

New FASB Accounting Requirements Implications for CAA Managers

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2

Who is in our group today?



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Slide 2

- 2 Kay there are 50 people signed up for this, so too many to go around the room and ask each person to respond. you're going to have to do it via voting style.

Jan Masaoka, 10/8/2015

Tools for Top Notch CAAs

- CAPLAW's updated guide
- *Getting the Most Out of Your Financial Statements*
- Questions to ask – red flags to spot
- Sample Financial Report formats

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Workshop Topics

- Recent GAAP accounting & reporting changes for nonprofits?
- What differences will the changes make for CAAs?
- Impact of the changes on **financial info** provided to the **board & managers**

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Who Made the Changes?

- **FASB** - Financial Accounting Standards Board – www.fasb.org
- Determines what is **U.S. GAAP**
- **CPAs** determine & reveal whether financial statements conform to **GAAP**

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Recent FASB Nonprofit ASU's Accounting Standards Updates

- **Financial Statement Presentation**
ASU # 2016-14: Effective 2018
- **Guidance for Contributions Received & Made**
ASU # 2018-08: Effective 2019-2021
- **Statement of Cash Flows**
ASU # 2016-15: Effective 2019
ASU # 2016-18: Effective 2019
- **Note: partial list** – check **FASB.org** for more

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Can FASB “make” us do it?

- Not directly
- Auditors must **qualify opinions** on financial statements that don't follow GAAP
- CSBG Organizational Standards & 2 CFR 200 require audits and reliable financial reporting

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Why Should Your CAA Comply with FASB Changes ?

- Prefer **unmodified** audit opinion
- GAAP represents **best practice**
- New approach may be more **understandable to readers**
- Relatively **easy** to convert a system that is already GAAP compliant to the new standards

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Goals of Accounting & Reporting

- **Accurately track financial activity & resulting financial position**
- **Provide information to monitor progress toward financial goals & sustainability**

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Key Financial Health Indicators

- **Positive net income**
- **Net Assets** (equity) to withstand adversity
- **Cash** available when needed
- **Ability to achieve and document compliance**

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Essential Financial Info for CAA Boards & CEOs

- **Comparative Balance Sheet**
- **Organization-wide Statement of Activities with comparison to FY budget**
- **Cost Center actual to budget comparisons**
- **Cash flow projection**

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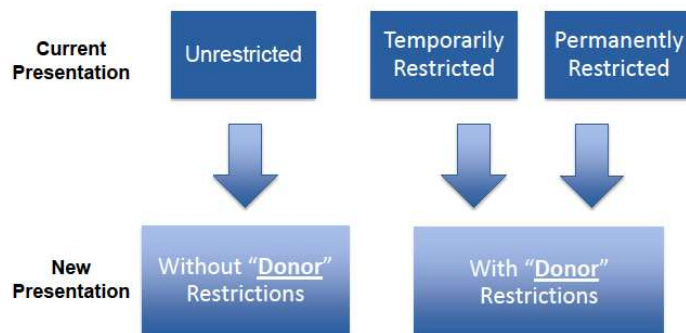
Basic Financial Statements

Nonprofit Financial Statements	"Also known As.."	What's in this Statement?
Statement of Financial Position	Balance Sheet	<ul style="list-style-type: none"> • Assets, • Liabilities, • Net Assets
Statement of Activities	<ul style="list-style-type: none"> • Income Statement • Profit & Loss Statement • Statement of Support, Revenues, and Expenses 	<ul style="list-style-type: none"> • Revenues • Expenses • Net Income
Statement of Cash Flows	No aliases	Cash Flows from: <ul style="list-style-type: none"> • Operating Activities • Investing Activities • Financing Activities • Net change in cash
Statement of Functional Expenses	No aliases	Matrix of expenses displayed by line item and by functional categories – management, fund raising, programs
Statement of Functional Revenues and Expenses	Program report	Matrix with both revenues and expenses displayed by line item and functional categories – management, fund raising, programs

Old News – Quick Review

ASU 2016-14: Effective for FY beginning after 12/15/17

Two Net Asset Classes



FASB Presentation Requirements

- **Board Designations** of Net Assets must be **disclosed**
- **Net Assets with donor restrictions** may be segmented by temp & permanently restrictions, but **total must be shown on Balance Sheet**

Two Classes of Net Assets

Without Donor Restriction

- Undesignated
- Designated by Board for (purpose)
- Invested in fixed assets

With Donor Restriction

- Time restricted
- Purpose restricted
- Perpetual in Nature

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Implementation – Balance Sheet

Net assets:	
Without donor restrictions	97,677
With donor restrictions	<u>115,657</u>
Total net assets	<u>213,334</u>



Net assets:	
Without donor restrictions -	
Undesignated	97,677
Designated by the Board for (purpose)	5,000
	<u>97,677</u>
With donor restrictions -	
Time restricted only, for periods after 20X1	5,250
Purpose restricted	8,250
Perpetual in nature	<u>102,157</u>
	<u>115,657</u>
Total net assets	<u>213,334</u>

AICPA American Institute of CPAs®

Not-for-Profit Section

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Liquidity Disclosure Requirement

ASU # 2016-14: Effective 2018

- Calculation of the CAA's **financial assets that are available to meet operating expenditures within one year**
- Includes Cash & cash equivalents, A/R, & Investments
- Excludes amounts not available within one year – including donor restricted funds for costs that will not be incurred within the year

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Building Cash Reserves: CAA Challenges

- Use it or lose it funding requirements prevent building surplus
- Full award amounts can no longer be recorded as receivable – only the portion for which expenses have already been incurred

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CAA Drafts Liquidity Disclosure

- **After presenting the required information, disclosure can provide explanation of CAA plan for achieving adequate liquidity for operations**
- **Plan can include reference to committed awards**

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Support for your analysis of liquidity

- **Rolling 12- month cash flow projection**
- **Estimation of cash burn rate- amount of cash needed per day**
- **Availability of line of credit**
- **Strategy for building cash reserves**

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Revenues and Expenses

Statement of Activities

- Reports activity in **2 classes**
- May be **columnar** or **stacked**
- Must distinguish program, management, and fund-raising expenses
- **Display change in both classes of net assets**

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Exhibit 2 A

BCA Statement of Activities 7/1/19 through 9/30/19

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Foundation and corporate grants	\$ 45,000	\$ 250,000	\$ 295,000
Governmental grants & contracts	240,000	-	240,000
Contributions from individuals	15,000	-	15,000
Events (net of expenses)	5,000	-	5,000
Investment income	1,300	-	1,300
Total support and revenue	<u>306,300</u>	<u>250,000</u>	<u>556,300</u>
Net assets released from restrictions	100,000	(100,000)	-
Total support and revenue	<u>406,300</u>	<u>150,000</u>	<u>556,300</u>
EXPENSES			
Personnel	329,000	-	329,000
Prof Services	35,000	-	35,000
Occupancy	22,300	-	22,300
Other expenses	50,000	-	50,000
Total expenses	<u>436,300</u>	<u>-</u>	<u>436,300</u>
INCREASE IN NET ASSETS	(30,000)	150,000	120,000
NET ASSETS, Beginning of Year	1,621,100	100,000	1,721,100
NET ASSETS, End of 1st Qtr.	<u>\$ 1,591,100</u>	<u>\$ 250,000</u>	<u>\$ 1,841,100</u>

BCA Statement of Activities 7/1/19 through 9/30/19				
	7/1/19 –	Annual	% Budget	Projected
	9/30/19	Budget	Realized	Year End
Support & Revenues w/o Donor Restrictions				
Foundation and corporate grants	\$ 45,000	\$ 30,000	1.50	50,000
Governmental grants & contracts	240,000	830,000	0.29	830,000
Contributions from individuals	15,000	60,000	0.25	50,000
Events net of expenses	5,000	50,000	0.10	50,000
Investment Income	1,300	5,000	0.26	3,000
	<u>306,300</u>	<u>975,000</u>	<u>0.31</u>	<u>983,000</u>
Net assets released from restrictions	<u>100,000</u>	<u>225,000</u>	<u>0.44</u>	<u>225,000</u>
Total unrestricted support and revenue	<u>406,300</u>	<u>1,200,000</u>	<u>0.34</u>	<u>1,208,000</u>
Expenses w/o Donor Restrictions				
Personnel	329,000	920,000	0.36	950,000
Prof Services	35,000	40,000	0.88	40,000
Occupancy	22,300	45,000	0.50	50,000
Other expenses	50,000	170,000	0.29	165,000
Total Expenses w/o donor restrictions	<u>436,300</u>	<u>1,175,000</u>	<u>0.37</u>	<u>1,205,000</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase in Net Assets w/o Restrictions	<u>[30,000]</u>	<u>25,000</u>	<u>-1.20</u>	<u>3,000</u>
Support with Donor Restrictions				
New TR Grants Received	250,000	360,000	0.69	325,000
Released from Temp Restrict	(100,000)	(225,000)	0.44	(225,000)
Increase in Net Assets w. restrictions	<u>150,000</u>	<u>135,000</u>	<u>1.11</u>	<u>100,000</u>
Increase in Total Net Assets	<u>120,000</u>	<u>160,000</u>	<u>0.75</u>	<u>103,000</u>
Net Assets, Beginning of Year	<u>1,721,100</u>			
Net Assets, End of 1st Qtr.	<u>1,841,100</u>			

Internal Use Revenue & Expense Reports

- **Compares Year-to-Date Revenues and Expenses to annual budget**
- **Shows full cost of programs and extent to which grant funds cover the full cost**
- **Progress toward building sustainability**

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Exhibit 5

BCA
Statement of Unrestricted Revenues and Expenses by Function
July 1, 2011 through September 30, 2011

	7/1/11 thru 9/30/11	Admin	Fund Raising	Prog X	Prog Y	Prog Z
Unrestricted Support and Revenues						
Foundation grants	45,000			5,000		
Government contracts	240,000			35,000	85,000	120,000
Individual gifts	15,000		15,000			
Events net of expenses	5,000		5,000			
Investment income	1,300		1,300			
Released from Temp Restrictions	100,000		40,000	28,000	40,000	32,000
Total unrestricted support and revenue	406,300	0	61,300	68,000	125,000	152,000
Direct Expenses						
Personnel	329,000	60,000	20,000	79,000	80,000	90,000
Prof Services	35,000	15,000			10,000	10,000
Other expense	50,000	3,730	7,030	6,240	13,000	20,000
Sub-total direct expenses	414,000	78,730	27,030	85,240	103,000	120,000
Allocated Expenses						
Occupancy	22,300	2,030	2,000	11,500	2,325	4,445
Direct and allocated expenses	436,300	80,760	29,030	96,740	105,325	124,445
Allocation of administrative expenses	0	(80,760)	6,594	21,974	23,924	28,267
Expenses after allocation of administrative expenses	436,300	0	35,624	118,714	129,249	152,712
Excess (deficit) of support & rev over total expenses	(\$30,000)	0	\$25,676	(\$50,714)	(\$4,249)	(\$712)

Management Financial Analysis

- Monitoring year-to-date expenses by program & grant
- Monitoring grant-to-date expenses
- Monitoring revenues & expenses by line item
- Identifying demands on unrestricted funds

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Multiple Goals of Management Analysis

- **Internal control** – identifying error or irregularity
- Ensuring **compliance**
- **Problem identification**
- **Develop & monitor revised strategies**

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Org-wide Expenses by Line Item

	Actual Yr-to- date	Yr-to- date Budget	Fav/ (Unfav) Variance
Income			
Expense			
Personnel			
Prof Services			
Occupancy			
Other			
Total Expenses			
Net Income			

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Y-T-D Actual Expense by Program *

	Actual Yr-to- date	Yr-to- date Budget	Fav/ (Unfav) Variance
Income			
Expense			
Prog A			
Prog B			
Prog C			
Admin			
Total Expenses			
Net Income			

* Programs may be funded by multiple grants & by unrestricted income

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Fiscal Year: Y-T-D Actual Grant Expense compared to FY budget

	Yr-to-date	Annual Budget	Actual as % of budget	Projected year end
Income				
Expense				
Net Income				

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Grant-to-Date Actual compared Grant Budget*

	Grant-to-date	Grant Budget	Actual as % of grant budget	Projected grant end
Income				
Expense				
Net Income				

*** Grant periods often do not match the CAA's
Fiscal Year**

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Beyond Report Formats:

Changes in how Income is Recorded:

- Revenue from **Contracts** with Customers :
ASU 2014-09 – Effective **FY beginning after
12/15/17**
- Guidance for **Contributions** Received &
Contributions Made: ASU 2018-08 –Effective:
**FY beginning after 12/15/18 for recipients &
after 12/15/19 for providers**

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3 Key Distinctions

- **Between:**
 - Exchange transactions &
 - Contributions
- **Between:**
 - Conditional contributions &
 - Unconditional contributions
- **Between:**
 - Unconditional, Unrestricted Contributions &
 - Unconditional, Restricted Contributions

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Why the distinctions matter

- Exchange transactions are always treated as unrestricted
- Conditional contributions aren't recorded (until conditions are met)
- Restricted contributions increase restricted net income
- Unrestricted contributions increase unrestricted net income

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Contribution or an Exchange Transaction ?

- **Exchange Transactions** involve payment to recipient commensurate with value exchanged
- Calling an agreement a “contract” or “grant” is not definitive
- **Substance** of agreement determines how it is treated

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Exchange Transactions

CAA Non-governmental “Customers”

- Wrap around childcare in which parents pay fees for services
- Sales of meals prepared by the CAA to other nonprofits
- Sales of energy audits to homeowners
- Customer fees may be treated as program income in relation to grants

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Exchange Transactions **Recording Revenue**

- Identify the customer agreement
- Identify performance obligations
- Determine transaction price
- Allocate price to performance obligations
- **Recognize revenue when you satisfy performance obligations**

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Change in Thinking About “Contracts” with Governments

- **Before:**
Activities carried out for the **benefit of the general public**, rather than to obtain goods or services for the government’s own use, were considered to be **“exchange transactions”**

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New Thinking on Governmental Funding

Now:

Government funding to provide benefit to general public is **not an exchange transaction**

Government funding for **public benefit** is now considered a **contribution**

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Revenue from Contracts with Governments

- ASU 2014-09: effective **FY beginning after 12/15/17**
- **Government is treated as a customer **only** if:**
 - Services provided benefit the governmental unit
 - Examples: agreements with CAAs that have employment programs providing janitorial service for government facility

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**After you're sure it's a contribution
(from government or donors)....**

Is it conditional or restricted?



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Conditional Contributions

- **Conditional** contributions:
donor requires the recipient to **overcome a barrier** and if the recipient fails to do so, grantor is released from obligation & can demand return of funds provided

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Indicators of Performance Barriers

that create “conditional” contributions

- Requires performance by recipient, or
- Requires an event to occur that is outside the control of recipient
- Limits recipient’s discretion in how to conduct activity funded by grant
- **No longer impacted by “likelihood”** of failing to overcome the barrier

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Timing to Record Conditional Gifts

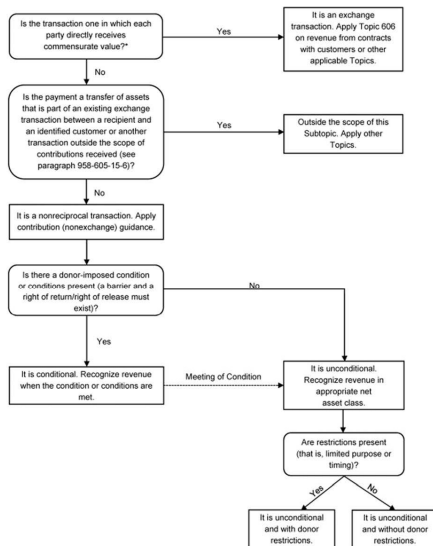
- Conditional Gifts are **not recorded as income** until the conditions are met
- This change impacts treatment of some **multi-year foundation grants**

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Restricted Contributions

- May require return of the money if you don't satisfy the restriction, but
- Grant is not “**conditional**” unless there is a **measurable performance barrier** included in the gift agreement.
- **Restricted contributions are recorded as gifts with donor restrictions when the promise to give is made**

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*See paragraph 958-605-55-6 for guidance about transactions that are in part an exchange and in part a contribution.
 Diagram copyrighted by the Financial Accounting Foundation, 401 Merritt 7, Norwalk, CT 06856, USA, and is used with permission

Conditional Contributions & PPP Loans

Current accounting controversy:

- Should **PPP loans** be recorded as **liabilities**
- or
- Does the potential forgiveness of PPP by incurring allowable expenses justify treating PPP funds as “**conditional grants**”

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Next Steps

- Discuss the impact of GAAP changes with your auditor
- Clarify whether GAAP changes will impact recording & reporting income
- Evaluate liquidity & need for explanation
- Review internal financial reports for consistency with GAAP & usefulness to Board and managers

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ASU Number	Subject	Effective for Calendar Year	
		Issuers/Obligors	All Other NFPs
2016-14	Financial Statement Presentation of Not-for-Profit Entities		2018
2014-09, etc.	Revenue from Contracts with Customers "Suite"	2018	2019
2018-08	Clarifying the Scope and Accounting Guidance for Contributions Received and Made	Various dates 2019-2021	
2017-10	Service Concession Arrangements – Determining the Customer of the Operation Services	2018	2019
2016-01, 2018-03	Financial Instruments – Recognition and Measurement of Financial Assets and Liabilities		2019
2016-15	Statement of Cash Flows – Classification of Certain Cash Receipts and Payments		2019
2016-18	Statement of Cash Flows – Restricted Cash		2019
2017-01	Business Combinations – Clarifying the Definition of a Business		2019
2017-07	Improving the Presentation of Net Periodic Pension and Postretirement Benefit Cost		2019
2016-02	Leases	2019	2020

7 Not-for-Profit Section

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