

Nonprofit Accounting Update

July 20, 2021

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Agenda

Nonprofit Revenue Recognition

COVID Accounting

Nonprofit ASUs

Miscellaneous ASUs

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Nonprofit Revenue Recognition



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ASU 2018-08

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

- Issued: June 2018

Addresses:

- Contribution vs. Exchange
- Condition vs. Restriction

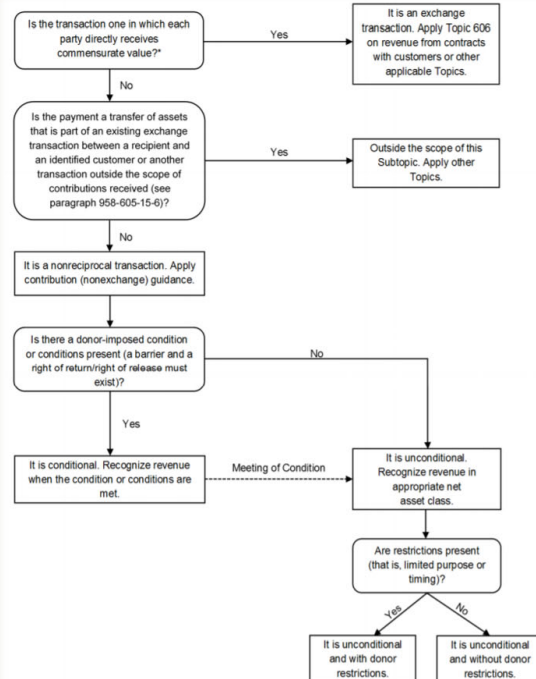
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Scope

- Contributions Received guidance does not apply to:
 - Exchange transactions
 - Transfers of assets in which the reporting entity acts as an agent, trustee, or intermediary
 - Tax exemptions, tax incentives, or tax abatements
 - Transfers of assets from government entities to business entities
 - Transfers of assets that are part of an existing exchange transaction between a recipient and an identified customer
 - AKA 3rd party payer

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958-605-55-1A Implementation Guidance



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Application

Paycheck
Protection
Program

Provider Relief
Funds

HEERF

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Effective Date - Resource Recipient

- Public business entity or an NFP that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an OTC market - annual periods beginning after June 15, 2018, including interim periods within those annual periods
- All other entities - annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019

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Effective Date - Resource Provider

- Public business entity or an NFP that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an OTC market - annual periods beginning after December 15, 2018, including interim periods within those annual periods
- All other entities - annual periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020

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Staff Q&A

FASB Staff Q&A on Implementing the New Not-for-Profit Grants and Contracts Standard (ASU 2018-08)

- Issued: June 2019

Addresses:

- Budgets
- Cost Share

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COVID Accounting



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Other Considerations

- Accounting:
 - Asset Impairment
 - Loss Contingencies
 - Risk & Uncertainty Disclosures
 - Going Concern

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FASB Staff Q&As

- Topic 815: Cash Flow Hedge Accounting Affected by the COVID-19 Pandemic
- Topic 842 and Topic 840: Accounting for Lease Concessions Related to the Effects of the COVID-19 Pandemic

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AICPA TQA

Q&A Section 3200, Long-Term Debt

- Issued: June 2020

Background:

- Addresses questions regarding accounting for PPP Loans

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Question

- How should a nongovernmental entity account for a forgivable loan received under the Small Business Administration Paycheck Protection Program (PPP)?

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Answer

- Although the legal form of the PPP loan is debt, some believe that the loan is, in substance, a government grant

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Debt Accounting

- Proceeds from the loan would remain recorded as a liability until either:
 - The loan is, in part or wholly, forgiven and the debtor has been “legally released”
 - The debtor pays off the loan to the creditor
- Once the loan is, in part or wholly, forgiven and legal release is received, a nongovernmental entity would reduce the liability by the amount forgiven and record a gain on extinguishment

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ASU 2018-08

- Record the cash inflow from the PPP loan as a refundable advance
 - Reduce the refundable advance and recognize the contribution once the conditions of release have been substantially met or explicitly waived

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Not Options for NFPs

Grant
(Analogize IAS 20)

Gain Contingency

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Nonprofit ASUs



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ASU 2019-03

Updating the Definition of Collections

- Issued: March 2019

Background:

- Definition of the term collections in the Master Glossary is not fully aligned with the definition used in the American Alliance of Museums' (AAM) Code of Ethics for Museums (the Code)

ASU 2019-03 Cont'd

• Current Definition:

- Works of art, historical treasures, or similar assets that meet all of the following criteria:
 - They are held for public exhibition, education, or research in furtherance of public service rather than financial gain
 - They are protected, kept unencumbered, cared for, and preserved
 - They are subject to an organizational policy that requires the proceeds of items that are sold to be used to acquire other items for collections

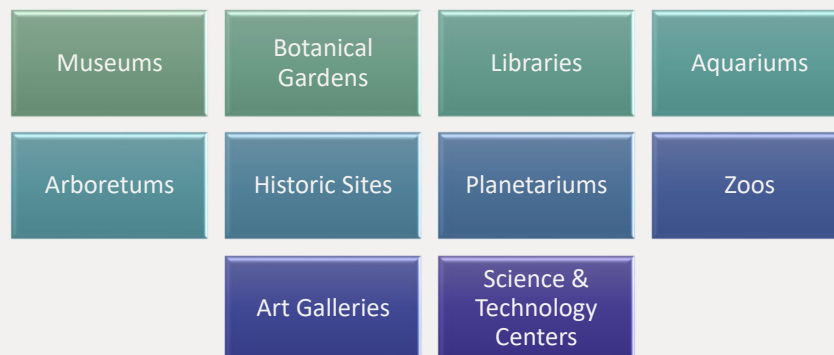
ASU 2019-03 Cont'd

- GAAP does not require recognition of contributions of works of art, historical treasures, and similar assets if the donated items are added to collections and meet the three conditions

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ASU 2019-03 Cont'd

- Impacts all entities, including business entities, that maintain collections



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ASU 2019-03 Cont'd

- Update:
 - Modifies the definition of the term collections to allow the proceeds to be used to support the direct care of existing collections in addition to the current requirement that proceeds from sales of collection items be used to acquire other items for collections

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ASU 2019-03 Cont'd

- They are subject to an organizational policy that requires the proceeds of items that are sold to be *limited to direct care of existing collections or the acquisition of* ~~used to acquire~~ other items for collections

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ASU 2019-03 Cont'd

- Requires the disclosure of the policy for the use of proceeds from when collection items are deaccessioned

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ASU 2019-03 Cont'd

- If a collection-holding entity has a policy that allows proceeds from deaccessioned collection items to be used for direct care, it should disclose its definition of direct care

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ASU 2019-03 Cont'd

- Effective for annual financial statements issued for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020
 - Early application is permitted
 - Applied on a prospective basis

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ASU 2019-06

Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities

- Issued: May 2019

Background:

- In 2014, ASU 2014-02, Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill, and ASU 2014-18, Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination (consensuses of the Private Company Council [PCC] were issued

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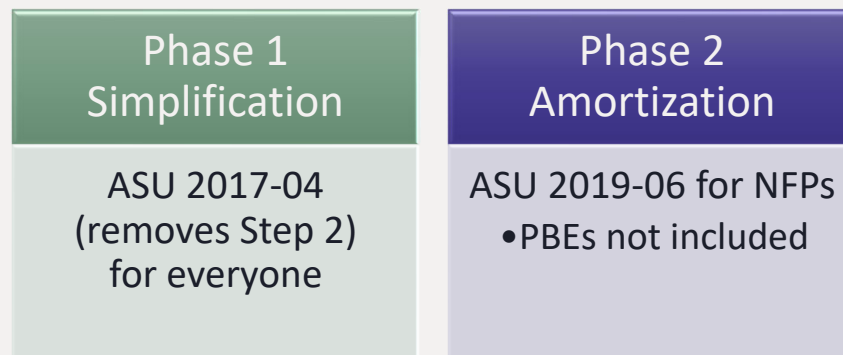
ASU 2019-06 Cont'd

- Feedback from NFP stakeholders that questioned the relevance of an impairment-only approach to goodwill
- Input that the benefits of the current accounting for goodwill and identifiable intangible assets acquired in an acquisition by an NFP do not justify the related costs

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ASU 2019-06 Cont'd

- Goodwill Impairment



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ASU 2019-06 Cont'd

- Applies to all not-for-profit entities (per Master Glossary), including those that are conduit bond obligors

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ASU 2019-06 Cont'd

- Update:
 - NFPs can amortize goodwill on a straight-line basis over 10 years or less
 - Required to make an accounting policy election to test goodwill for impairment at either the entity level or reporting unit level
 - Required to test goodwill for impairment when a triggering event occurs that indicates that the fair value of the entity (or a reporting unit) may be below its carrying amount
 - NFP can subsume into goodwill and amortize customer-related intangible assets that are not capable of being sold or licensed independently from the other assets of a business and all noncompetition agreements acquired
 - Must amortize goodwill

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ASU 2019-06 Cont'd

- Effective upon issuance
- NFPs electing to adopt these alternatives do not have to demonstrate preferability and should follow the transition guidance the first time they elect to adopt the alternatives
 - Same open-ended effective date and unconditional one-time election that private companies have

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Next Steps

- Another project on FASB's agenda to examine the subsequent accounting for goodwill and the accounting for identifiable intangible assets
 - For all entities
- It is possible that entities electing these alternatives could be subject to future changes to the subsequent accounting for goodwill as a result of that project

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ASU 2020-07

Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets

- Issued: September 2020

Background:

- Regulatory and legal push for deceptive revenues
- Increase transparency



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ASU 2020-07 Cont'd

- Background
 - Current GAAP does not include specific presentation requirements for contributed nonfinancial assets or specific disclosure requirements for contributed nonfinancial assets other than contributed services



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ASU 2020-07 Cont'd

- Background
 - Contributed nonfinancial assets extend cash resources
 - Requires fair value
 - Not really a market participant
 - May not have a market
 - Inputs can be challenging

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ASU 2020-07 Cont'd

- Scope
 - Contributions of nonfinancial assets
 - Fixed assets
 - Supplies
 - Excludes cash and stock (financial assets)

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ASU 2020-07 Cont'd

- Update
 - Present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets

ASU 2020-07 Cont'd

- New Disclosures
 - A disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets
 - Disclosures for each category

ASU 2020-07 Cont'd

- Disclosures
 - Qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period
 - If utilized, an NFP will disclose a description of the programs or other activities in which those assets were used
 - The NFP's policy (if any) about monetizing rather than utilizing contributed nonfinancial assets

ASU 2020-07 Cont'd

- Disclosures
 - A description of any donor-imposed restrictions associated with the contributed nonfinancial assets
 - A description of the valuation techniques and inputs used to arrive at a fair value measure, in accordance with the requirements in Topic 820, Fair Value Measurement, at initial recognition
 - The principal market (or most advantageous market) used to arrive at a fair value measure if it is a market in which the recipient NFP is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets

Contributed Nonfinancial Assets

For the years ended December 31, contributed nonfinancial assets recognized within the statement of activities included:

	20X9	20X8
Building	\$ 550,000	\$ -
Household goods	95,556	100,486
Food	85,407	86,633
Medical Supplies	90,389	115,173
Pharmaceuticals	111,876	113,982
Clothing	85,765	83,890
Vehicles	127,900	-
Services	73,890	65,392
	<u>\$ 1,220,783</u>	<u>\$ 565,556</u>

NFP K recognized contributed nonfinancial assets within revenue, including a contributed building, vehicles, household goods, food, medical supplies, pharmaceuticals, clothing, and services. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

It is NFP K's policy to sell all contributed vehicles immediately upon receipt at auction or for salvage unless the vehicle is restricted for use in a specific program by the donor. No vehicles received during the period were restricted for use. All vehicles were sold and valued according to the actual cash proceeds on their disposition.

The contributed building will be used for general and administrative activities. In valuing the contributed building, which is located in Metropolitan Area B, NFP K estimated the fair value on the basis of recent comparable sales prices in Metropolitan Area B's real estate market.

Contributed food was utilized in the following programs: natural disaster services, domestic community development, and services to community shelters. Contributed household goods were used in domestic community development and services to community shelters. Contributed clothing was used in specific community shelters. Contributed medical supplies were utilized in natural disaster

Contributed Nonfinancial Assets

	Revenue Recognized	Utilization in Programs/Activities	Donor Restrictions	Valuation Techniques and Inputs
Building	\$550,000	General and Administrative	No associated donor restrictions	In valuing the contributed building, which is located in Metropolitan Area B, NFP K estimated the fair value on the basis of recent comparable sales prices in Metropolitan Area B's real estate market.
Household goods	\$95,556	Domestic Community Development; Community Shelters	No associated donor restrictions	NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Food	\$85,407	Natural Disaster Services; Domestic Community Development; Community Shelters	No associated donor restrictions	NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Medical supplies	\$90,389	Natural Disaster Services	No associated donor restrictions	NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Pharmaceuticals	\$111,876	International Health Services; Natural Disaster Services	Restricted to use outside the United States	In valuing contributed pharmaceuticals otherwise legally permissible for sale in the United States, NFP K used the Federal Upper Limit based on the weighted average of the most recently reported monthly Average Manufacturer Price (AMP) that approximate wholesale prices in the United States (that is, the principal market). In valuing pharmaceuticals not legally permissible for sale in the United States (and primarily consumed in developing markets), NFP K used third-party sources representing wholesale net prices in the developing markets in which the products are approved for sale.
Clothing	\$85,765	Natural Disaster Services; Domestic Community Development; Community Shelters	No associated donor restrictions	In valuing clothing, NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Vehicles	\$127,900	It is NFP K's policy to sell all contributed vehicles immediately upon receipt unless the vehicle is restricted for use in a specific program by the donor. All vehicles received were sold.	No associated donor restrictions	Proceeds from vehicles sold are valued according to the actual cash proceeds on their disposition.
Services	\$73,890	Various Administrative Legal Matters	No associated donor restrictions	Contributed services from attorneys are valued at the estimated fair value based on current rates for similar legal services.

ASU 2020-07 Cont'd

- Not Changing
 - Will not change the recognition and measurement requirements in Subtopic 958-605 for those assets

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ASU 2020-07 Cont'd

- Effective
 - Apply retrospectively
 - For annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022
 - Early adoption is permitted

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ASU 2021-03

Accounting Alternative for Evaluating Triggering Events

- Issued: March 2021

Background:

- AICPA Technical Issues Committee liaison meeting
 - COVID-19

ASU 2021-03 Cont'd

- An entity is required to monitor and evaluate goodwill impairment triggering events **throughout the reporting period**
 - If an event has occurred or circumstances have changed that would **more likely than not** reduce the fair value of a reporting unit (or entity) below its carrying amount
- Then the entity must test goodwill for impairment
 - Without the use of hindsight or **known changes** to facts and circumstances after the triggering event date

ASU 2021-03 Cont'd

- Who is impacted?
 - Private companies and not-for-profit entities

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ASU 2021-03 Cont'd

- Accounting Alternative
 - Can now perform the goodwill impairment triggering event evaluation as of the end of the reporting period, whether the reporting period is an interim or annual period
 - Not required to monitor for goodwill impairment triggering events during the reporting period but, instead, should evaluate the facts and circumstances as of the end of each reporting period to determine whether a triggering event exists and, if so, whether it is more likely than not that goodwill is impaired

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ASU 2021-03 Cont'd

- Effective for fiscal years beginning after December 15, 2019.
 - Prospective treatment
 - Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance as of March 30, 2021
 - An entity should not retroactively adopt the amendments in this Update for interim financial statements already issued in the year of adoption

ASU 2021-03 Cont'd

- Includes an unconditional one-time option for entities to adopt the alternative prospectively after its effective date without assessing preferability

Miscellaneous ASUs



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May Impact NFPs

ASU 2017-04, Simplifying the Test for Goodwill Impairment

ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities

ASU 2018-13, Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement

ASU 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract

ASU 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting

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What Questions Do You Have?



Melisa F. Galasso
Chief Executive

Melisa@galassolearningsolutions.com
<https://galassolearningsolutions.com>