



Association Accounting Update

National Association Conference

September 17, 2015

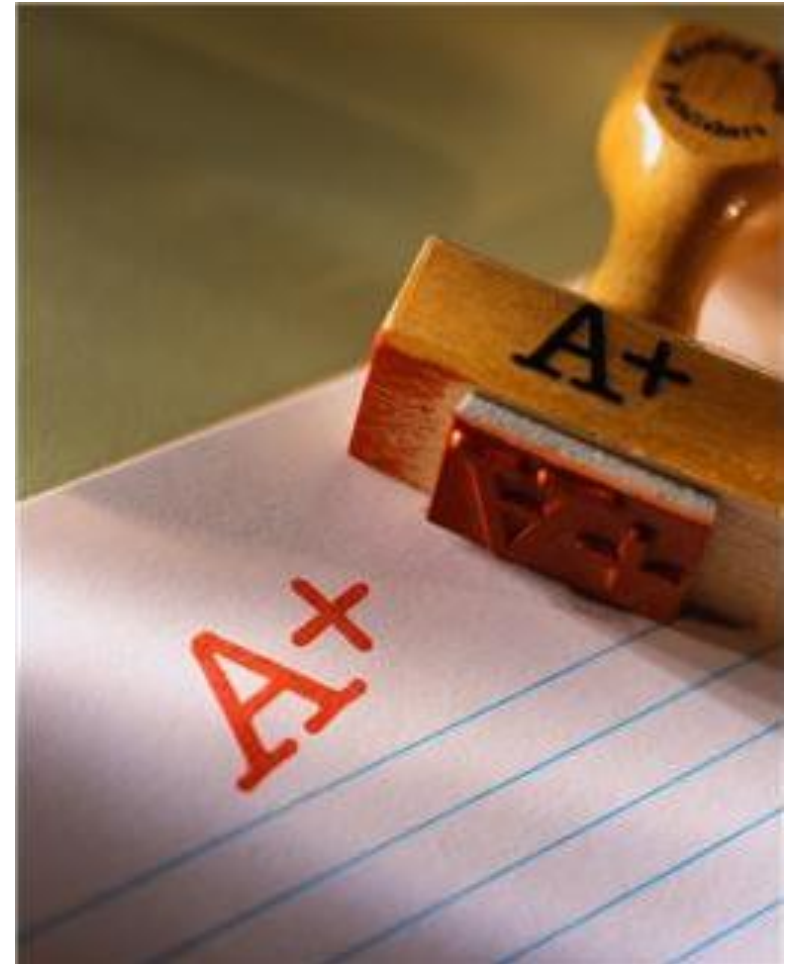
Chicago, Illinois

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Session Objective(s)

- Discuss and understand:
 - Effective and Pending ASU's
 - Impact of Revenue Recognition Standard
 - Proposed ASU's
- Q&A





New Requirements Issued by FASB

Effective Date Pending

Updated through 8/21/2015

ASU 2015-11 Inventory

- Current: Inventory = Lower of Cost or Market
 - Market = Replacement Cost, Net Realizable Value or NRV less normal profit margin
- New: Inventory = Lower of Cost or NRV
 - NRV = Estimated selling price, less reasonably predictable costs of completion, disposal, and transportation
- Effective 12/31/17 (public) or 12/31/18 or 6/30/19 (nonpublic)
 - Early adoption is allowed
 - Prospective adoption



ASU 2015-07 Fair Value Measurement

Disclosures for Investments...that calculate NAV

- NAV investments excluded from FV hierarchy
- Disclose still required
 - Redemption restrictions
 - Unfunded commitments
- Expected to be ratified by FASB in April 2015
- Effective 12/31/16 (public) or 12/31/17 (nonpublic)
 - Early adoption is allowed



ASU 2015-05 Accounting for Cloud Computing Costs

- If agreement contains software license:
 - Accounting is consistent with acquisition of software
 - Contractual right to take possession of the software at any time during the hosting period without significant penalty
 - Feasible to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software
- If agreement does NOT contain software license
 - Accounting is consistent with service contract
- Effective: Fiscal years beginning after December 15, 2015 (early adoption permitted)



ASU 2015-03 Simplifying Debt Issue Costs

- Debt issuance costs
 - Direct deduction from the carrying amount of the associated debt liability
- Accounting like debt discounts
- Early adoption permitted
- Fiscal years beginning after December 15, 2015
- Apply on retrospective basis
- 2015-15 issued to address LOC treatment



ASU 2015-02 Consolidation

- Limited Partnerships now VIE's
- VIE accounting is not applicable to NFP's
- Could result in deconsolidation
 - Re-evaluate LP's to determine if control (> 50% voting interest) or change to equity method
- Effective date:
 - Conduit Debt: 12/31/2016
 - Others: 12/31/2017
 - Early implementation is allowed
- Adoption method : Full Retrospective



ASU 2015-01 Extraordinary Item

- Eliminates the concept of Extraordinary
- Ordinary Income/Loss still excludes:
 - Unusual in nature
 - Infrequent in occurrence
- 9/11 did not qualify per FASB
- Effective: Fiscal years beginning after December 15, 2015



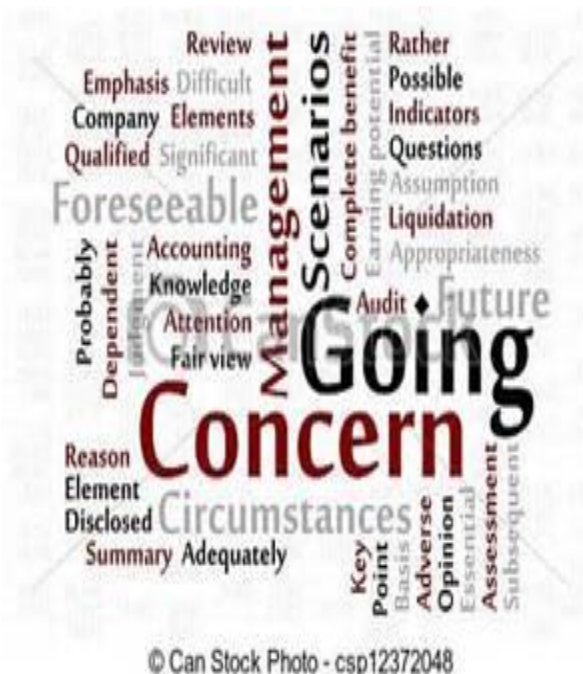
ASU 2014-17 Pushdown Accounting

- Option to “pushdown” acquisition accounting
- Elect at either:
 - Reporting period with change in control
 - Subsequent reporting periods via change in accounting principles
- Once election made, it is irrevocable
- If done in separate statements (i.e. parent), entity must disclose so reader can evaluate
- Standard was effective upon issuance
 - November 18, 2014



ASU 2014- 15 Going Concern

- Moves guidance from Audit to Accounting
- Management evaluates
- Significant focus on disclosure
- Requires substantial doubt consideration and disclosure
- Effective date:
 - Periods ending after December 15, 2016
 - Early adoption is permitted



What is Substantial Doubt?

- Information about existing conditions indicates known or probable will not meet obligations within 12 months of issuance of financial statements.
- Effective date:
 - Periods ending after December 15, 2016
 - Early adoption is permitted



Disclosure Requirements

Substantial doubt alleviated

- Conditions giving rise to doubt
- Management's evaluation of significance
- Managements plan to alleviate

- Plan must be probable:
 1. Effectively implemented
 2. Will mitigate conditions



Disclosure Requirements

Doubt not alleviated

- Disclosures of plan consistent with doubt being alleviated

PLUS:

- Statement that
“there is substantial doubt about the entities ability to continue as going concern from one year after F/S issue date



ASU 2014-08 Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

- Discontinued Operations may include
 - A component of an entity
 - A group of components of an entity
 - A business or nonprofit activity
- Strategic shift that has major effect on entity's operations
 - Disposal of major geographical area
 - Major line of business
 - Major equity method investment
- Effective after December 15, 2015



Standards Effective 2014

- ASU 2013-4 Joint and Several Liability
- ASU 2013-6 Services Received from Personnel of an Affiliate
- ASU 2014-17 Pushdown Accounting (effective upon issuance¹)





Revenue Recognition

Impact on Associations

Revenue Recognition – Effective Date

ASU 2015-14 extended the effective date

- One year extension for public and private entities
- ASU making the extension official is expected to be issued soon

Effective for reporting periods beginning on or after:

- December 15, 2017 for public companies
 - ◇ Including interim periods within that reporting period
- December 15, 2018 for private companies and not-for-profit organizations
 - ◇ Interim periods after that initial annual period
- Early implementation permitted for annual periods beginning after December 15, 2016 (the original public company effective date)



Other Revenue Recognition Developments

- Exposure Draft Issued May 12, 2015
 - **Identifying Performance Obligations and Licensing**
 - ◇ Comment period ended June 30, 2015
 - ◇ No anticipated date announced for issuance of an ASU
- Additional Exposure Drafts Expected Soon
 - **Narrow Scope Improvements and Practical Expedients**
 - ◇ Expected to provide some clarifications on how to account for contract changes, how sales taxes collected from customers should be presented, and how to evaluate collectability from customers
 - **Principal versus Agent** (Reporting revenue gross versus net)



Revenue Recognition – Additional Guidance?

- Joint Transition Resource Group (TRG)
 - 75 topics had been submitted for consideration when they last met in July
 - Next meeting scheduled for November 9, 2015
- AICPA Revenue Recognition Industry Task Forces
 - 16 Industry Task Forces have been formed
 - ◇ Including Task Forces addressing implementation issues impacting Construction Contractors, Not-for-Profit, Depository Institutions, and Health Care
 - ◇ Expect to eventually issue non-authoritative guidance, including illustrative examples for how to apply the new standard



ASU 2014-09 Revenue Recognition

- Contributions – Not applicable
- Collaborative Arrangements – Not applicable
- Government Grants – Working on...
- All forms of revenue
 - Some form of impact
 - AICPA Task Force creating implementation guidance
 - Biggest impact will be transactions at year end



Issues impacting associations

- Membership fees
- Sponsorship revenue
- Conference fees
- Licenses and royalties



ASU 2014-09 Revenue Recognition

- Recent issuance – Final transition rules (Deferred)
 - Nonpublic entity
 - ◇ Period beginning after December 15, 2018
 - ◇ May adopt “no earlier” than an annual period beginning after December 15, 2016
 - In summary for calendar year ends
 - ◇ Year ending December 31, 2017/June 30, 2018 (soonest)
 - ◇ Year ending December 31, 2019/June 30, 2020 (latest)



Revenue Recognition (Topic 606)

Objective: To develop a single, principle-based revenue standard for US GAAP and IFRS

- The revenue standard aims to improve accounting for contracts with customers by:
 - Providing a robust framework for addressing revenue issues as they arise
 - Increasing comparability across industries and capital markets

Substantially converged with IFRS on major provisions



Final U.S. GAAP Model – Scope

- All contracts with customers, except
 - ✗ Lease contracts
 - ✗ Insurance contracts
 - ✗ Financial instruments
 - ✗ Guarantees
 - ✗ Non-monetary exchanges in the same line of business to facilitate sales to customers
- Certain contracts not with customers are excluded:
 - Contributions
 - Collaborative arrangements



Final U.S. GAAP Model – Recognition

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

1

Identify the contract(s) with a customer

2

Identify the performance obligations in the contract

3

Determine the transaction price

4

Allocate the transaction price to the performance obligations in the contract

5

Recognize revenue when (or as) the entity satisfies a performance obligation



Final U.S. GAAP Model – Implementation Guidance

- Performance obligations satisfied over time
- Methods for measuring progress
- Sale with a right of return
- Warranties
- Principal versus agent considerations
- Customer options for additional goods or services
- Customers' unexercised rights
- Nonrefundable upfront fees
- Licensing
- Repurchase agreements
- Consignment arrangements
- Bill-and-hold arrangements
- Customer acceptance
- Disclosure of disaggregated revenue



Major Changes in Comparison to Current Guidance

- Focus is on the contract rather than on transactions of certain types or by certain industries
- Constraint on revenue
- Licenses
- Recognition and measurement guidance applies to transfers/sales of nonfinancial assets to non-customers
- Guidance on accounting for costs to obtain and fulfill a contract with a customer (if not addressed in other topics)
- Disclosures



Final U.S. GAAP Model – Disclosure

Disaggregation of revenue

- Disaggregate 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

- All quantitative disclosures in annual and interim (*public entities only*)

Final U.S. GAAP Model – Transition, Effective Date and Early Application

		PY2	PY1		CY	CY footnotes
Retrospective (with optional practical expedients)	Cumulative catch-up	Contracts under new standard Contracts restated				
Cumulative effect at date of application		Contracts not restated		Cumulative catch-up	Existing* and new contracts under new standard	Existing and new contracts presented under current GAAP

*contracts not completed in prior years as determined under current revenue guidance

■ **Effective dates:**

- Public entities: annual reporting periods FY 2017-2018 (including interim period)
- Nonpublic entities: one year deferral (FY 2018-2019); annual period in first year, interim periods thereafter; early application options, but no earlier than public entities
- **Deferral period of one year for both public and private companies with early adoption permitted, but not before original public entity effective date (ED currently out for public comment)**



Joint Transition Resource Group (TRG)

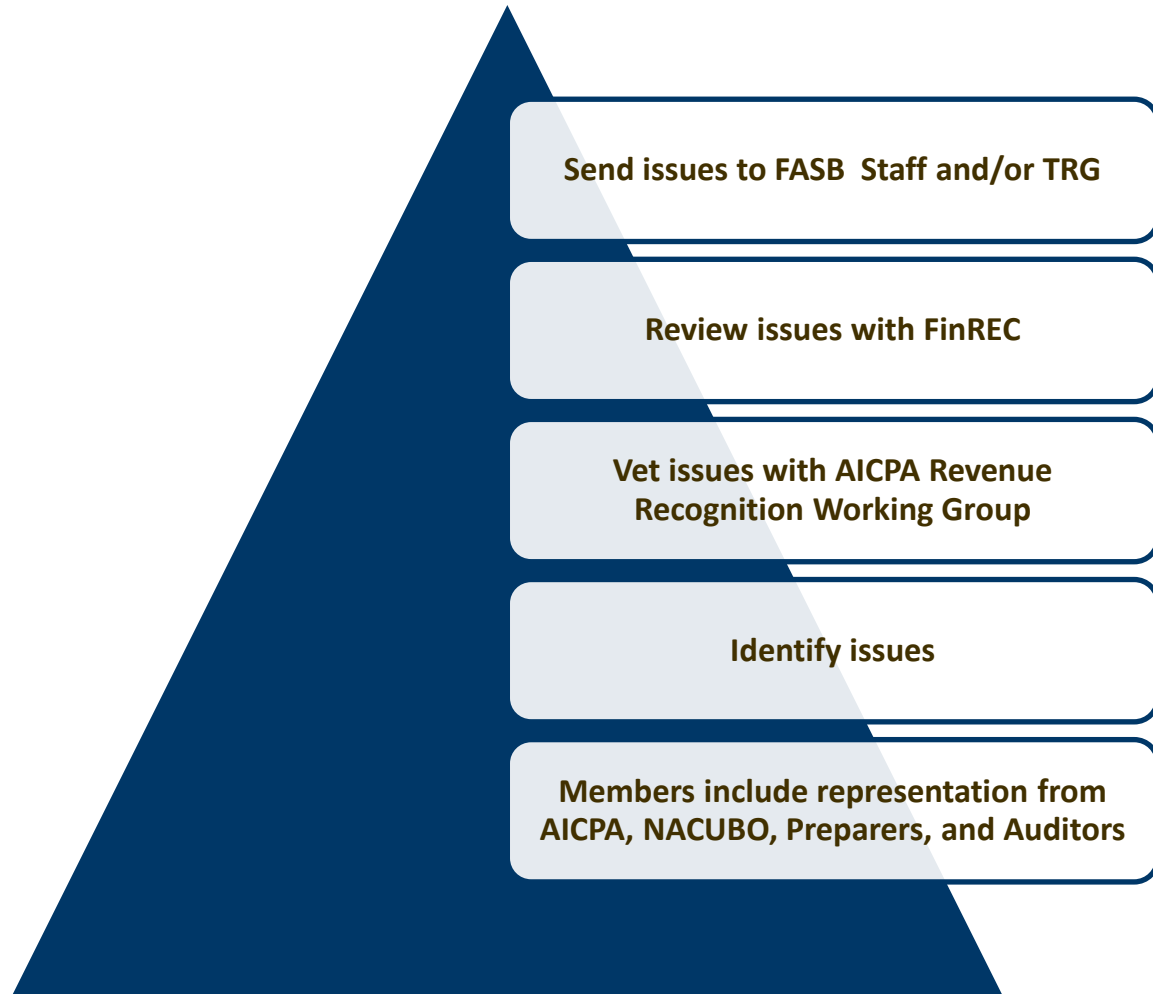
- 27 specialists (auditors, preparers, regulators, others) + IASB and FASB members who discuss interpretations of the principles
- FASB to issue **clarifications** on Topic 606
 - Licenses
 - Performance Obligations
 - Narrow Scope Improvements and Practical Expedients (including contract modifications, noncash consideration, collectability, and presentation of sales taxes)
- Research Projects
 - Principal versus agent (reporting revenue gross versus net)

Other Outreach:

- FASB NFP staff are conducting outreach with stakeholders to understand implementation issues related to certain grants and contracts



Revenue Recognition Submission and Vetting Process



Potential Application Considerations for Not-for-Profits

- Membership Dues
- Tuition and Fees
- Licenses and Royalties
- Bifurcation
- Governmental Grants and Contracts
- Contributions (**Out of Scope**)
- Other Issues Identified



Membership Dues (Illustrative Example)

Under 605: ABC amortizes membership dues monthly over the life of the membership

Applying 606: ABC sells a one-year membership (**Step 1: Identify Contract**)

Per the membership, ABC must discount travel, provide a magazine subscription, and provide advocacy in Washington (should promised goods or services be combined as one performance obligation or kept separate) (**Step 2: Identify Performance Obligations**)

Memberships are \$16 (**Step 3: Determine Transaction Price**)

Transaction price attributed to one performance obligation (If more than one performance obligation, would need to allocate transaction price on standalone selling price basis) (**Step 4: Allocate Transaction Price**)

Since customer simultaneously receives and consumes benefit through the year, revenue will be recognized over time—that is, monthly over the life of the membership (**Step 5: Recognize Revenue**)



Licenses and Royalties

- Licenses of Intellectual Property (IP)
 - License provides right to use the entity's IP (**recognize revenue at a point in time**) if the underlying IP has *significant standalone functionality* (e.g., the ability process a transaction, perform a function or task, or be played or aired) (**functional IP**) unless both (in which case license provides a right to access the entity's IP):
 - a) Contract requires or customer expects entity to undertake activities (that do not result in the transfer of an additional good or service) to change that standalone functionality
 - b) Customer is contractually or practically required to use the changed IP in a).
 - Any license to IP that does *not* have *significant standalone functionality* (**symbolic IP**) provides a *right to access* the entity's IP (**recognize revenue over time**)
- Sales- and Usage-Based Royalties Exception (an exception to general guidance for variable consideration and constraint)
 - Should not split single royalty into portion subject to sales-based and usage-based royalties exception and portion subject to general guidance on variable consideration
 - Exception applies when *predominate item* to which royalty relates is license of IP



Bifurcation

- 958-605-55-2:
 - “... A grant, sponsorship, or membership may be entirely a contribution, entirely an exchange, or a combination of the two...”
- 958-605-55-6:
 - “Moreover, a single transaction may be in part an exchange and in part a contribution...See paragraphs 958-720-45-18 through 45-19... 958-225-55-11 through 55-15 for direct benefits provided to donors at special events.”



Bifurcation

- 605 – Contributions
- 606 – Exchange Transactions
- 958-605-55-8:

The following table contains a list of indicators that may be helpful in determining whether individual asset transfers are contributions, exchange transactions, or a combination of both.

Indicator	Contribution	Exchange Transaction
Recipient not-for-profit entity's (NFP's) intent in soliciting the asset ^(a)	Recipient NFP asserts that it is soliciting the asset as a contribution.	Recipient NFP asserts that it is seeking resources in exchange for specified benefits.
Resource provider's expressed intent about the purpose of the asset to be provided by recipient NFP	Resource provider asserts that it is making a donation to support the NFP's programs.	Resource provider asserts that it is transferring resources in exchange for specified benefits.
Method of delivery	The time or place of delivery of the asset to be provided by the recipient NFP to third-party recipients is at the discretion of the NFP.	The method of delivery of the asset to be provided by the recipient NFP to third-party recipients is specified by the resource provider.
Method of determining amount of payment	The resource provider determines the amount of the payment.	Payment by the resource provider equals the value of the assets to be provided by the recipient NFP, or the assets' cost plus markup; the total payment is based on the quantity of assets to be provided.
Penalties assessed if NFP fails to make timely delivery of assets	Penalties are limited to the delivery of assets already produced and the return of the unspent amount. (The NFP is not penalized for nonperformance.)	Provisions for economic penalties exist beyond the amount of payment. (The NFP is penalized for nonperformance.)
Delivery of assets to be provided by the recipient NFP	Assets are to be delivered to individuals or organizations other than the resource provider.	Assets are to be delivered to the resource provider or to individuals or organizations closely connected to the resource provider.

(a) This table refers to assets. Assets may include services. The terms assets and services are used interchangeably in this table.



Grants and Contracts

- Definition of a “Customer”
 - 606-10-65-1: *“A party that has contracted with an entity to obtain goods or services that are an output of the entity’s ordinary activities in exchange for consideration.”*

- One question is: “Is the Government a customer?”
 - Government contracts
 - Government grants
 - Other similar arrangements



Grants and Contracts – Government

- Obvious Cases
 - **Government is not a customer-** City A’s Department of Motor Vehicles has a policy that any department surplus will be donated to a foundation, as decided by the employee’s popular vote; this year it was the Red Cross – **non-reciprocal transaction**
 - **Government is a customer-** City B contracts with a not-for-profit that rehabilitates ex-convicts to repave Main Street in exchange for payment – **reciprocal transaction**
- Potential Arguments Heard *for* Government Contract Treatment under Topic 606
 - Government places many restrictions upon recipient entity, which seems like the government is getting what it wants, not just giving money
 - The “greater good” or “community” is the customer and the government is a third-party payer
 - ◇ Can this be true even though the community is not at either end of the transaction?



Contributions (Out of Scope)

- March 30, 2015 meeting - TRG members agreed nonreciprocal contributions are not within the scope of the new revenue standard
 - FASB Board will not amend ASC 606 to clarify the scope exception
 - TRG members agreed with FASB Board member's suggestion that AICPA could evaluate whether to include interpretive clarification in non-authoritative industry guidance



Other Issues Identified

- Sponsorships
- Special Events
- Other Grant-Making Entity Contracts or “Sponsored Research”
- Subscriptions
- Cemeteries
- Agency Transactions



Practical Steps for Implementing ASC 606

1. Read the Standard and all relevant commentary from audit firms – attend related CPE
2. Assign individual staff to become subject matter experts on specific revenue categories or by section to lead a group of staff to understand and implement the new standard. Include relevant staff outside of accounting: internal audit, legal, etc.



Practical Steps for Implementing ASC 606

3. Compile a list of all organizational revenues, e.g.

- Membership Dues
- Royalties
- Advertising Revenue
- Sponsorship Revenue
- Federal, State, or Private Grants
- Investment Income
- Contributions
- Retail Sales
- Educational Service Fees
- Pass-Through Funds
- Tuition
- Fee for Service
- Refunds
- Miscellaneous
- For-Profit Affiliate Revenues



Practical Steps for Implementing ASC 606

4. **Develop and document a position paper on each revenue stream**
 - Read the standard
 - Document your current process (if applicable)
 - Identify the relevant sections, being as specific as possible when options are presented
 - Support your position with facts, including facts as to why a specific section may not be applicable
 - Document your conclusion on how to recognize revenue
 - Review with your external auditor
 - Finalize and approve new recognition policy

5. **Consider discussing issues with similar organizations within your industry**

6. **If a change is required, is it material?**
 - If no, document, discuss impact with auditors (annual passed adjustment?) and continue with prior recognition methodology



Practical Steps for Implementing ASC 606

7. If a change in recognition is required, consider impact on the following:
 - Are changes in verbiage needed for new related contracts?
 - Recognition processes within the accounting system
 - Technical changes within the accounting or supporting systems
 - Monthly/annual financial close process
 - Internal financial reporting
 - Audited financial statements
 - Forecast and budget processes
 - Dashboard goals
8. Communicate changes to CFO, Board, audit/finance committee, senior staff, key programmatic stakeholders, auditors, internal auditors, contract signers, banks, bondholders, etc.
9. Determine requirements to retrospectively adopt the new standard or prepare comparative financial statements (prior year restatement?)
10. Develop a plan for staff training





Leases

Accounting for Leases – How We Got To Where We Are Today

FAS 13: Accounting for Leases

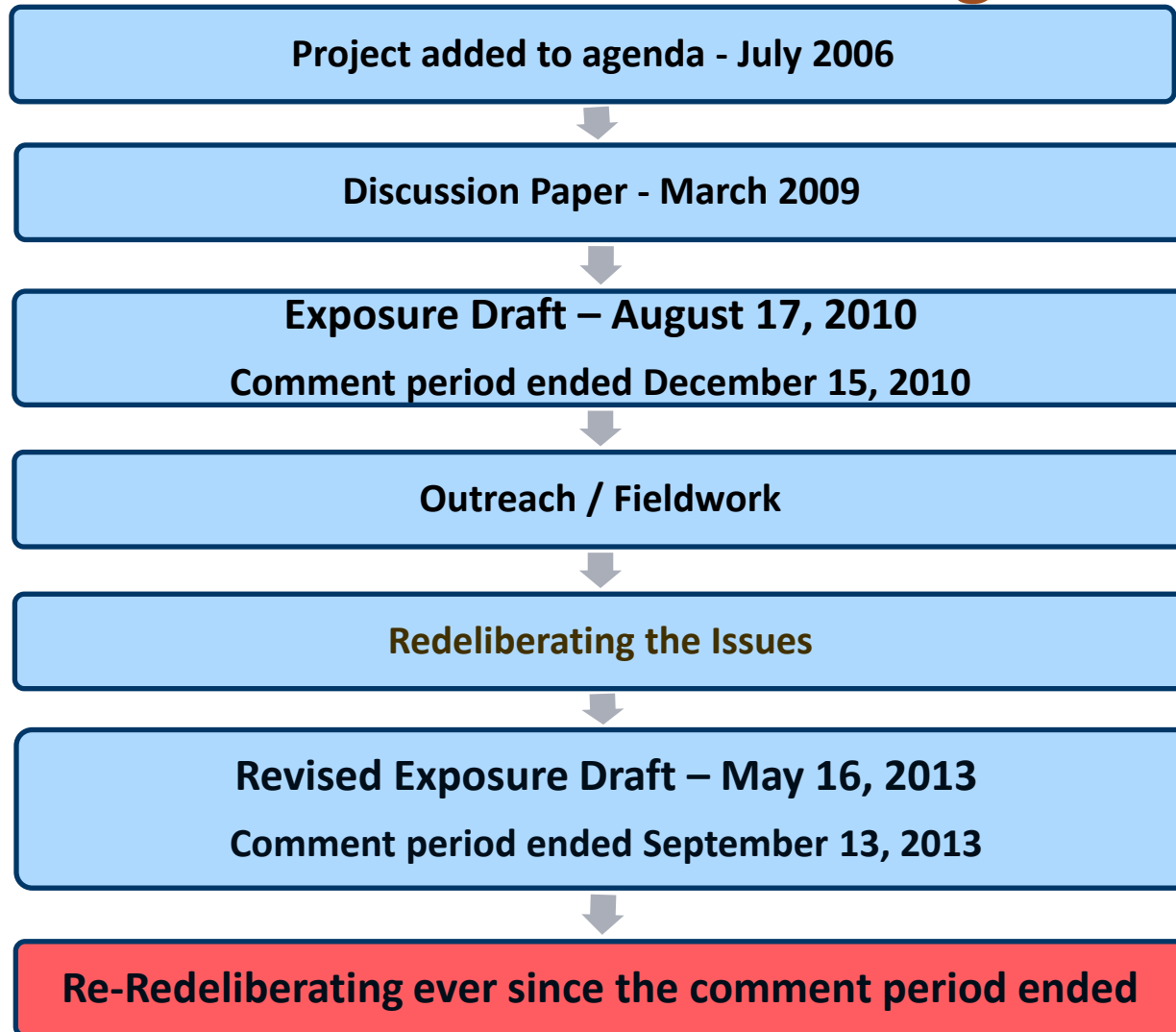
Issued: November 1976

Superseded APB 5, APB 7, APB 27, APB 31

Effective for leasing transactions and
revisions entered into on or after
January 1, 1977



Where Are We Heading?



Where Do We Expect to Be Next Year?

The FASB's technical agenda reflects the expected issuance of a final ASU during the 4th quarter of 2015

- The IASB also expects to issue a final standard before the end of 2015 (but there won't be convergence)
- Tentative board decisions reflect some significant changes from the 2013 exposure draft – but we haven't seen the details of the proposed changes
 - Presentation reflects tentative decisions made through last discussions held on May 13, 2015
- Proposed effective date has not been discussed



Proposed Lessee Accounting Model

A dual approach, with lease classification determined in accordance with the principle in existing lease requirements (that is, determining whether a lease is effectively an installment purchase by the lessee)

- Account for most existing capital/finance leases as **Type A** leases
 - ◇ Recognizing amortization of the right-of-use (ROU) asset separately from interest on the lease liability
- Account for most existing operating leases as **Type B** leases
 - ◇ Recognizing a single total lease expense

Both Type A leases and Type B leases result in the lessee recognizing a ROU asset and a lease liability



Proposed Lessor Accounting Model

Determine lease classification (Type A versus Type B) on the basis of whether the lease is effectively a financing or a sale, rather than an operating lease (that is, on the concept underlying existing U.S. GAAP)

- Make that determination by assessing whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset
- For all Type A leases, a lessor will be required to apply an approach substantially equivalent to existing U.S. GAAP sales type/direct financing lease accounting



Leases - Other Important Considerations

The Board decided that there should be no alternative recognition, measurement, disclosure, presentation, or transition guidance provided for nonpublic business entities reporting under GAAP

- With the exception of a practical expedient allowing nonpublic entities to use a risk-free rate of return to measure its lease liabilities

Related party leases – recognize leases based on legally enforceable terms and conditions





New Proposals Issued by FASB

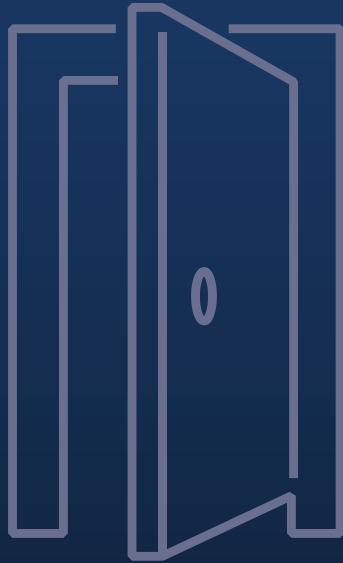
Proposed ASU's

- Investments – Equity Method and Joint Ventures
- Business Combinations
- Extinguishment of Liabilities
- NFP Reporting Model



Questions?





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Our interactions with you will be designed to support your goals and dreams and help impact your success.

