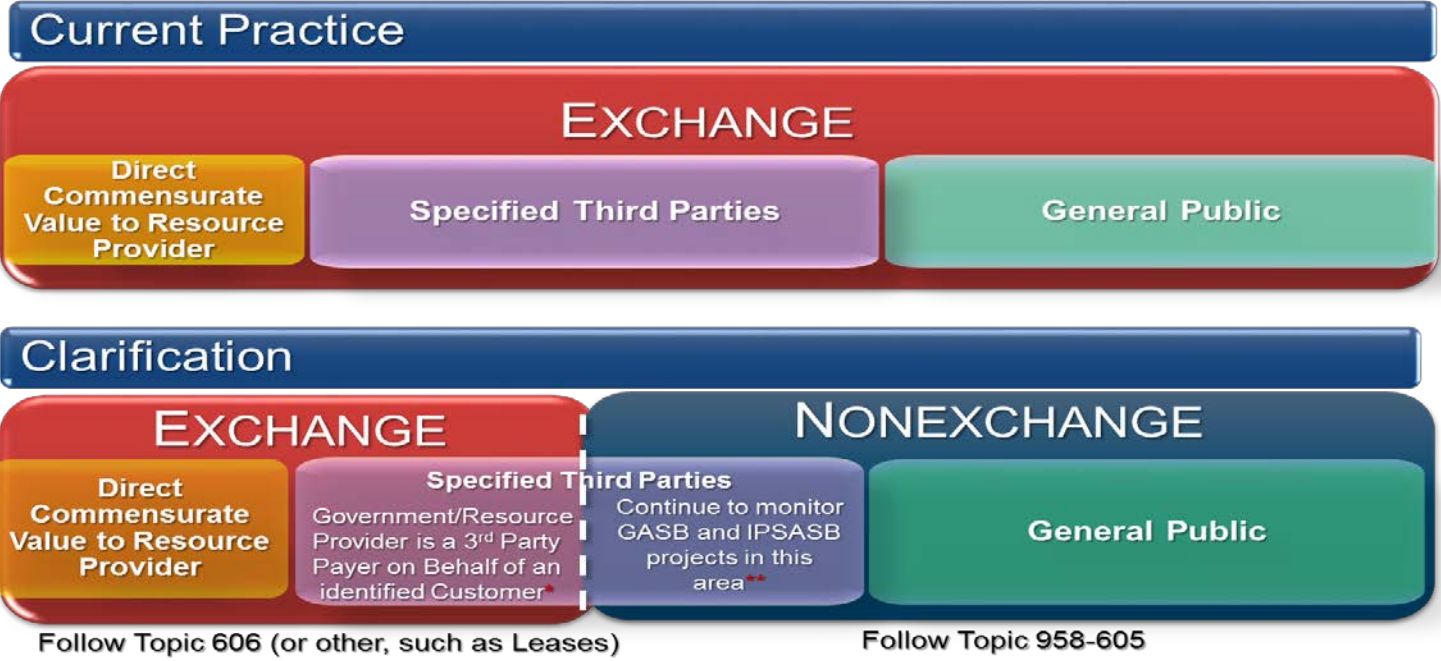
Applies to both contributions received by a recipient and contributions made by a resource provider. ***The intent is simply that both apply the same guidance, the entities do not need to track each other's accounting to achieve the same reporting results.***



The term used in the presentation of financial statements to label revenue (for example, contribution, grant, donation) that is accounted for within the Scope of Subtopic 958-605 is not a factor for determining whether an agreement is within the scope of that guidance.

# Issue 1: Reciprocal (Exchange) vs. Nonreciprocal (Nonexchange/Contribution) Transactions

Who Receives the Benefit?



\*The revenue recognized would actually be the underlying contract’s patient service revenue, tuition revenue, etc.

\*\*A focus on whether or not there is a “performance obligation” could even ultimately include some contracts where the general public is the primary beneficiary.

# Issue 1: Reciprocal vs. Nonreciprocal Transactions: Key Clarifications to the Scope of Subtopic 958-605

The final ASU clarified and refined existing guidance in Subtopic 958-605 by adding paragraphs that would clarify the scope of the Subtopic as well as illustrative examples.

- The resource provider is **not** synonymous with the general public, even a governmental entity. If a resource provider receives value indirectly by providing a societal benefit, this would be considered a nonreciprocal transaction.
- If the primary beneficiary of a grant or contract is a third party, an NFP must use judgment to determine if the transaction is reciprocal or nonreciprocal.
- Furthering a resource provider's mission or "feel good" sentiment does not constitute commensurate value received.
- The type of resource provider should not override the substance of the transaction.

## Issue 2: Conditional vs. Unconditional Contributions For a *Donor-Imposed Condition* to Exist:

### Final ASU

- A right of return/release must exist; and
- The agreement must include a barrier
  - Indicators and examples to help in determination

### Alternative Rejected

- A right of return/release must exist
- Would have required a **probability** assessment about whether it is likely a recipient NFP will fulfill the stipulations



# Indicators that a barrier may exist



**The inclusion  
of a  
measurable  
performance-  
related  
barrier or  
other  
measurable  
barrier**



**The extent  
to which a  
stipulation  
limits  
discretion  
by the  
recipient on  
the conduct  
of an  
activity**



**The extent  
to which a  
stipulation  
is related to  
the purpose  
of the  
agreement**

# Indicators that a barrier may exist (continued)



## Measurable Barrier

- Specified level of service
- Specified outcome
- Matching
- Outside event or occurrence
- May be achieved in milestone (step-wise) fashion



## Limited Discretion

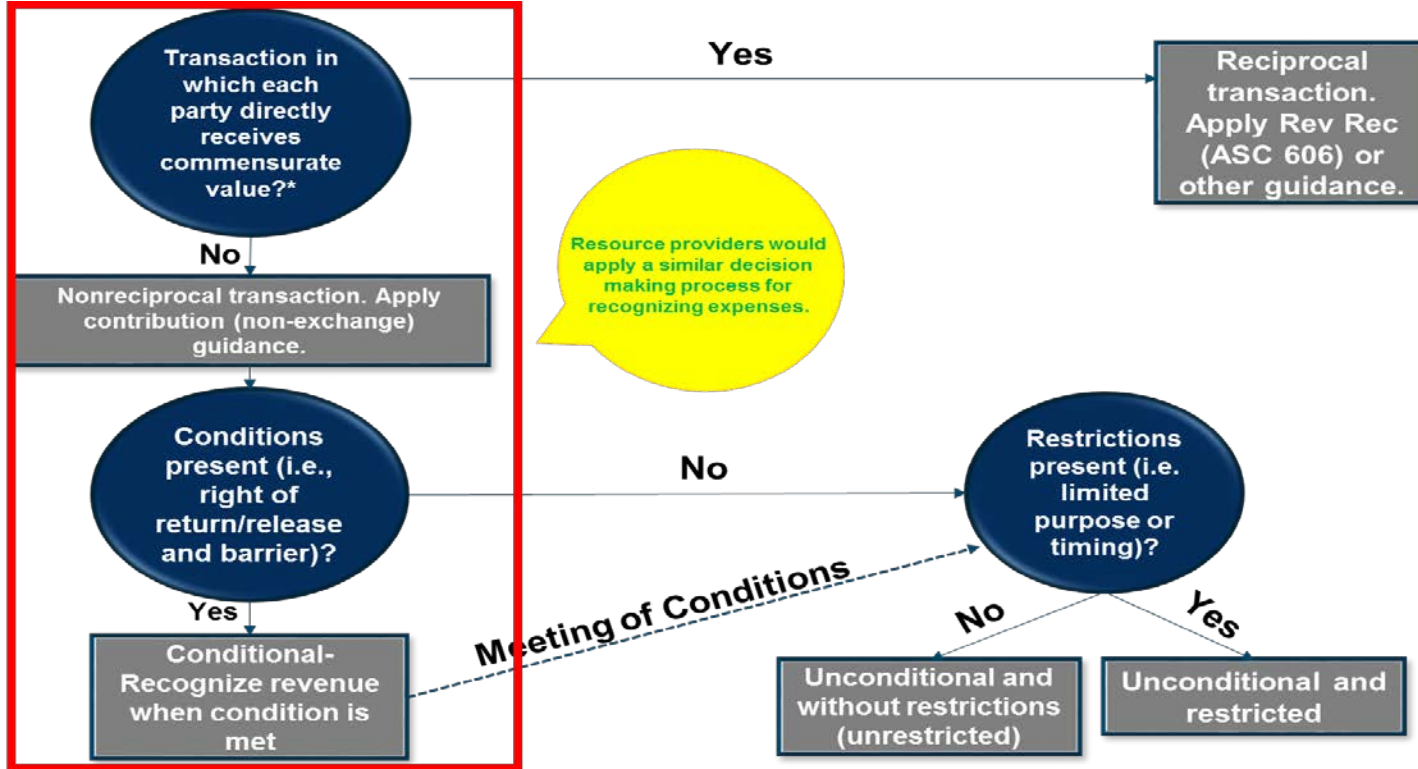
- More specific than the general activity being conducted and/or restricted time-frame
- Requirement to incur only qualifying expenses based on specific criteria
- Requirement to hire specific individuals
- Requirement to adhere to specific protocol(s)



## Related to Purpose of the Agreement

- Stipulations that relate directly to the mission purpose of the agreement
- Report on research study findings
- LEED certification for new building
- Excludes trivial or administrative stipulations and requirements
- Report on grant expenditures
- Annual audit

# NFP Revenue Recognition Decision Process



\*Includes third-party payments on behalf of identified customers. These do not create new revenue.

## Scope – More on “Symmetry”

Applies to both contributions received by a recipient and contributions made by a resource provider. ***The intent is simply that both apply the same guidance, the entities do not need to track each other’s accounting to achieve the same reporting results.***

- Grantors (e.g., foundations) must follow same guidance in determining if grants are (1) exchange or nonexchange transactions, and (2) conditional or unconditional
- Not required to mirror judgment/accounting treatment used by the grantee organization
- Not required to obtain information from grantees relating to their overcoming of the barriers but can use judgment.

## Scope – More on Terminology

The term used in the presentation of financial statements to label revenue (for example, contribution, grant, donation) that is accounted for within the Scope of Subtopic 958-605 is **not** a factor for determining whether an agreement is within the scope of that guidance.

- There is **no expectation** for recipients or makers to call their grants “contributions” in their statements. They will likely continue to call them “grants and contracts,” “government grants,” or other suitable label.
- Rather, recipients and makers are simply using the guidance in **the contribution model** in Subtopic 958-605 (-720) to determine revenue (expense) recognition for transactions that are nonexchange (nonreciprocal) transactions.

# Examples of Measurable Performance Barriers

## Specified Level of Service

- Conditional: Serve meals to 10,000 veterans
- Unconditional: Serve meals to veterans

## Specific output or outcome

- Conditional: Capital grant to expand facility by 5,000 sq ft
- Unconditional: Capital grant to expand facility

## Matching

## Milestone

# Examples of Limited Discretion Barriers

Requirement to incur only qualifying expenses based on specific requirement

- Covers most government grants (Single audit)
- Research grants that limit discretion on how to conduct research

Requirement to hire specific individuals as part of the workforce

- Conditional: Someone with a doctorate in Physics named Carol
- Unconditional: Qualified individuals

Specified protocol must be adhered to

# Examples of Related to Purpose of Agreement Barriers

Report conveying the research findings

YES

Report indicating how grant monies have been spent

NO

Requirement for annual audit under Uniform Grant Guidance

NO



# Subjective Termination Clauses

- Example foundation grant agreement –
  - Grant is to fund a specific project at the NFP during a specific time period. Specific amount to be paid, foundation must approve in writing any budget cost category change or more than 10%. Annual payments are made during the grant term after delivery of annual progress reports
  - “Payments are subject to your compliance with this agreement, including your achievement of the milestones and reporting deliverables. The foundation may modify payment dates or amounts and will notify you of any such changes in writing”
  - “The foundation may modify, suspend, or discontinue any payment of grand funds or terminate this Agreement if the foundation is not reasonably satisfied with your progress on the project. Any grant funds that may not have been for the project upon expiration or termination of this Agreement must be returned promptly to the foundation”
- *Does the barrier to entitlement exist in this agreement?*

## Right of Return / Release

- Donor-Imposed Condition (revised Master Glossary definition):
  - *A donor stipulation (donors include other types of contributors, including makers of certain grants) that represents a barrier that must be overcome before the recipient is entitled to the assets transferred or promised. Failure to overcome the barrier gives the contributor a right of return of the assets if has transferred or gives the promisor a right of release from its obligation to transfer its assets*
- The agreement need not use those exact words, and the right may be communicated in another document referenced by the agreement
  - e.g., Federal cost circulars; a foundation's standard terms and conditions

## Right of Return / Release – Wording Examples

- “Payments are subject to your compliance with this Agreement, including your achievement of the milestones required under this Agreement”
- “Please note that a condition has been placed on a portion of this grant as stated in the Grant Agreement. Once this grant condition has been met and before payment of conditional funds can be made, we require that the document entitled Conditions Met Report be completed and submitted to the Foundation’s before, if possible, but no later than two weeks after the stated conditional deadline. When you have met the conditions of the grant and there is an actual need for these funds, please complete and submit the Progress Report found on the Foundation’s website”

## Right of Return / Release – Wording Examples, continued

- “Funds awarded under this Agreement shall be used solely to reimburse the Organization for expenses incurred expressly and solely in accordance with the Project Budget and the Scope of Work. The Foundation shall reimburse the Organization for its actual and authorized expenditures incurred in satisfactorily completing the Scope of Work and otherwise fulfilling all requirements specified in this contract in an aggregate amount not to exceed \$100,000.00.”

## Example - Sponsorship

- NFP M receives a sponsorship from a donor. The sponsorship is specifically for an event that NFP M will host in the future. The donor receives no direct value in return for the sponsorship. The sponsorship agreement is silent as to what happens if NFP M cancels the event.
- *Does the sponsorship agreement include a right of return?*

# Ambiguous Donor Stipulations

Determining whether a contribution is conditional or unconditional and can be difficult if it contains donor stipulations that do not clearly state whether both:

- One or more barriers exist
- The right to receive or retain payment or delivery of the promised assets depend on meeting those barriers.

It may be difficult to determine whether those stipulations are conditions or restrictions. In cases of ambiguous donor stipulations, a contribution containing stipulations that are not clearly unconditional shall be presumed to be a conditional contribution.

# Simultaneous Release

The simultaneous release option allows an NFP to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is met in the same period that the revenue is recognized. This election must be applied consistently to all restricted contributions and investment returns. The final ASU will create two “buckets” for restricted: (1) amounts initially conditional and (2) all other.

## Current GAAP

One bucket

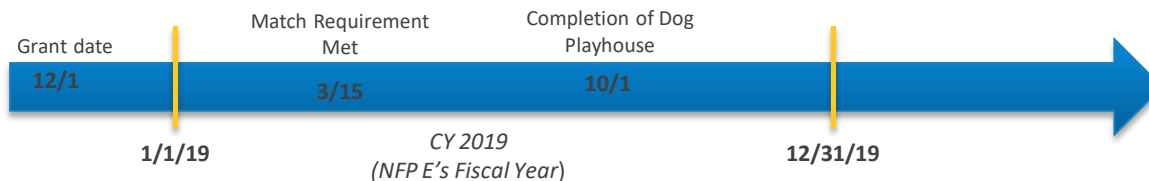
## Updated GAAP

Restricted/conditional  
bucket

Restricted/other bucket

## Simultaneous Release - Example

- NFP E runs an animal shelter and has a fiscal year end of 12/31.
- NFP E is awarded a matching grant of \$100,000 on 12/1/2018 to be used specifically towards the construction of a new dog playroom.
  - The agreement indicates that for NFP E to be entitled to and receive the assets, the NFP must raise an additional \$100,000 of funding from other sources. NFP E will receive payment on the grant when the 1:1 match is met.
- NFP E's progress on the grant is as follows:



- NFP E has elected the simultaneous release option only for those restricted amounts that were initially conditional. *Does this grant qualify for that "bucket"?*



# Simultaneous Release - Conclusion

- NFP E determines that the grant does qualify for that bucket.
  - Prior to the match being met, the grant was a conditional contribution.
  - Once the grant becomes unconditional (when the matching requirement is met), NFP E recognizes the revenue as donor-restricted because the purpose of the grant is narrower than NFP E's overall mission.
  - The restriction is met (by completing the dog playroom) in the same period in which the revenue was recognized.
- Note that the grant award date isn't what's relevant here. What's relevant is the date on which the revenue was recognized – i.e., the date on which the condition was met.

# Contribution Disclosures – No Changes

## Recipients

- No additional recurring disclosures have been added in the guidance.
- Guidance in Topic 958 includes disclosures for unconditional and conditional promises to give.
- For conditional promises to give, recipients are required to disclose:
  - The total of the amounts promised
  - A description and amount for each group of promises having similar characteristics

## Resource Providers

- No additional recurring disclosures have been added to the guidance.
- Guidance in Topic 958 includes a cross reference to the disclosures in Topic 450, Contingencies, and in Topic 470, Debt.
- Resource providers also are required to provide information about unconditional promises to give.

## Conditional Contribution Disclosures – Recipients (No Changes)

- **958-310-50-1** Recipients of **unconditional promises to give** shall disclose the following:
  - The amounts of promises receivable in less than one years, in one to five years, and in more than five years
  - The amount of the allowance for uncollectable promises receivable
  - The discount that arises if measuring a **promise to give** at present value, if that discount is not separately disclosed by reporting it as a deductions from contributions receivable on the face of a statement of financial position pursuant to paragraph 958-310-45-1
- **958-310-50-4** Recipients of **conditional promises to give** shall disclose both of the following:
  - The total of the amount promised
  - A description and amount for each group of promises having similar characteristics, such as amounts of promises conditioned on establishing new programs, completing a new building, and raising matching gifts by a specified date.

## Contribution Disclosures – Resource Providers

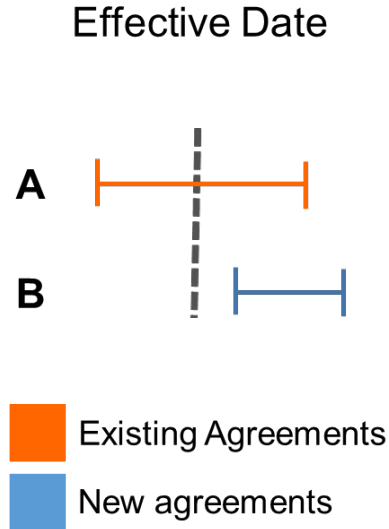
- **958-450-20-50** In conformity with Section 450-20-50, the notes to financial statements may have to include information about loss contingencies
- **958-405-50-1** In addition to disclosures required by Section 450-20-50, the notes to financial statements shall include a schedule of unconditional promises to give that shows the total amount separated into amounts payable in each of the next five years, the aggregate amount due in more than five years, and for unconditional promises to give that are reported using present value techniques, the unamortized discount
- **720-25-25-1** This Subtopic does not require disclosures for makers of promises and indications of intentions to give because Topics 450 and 470 provide the relevant standards

# Effective Date – Tied to ASC 606 Effective Date

Recipients*		Resource Providers (delayed one year)	
<p>Annual periods beginning after June 15, 2018, including interim periods:</p> <ul style="list-style-type: none"> <li>Public Business Entities</li> <li>NFP that has issued, or is a conduit bond obligor for securities that are traded, listed, or quoted on exchange or an over-the-counter market.</li> </ul>	<p>Annual periods beginning after December 15, 2018, and interim periods beginning after December 15, 2019:</p> <ul style="list-style-type: none"> <li>All Other Entities</li> </ul>	<p>Annual periods beginning after December 15, 2018, including interim periods:</p> <ul style="list-style-type: none"> <li>Public Business Entities</li> <li>NFP that has issued, or is a conduit bond obligor for securities that are traded, listed, or quoted on exchange or an over-the-counter market.</li> </ul>	<p>Annual periods beginning after December 15, 2019, and interim periods beginning after December 15, 2020:</p> <ul style="list-style-type: none"> <li>All Other Entities</li> </ul>

- \*Effective dates generally the same as Topic 606 (Revenue Recognition). The Board delayed the effective date for public entities that are recipients, so as avoid confusion about possible restatements.
- The standard will allow for early implementation.

# Transition Approach



- **Modified Prospective**
  - **Apply to all agreements:**
    - Existing at the effective date (only apply to the portion of existing agreements not previously recognized)
    - Entered into after the effective date
- **No restatement of prior amounts recognized**
- **Retrospective Application Permitted**

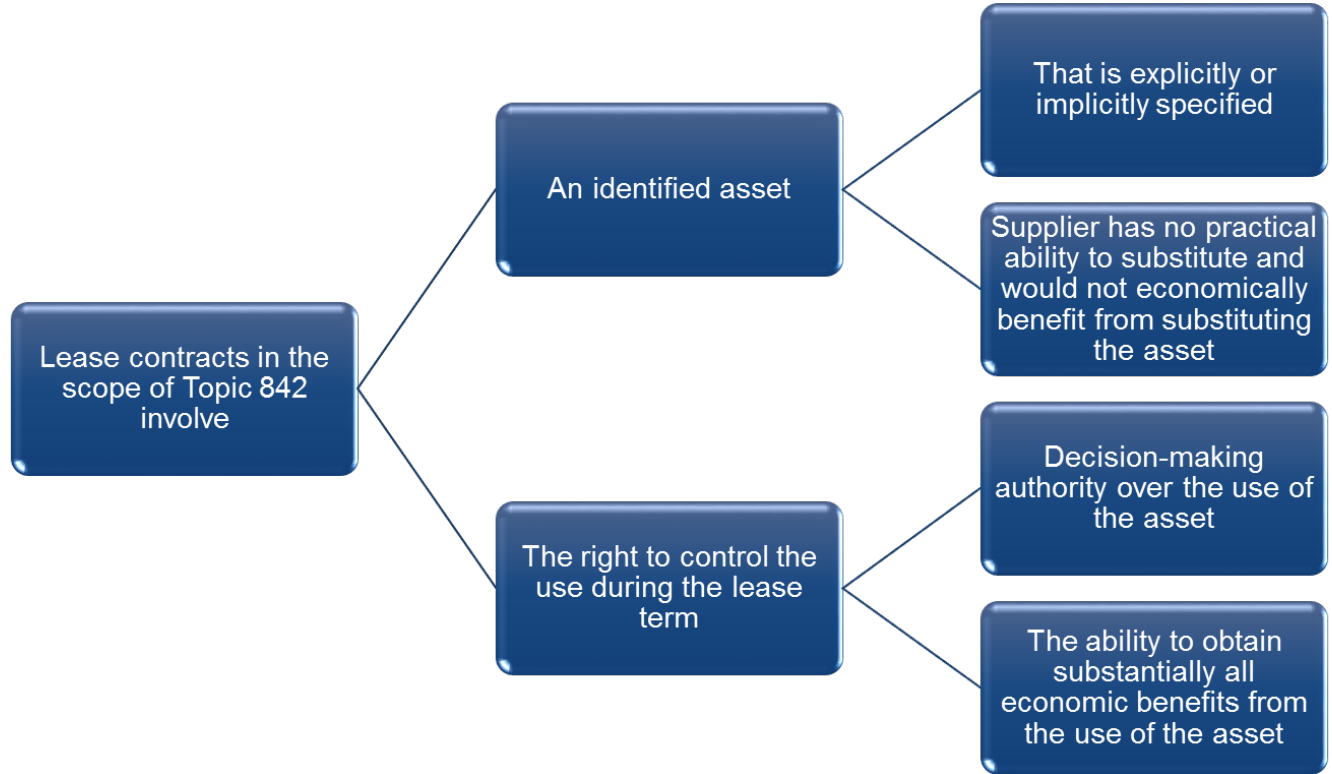
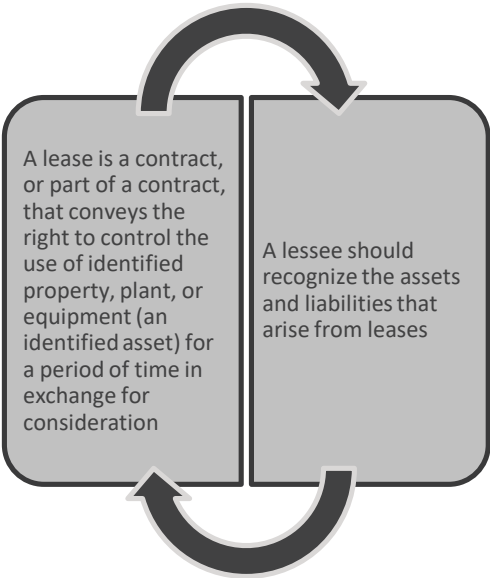
# ASU 2016-02

## Leases

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# Lease Definition and Core Principle





# Leases (Topic 842; ASU 2016-02) – Lessee Accounting Overview

## Balance Sheet

## Income Statement

## Cash Flow Statement

Financing Lease

Right-of-use (ROU) asset  
Lease liability

Amortization expense  
Interest expense

Cash paid for principal and interest payments

Operating Lease

Right-of-use (ROU) asset  
Lease liability

Single lease expense on a straight-line basis

Cash paid for lease payments

Classification is similar to that in Topic 840, *Lease*

Recognition and measurement exemption for short-term leases

Entities other than public business entities may use risk-free rates as practical expedient for measurement of all lease liabilities

## Implications: We Have a Lease...Now What?

- Virtually all leases will require balance sheet recognition as a right-of-use (ROU) asset and lease liability
- The lease classification (operating or finance) will impact the amount and timing of lease income or expense in the income statement
- Balance sheet accounting is identical for operating and finance leases at inception of lease
  - Record a right-of-use asset and a lease liability
- Activities (income) statement accounting is a little more complex

# How to Determine Lease Classification

- Finance Lease if **ANY** of the following 5 criteria are met:
  1. Transfer of ownership at end of lease term
  2. Option to purchase is reasonably certain
  3. Lease term is a major part of the economic life of the asset
  4. The present value of the lease payments is substantially all of the fair value of the asset
  5. The asset is of a specialized nature
- Operating Lease if **NONE** of the above criteria are met

# Transition

- Modified retrospective approach; recent FASB ASU added option for reflecting the change as of the ***beginning of the year of adoption***
- Must recognize ROU Asset & Liability
- Practical Expedients
  - ◇ Identification
  - ◇ Classification
  - ◇ Use of hindsight

## Effective Date

- Public Entities\*: Fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (CY 2019, FY 2020)
- All Other: Fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020 (CY 2020, FY 2021)  
FASB proposed deferring by one year for “all others”
- Early application permitted

\* Public entities include a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market

# Leases – Getting Ready

*Inventory of leases – What's out there? Know your leases. Where are your lease documents?*

*Materiality – How modern is your capitalization policy?*

*Debt covenants – To what extent will capitalizing your operating leases affect covenants based on leverage ratios?*

# Other Recent ASUs

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# Financial Instruments – Recognition & Measurement Amendments to current GAAP (Topic 825; ASU 2016-01)

- Targeted improvements, effective CY 2019 (FY 2019-20):

## Financial Assets

- Equity investments (other than those under the equity method) measured at each reporting period at fair value through net income, with key exception: those without readily determinable fair value only marked to *observable* price changes

## Financial Liabilities

- Fair value change resulting from own credit for financial liabilities measured under fair value option will be recognized through other comprehensive income (OCI)\*

## Disclosures

- Entities other than Public Business Entities (includes all NFPs) no longer required to disclose fair value of financial instruments not recognized at fair value on B/S\*

*\* Can early adopt these provisions*



# ASU No. 2016-13, Financial Instruments – *Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*

Contributions (pledges) receivable are excluded

Trade receivables and student loans (and other programmatic loans) receivable are included

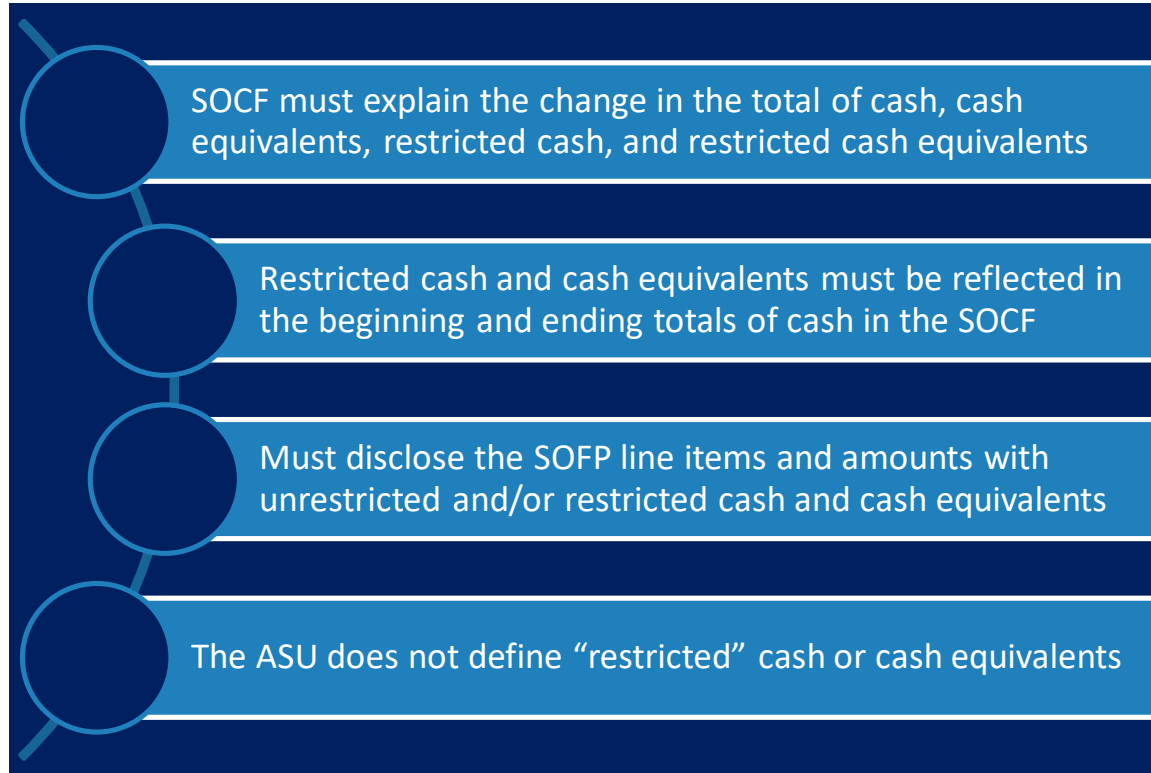
CECL model not expected to result in significant impact on most entities that aren't financial institutions

- Likely already taking CECL considerations into account for their trade and loan receivables

More noteworthy for Healthcare NFPs is the change for Available-for-Sale (Other-than-Trading) Debt Securities: now an allowance approach

Effective CY 2021

# ASU 2016-18 Restricted Cash in the SOCF



Effective CY 2019

# Improving the Presentation of Net Periodic Pension Cost & Net Periodic Postretirement Benefit Cost—ASU No. 2017-07

## Background

- Net benefit cost contains several components with different nature
- No GAAP guidance on presentation
- Reduced predictive value and usefulness of information to users
- Board added project

## Presentation of net benefit cost in the income statement (retrospective application)

- Service cost in the same line item or items as other current employee compensation costs
- Remaining components in a separate line item or items outside operating items, if applicable

## Capitalization of only service cost in assets (prospective application)

ASU No. 2017-07 is effective December 31, 2019

# Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract – ASU No. 2018-15

## Background – Diversity in Practice

Follow guidance in ASC 350-40 (internal use software) to determine which costs you can implement

- Costs to develop software, yes
- Costs for training, no

Amortize over term of hosting agreement in same account as fees

ASU No. 2018-15 is effective December 31, 2020

## Collections: ASU 2019 – 03

- Current GAAP: Proceeds from sale of collection must be used to replace collections
- New GAAP: Allows proceeds to also be used for Direct Care
  - Enhance the life, usefulness, or quality of an entity’s collection.
  - Provide a benefit to the collections (and not the entity as a whole or other areas of the entity beyond the collections), and
  - Does not include expenditures that are regular and ongoing in nature (such as expenditures for routine maintenance of the collection).

## Goodwill: ASU 2019 – 06

- Current GAAP: Goodwill not amortized. Assessed for impairment
- New GAAP: Makes consistent with private entities
  - Amortize goodwill over 10 years or less, on a straight-line basis
  - Test for impairment upon a triggering event
  - Have the option to elect to test for impairment at the entity level.
- Effective immediately

# Other FASB Projects to watch

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

# Balance Sheet Classification of Debt

## Key Changes

Only matters if you present a classified Balance Sheet

### Classification Principle

- Debt would be classified as noncurrent if either of the following criteria are met as of the balance sheet date:
  - Liability is contractually due to be settled more than one year after the balance sheet date.
  - Entity has contractual right to defer settlement of liability for at least one year after the balance sheet date.

### Waivers of Debt Covenant Violations

- The amendments would continue to require an entity to classify debt as noncurrent when there has been a debt covenant violation if the entity receives a waiver that meets certain conditions before the financial statements are issued.

### Separate Line Item Presentation

- The amendments would require separate presentation in a classified balance sheet for debt that is classified as noncurrent because of a waiver of a debt covenant violation obtained after the balance sheet date.

### Refinancing After the Balance Sheet Date

- The amendments would prohibit an entity from considering a subsequent refinancing when determining the classification of debt as of the balance sheet date.

### Subjective Acceleration Clause (SAC)

- The SAC would affect classification of debt only when it is triggered (no probability assessment).



# Questions?

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