

2020 FASB Update

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Create Opportunities

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Learning Objectives

- Describe technical and compliance requirements of the revenue recognition standard (ASC 606) and lessons learned from implementation
- Describe technical and compliance requirements of the grants and contributions standard update (ASU 2018-08) and lessons learned from implementation
- Understand the changes associated with ASC 842 – *Leases*
- Review recent accounting standards and updates issued by FASB





FASB Accounting Standards Update

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FASB New Accounting Standards

- ASC 606 – *Revenue from Contracts with Customers*
 - Effective **NOW** for public business entities (PBEs)
 - Effective for years beginning after December 15, 2018 for non-PBEs
- ASC 842 – *Leases*
 - Effective for not-for-profits that have issued or are conduit debt obligors for fiscal years beginning after 12/15/18
 - Effective for non-PBEs for fiscal years beginning after 12/15/20



FASB New Accounting Standards Updates

- ASU 2018-08: *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*
 - *Effective at the same time as ASC 606*
- ASU 2016-13: *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*
 - *Applicable to ALL institutions*
 - *Effective for fiscal years beginning after December 15, 2022*



FASB New Accounting Standards Updates – Applicable to Most Institutions

- ASU 2016-18: *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)*
 - *Effective dates; PBEs – fiscal years beginning after 12/15/17 – Non-PBEs – fiscal years beginning after 12/15/18*
- ASU 2016-15: *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*
 - *Effective dates; PBEs – fiscal years beginning after 12/15/17 – Non-PBEs – fiscal years beginning after 12/15/18*



FASB New Accounting Standards Updates – Applicable to Very Few Institutions

- ASU 2019-03: *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections – effective fiscal years beginning after 12/15/19*
- ASU 2019-06: *Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities – effective now*





Brief Overview of Topic 606 – Revenue Recognition

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Revenue Recognition (Topic 606)

Step 1 – Identify the contract(s) with the customer

Is there a contract?

Contract modifications

Combining contracts



Step 2 – Identify the performance obligations

A good or service that is distinct

A series of goods or services that are substantially the same and that have the same pattern of transfer to the customer



Step 3 – Determine the transaction price

Variable consideration

Noncash considerations

Significant financing component

Considerations payable to customer



Revenue Recognition (Topic 606)

Step 4 – Allocate the transaction price

In a systematic manner

Standalone selling price – most common method

If good or service is not sold separately, estimate separate price using observable tools



Step 5 – Recognize revenue when (or as) a performance obligation is satisfied

Revenue is recognized when a performance obligation is satisfied (asset is transferred, service is rendered)

An asset is transferred when the customer obtains control of the asset



Revenue Recognition – Implementation Method

- Full Retrospective Method
- Modified Retrospective Method





ASC 606 - Practical Considerations

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Practical Considerations – Revenue Streams

- Tuition and housing
- Meal plans
- Various activity fees
- Naming rights
- License and royalty
- Intellectual property
- Exclusive food service
- Sponsorship
- Membership revenue (alumni association, for example)
- Books, study materials, and apparel sales
- Ticket sales
- Parking garage revenue
- Vending machine commission
- Event (training/conference) revenue



Practical Considerations – Varying Views

AICPA

In the context of FASB ASC 606-10-45-4:

- A contract is cancelable until the end of the add/drop or refund period. Therefore a noncancelable contract exists when the withdrawal period ends.

NACUBO

NACUBO Advisory advises:

- A noncancelable contract exists on the payment due date specified.



Practical Considerations – Impact on Financial Reporting

AICPA

- A receivable should be recorded when an entity's right to consideration is unconditional
- The AICPA believes this occurs when the related add/drop period has ended.

NACUBO

- A receivable should be recorded when an entity's right to consideration is unconditional
- NACUBO believes this occurs when the date tuition payment is due.



Practical Considerations – Varying Views

AICPA

In the context of FASB ASC 606-10-25-9:

- For contracts to be combined they must meet one of the following criteria:
 - Negotiated as a package with a single commercial objective;
 - The amount of consideration to be paid in one contract depends on the price or performance of the other contract;
 - The goods or services promised in the contracts are a single performance obligation

NACUBO

NACUBO White Paper advises:

- In a many cases the facts and circumstances would indicate that there are two distinct contracts because the contracts are not negotiated and priced as a package with a single commercial objective



Practical Considerations – Impact on Financial Reporting

- If based on facts and circumstances it is determined tuition and housing contracts should not be combined, institutional aid would need to be allocated between tuition and housing and can be presented separately on the statement of activities.
- If it is determined that the criteria contained in ASC 606-15-25-9 are met and therefore do need to be combined, educational and residential services may represent two performance obligations. Institutional aid would not therefore need to be allocated between tuition and housing when determining the transaction price to be allocated to the two performance obligations.



Practical Considerations – Disclosures

- A long list of new disclosures is required by the new standard (not all inclusive, just a sample):
 - A disaggregation of revenue to depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors
 - Information about contract assets and contract liabilities (including changes in those balances) and the amount of revenue recognized in the current period that was previously recognized as a contract liability and
 - Information about performance obligations (types, significant payment terms, typical timing of satisfying the performance obligation)
 - Information about entity's transactions price allocated to remaining performance obligations
 - A description about significant judgements, and changes in those judgements, that affect the amount and timing of revenue recognition
- Practical expedients for nonprofit entities are available for some of the required disclosures – will need to disclose the use of them



Practical Considerations – Lessons Learned

- Begin assessment early
- Inventory of all material revenue streams
- Gather supporting documents “contracts with customers”
- Start working on disclosures early in the process





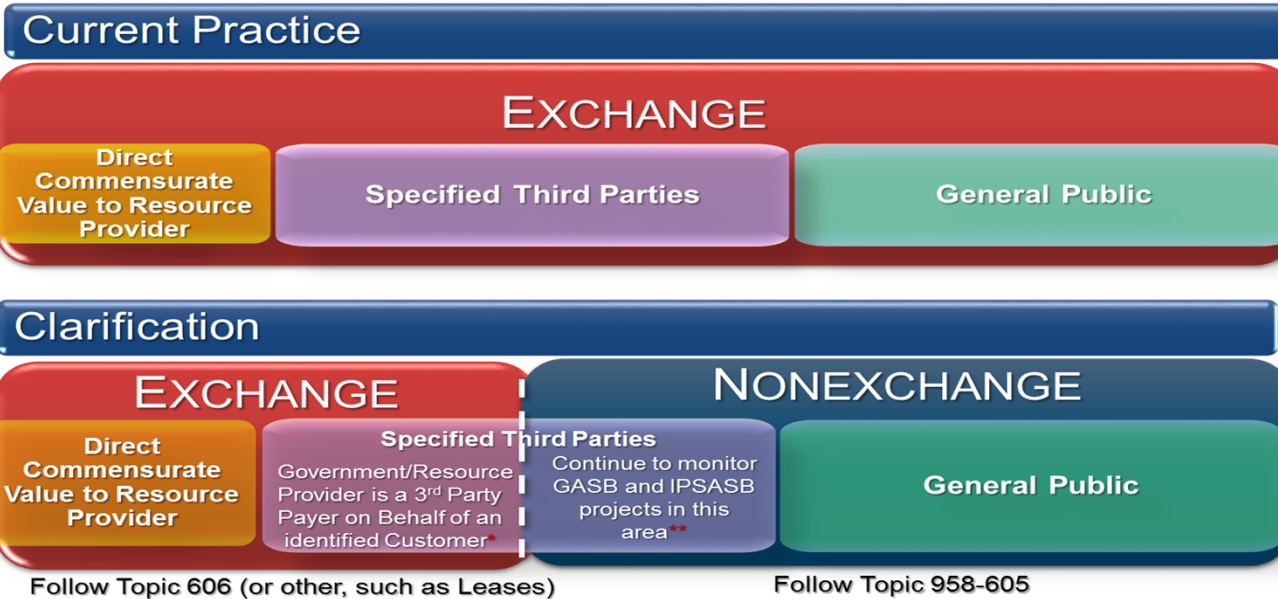
Brief Overview of ASU No. 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

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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.



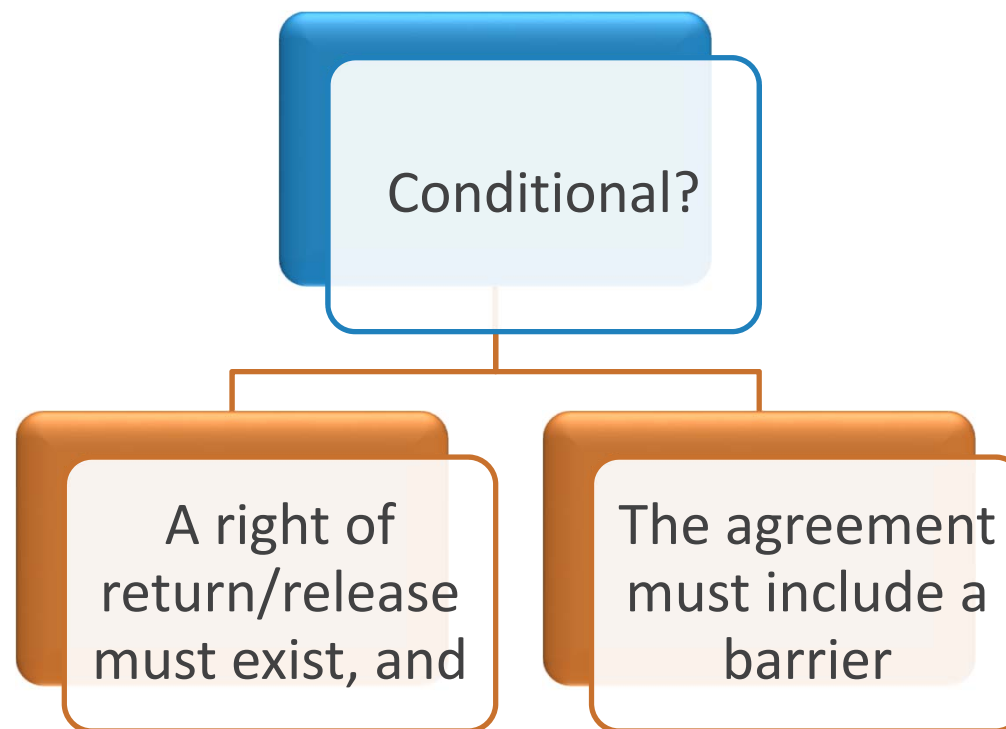
Issue 1: Reciprocal vs. Nonreciprocal Transactions: Key Clarifications to the Scope of Subtopic 958-605

Clarified 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:



Indicators to Determine a Barrier

To determine what is a barrier, an NFP will consider indicators, which will include, but are not limited to, the following:

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

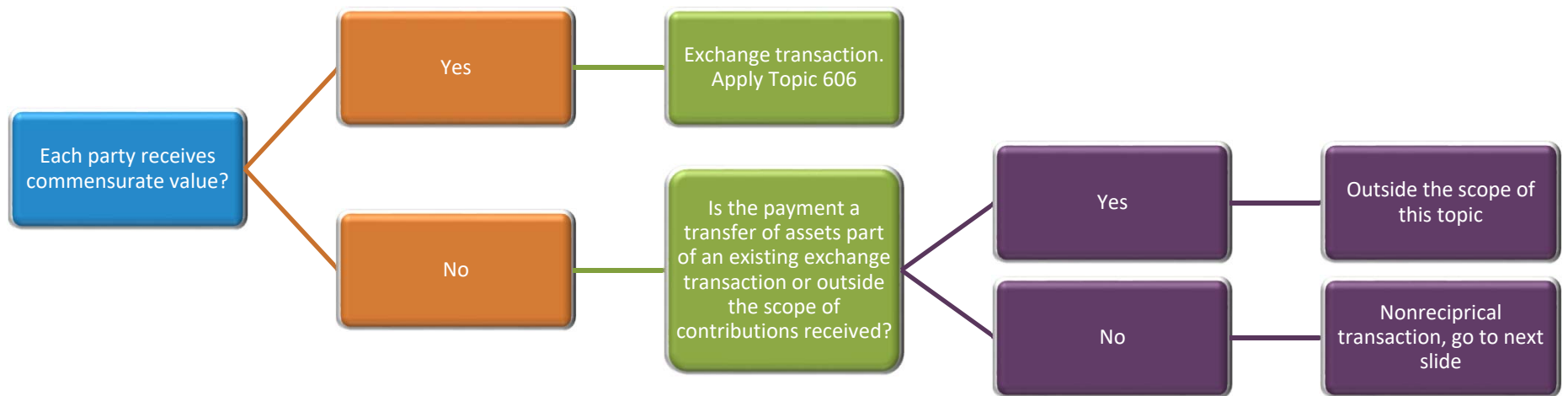
The extent to which a stipulation limits discretion by the recipient on the conduct of an activity

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

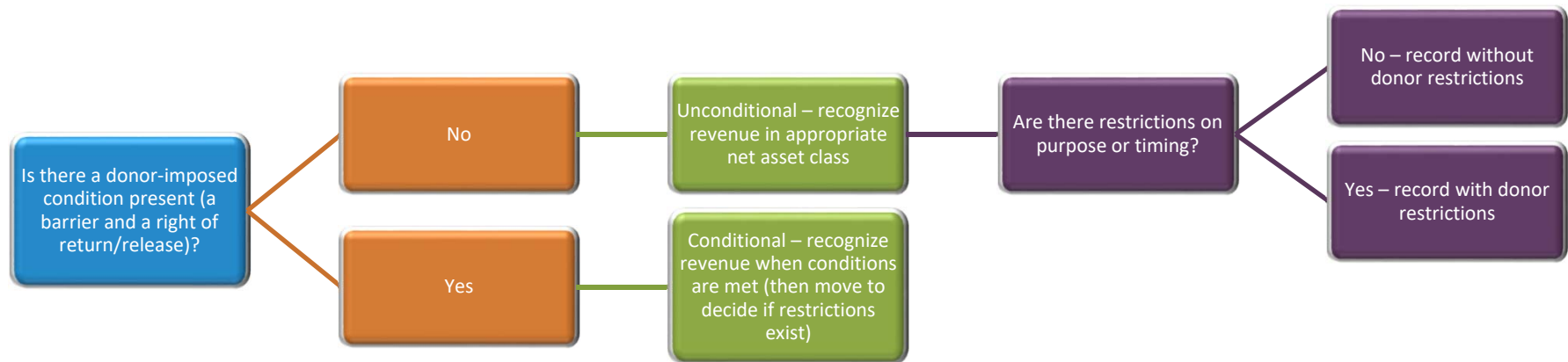
* During redeliberations, the Board decided to make additional clarifications to each indicator



Decision Tree

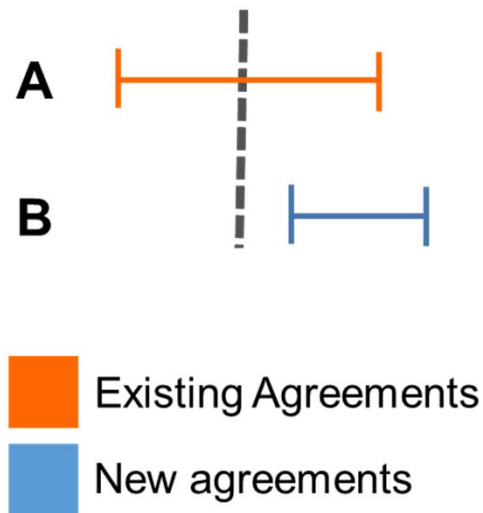


Decision Tree



Transition Approach

Effective Date



- **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 2018-18 - Practical Considerations

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Practical Considerations – Lessons Learned

- Begin early
- Inventory all grants, contributions and contracts
- Use a template to document your decision under the new guidance
- Calculate the impact of adoption





ASC 842 – *Leases*

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Why the Change?

Lessee

- Most lease assets and liabilities are off-balance sheet
- Limited information about operating leases

Lessor

- Lack of transparency regarding residual values
- Consistency with leases and revenue recognition



What is a Lease?

A contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration.



Lease Determination

- An identified asset
 - Can be explicitly or implicitly specified
 - Supplier has no practical ability to substitute
 - Supplier receives no economic benefit from substituting
- The right to control the use during the lease term
 - Decision making authority over the use of the asset
 - Ability to obtain substantially all economic benefits from the use of the asset



Contract Components



- Once it has been identified that a contract contains a lease, an entity must separate the lease components in the contract
- Lease component if **BOTH** criteria are met:
 - Lessee can benefit from the ROU either on its own or together with other readily available resources
 - The ROU is neither highly dependent nor highly interrelated with other right(s) to use underlying assets in the contract
- Consideration in the contract should be allocated to each separate lease component and nonlease component of the contract



Contract Components – In Summary

Lessee

- Separate lease components from nonlease components
- Allocate the consideration on a relative standalone basis
 - Use observable standalone prices wherever available
- May elect practical expedient to not separate the nonlease component
 - Accounting policy

Lessor

- Allocate the transaction price to separate performance obligations
 - Follows the new revenue recognition standard
- May elect practical expedient to not separate the nonlease component if certain criteria are met
 - Accounting policy





Lease Classification

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Lease Classification – Lessee

Financing lease if ANY of the following 5 conditions are met:

Transfer of ownership

Option to purchase is reasonably certain

Lease term is a major part of the economic life

Present value of lease payments is substantially all of the fair value of the underlying asset

The underlying asset is of a specialized nature

If none of the above are met, the lease is an operating lease



Lease Classification – Lessee

Lease term is “major part” of the economic life

75% or more of remaining economic life of the underlying asset

A commencement date that falls at or near the end of the economic useful life refers to a commencement date that falls within the last 25% of the total economic life

PV of the lease payments is “substantially all” of the FV of the underlying asset

90% or more of the fair value of the underlying asset



Lease Classification – Lessor

Sales type lease if ANY of the following 5 conditions are met:

Transfer of ownership

Option to purchase is reasonably certain

Lease term is a major part of the economic life

Present value of lease payments is substantially all of the fair value of the underlying asset

The underlying asset is of a specialized nature

If none of the above are met, the lease is either a direct financing lease or an operating lease



Lease Classification – Lessor

Direct financing lease if BOTH of the following conditions are met:

PV of the sum of the lease payments plus any residual value guaranteed by the lessee not already reflected in the lease payments and/or any other third party unrelated to the lessor equals or exceeds substantially all of the fair value of the underlying asset

It is probable that the lessor will collect lease payments plus any amount necessary to satisfy the residual value

If both are not met, the lease is an operating lease





Recognition and Measurement

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Lease Term – Initial Measurement

- Slightly new definition
 - Noncancellable period for which lessee has right to use the underlying asset, plus periods covered by:
 - ◇ Option if lessee reasonably certain to extend
 - ◇ Option to terminate if lessee is reasonably certain not to exercise
 - ◇ Option to extend (or not terminate) controlled by lessor
- Reasonably certain
 - Must consider all relevant factors that create an economic incentive for the lessee to exercise the option



Lease Term – Subsequent Measurement

Lessee

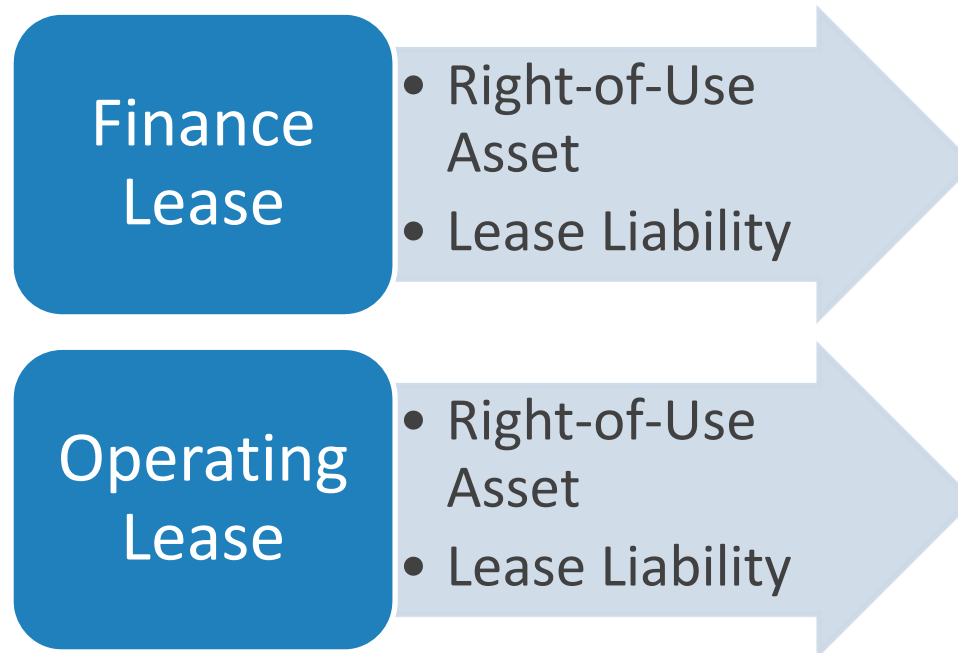
- Reassess only upon the occurrence of a significant event/change in circumstances that is within the control of the lessee
 - Absent a modification

Lessor

- Not required to reassess
 - Absent a modification



Balance Sheet Impact



Right-of-Use Asset – Initial Measurement

- Consists of all of the following at commencement date:
 - Initial measurement of the lease liability
 - Any lease payments made to the lessor at or before the commencement date, minus any lease incentives received
 - Any initial direct costs incurred by the lessee

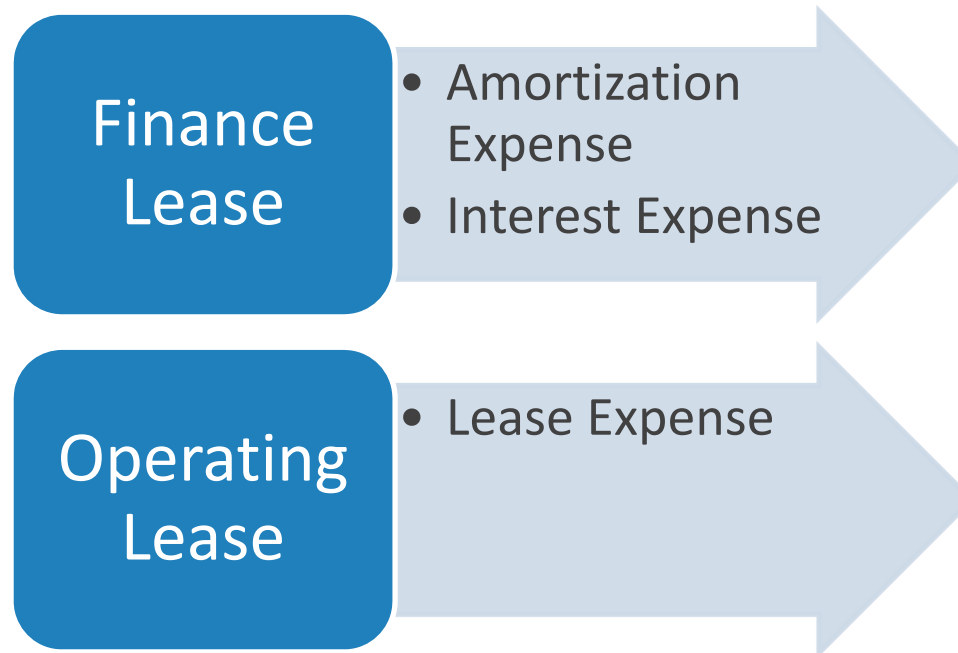


Lease Liability – Initial Measurement

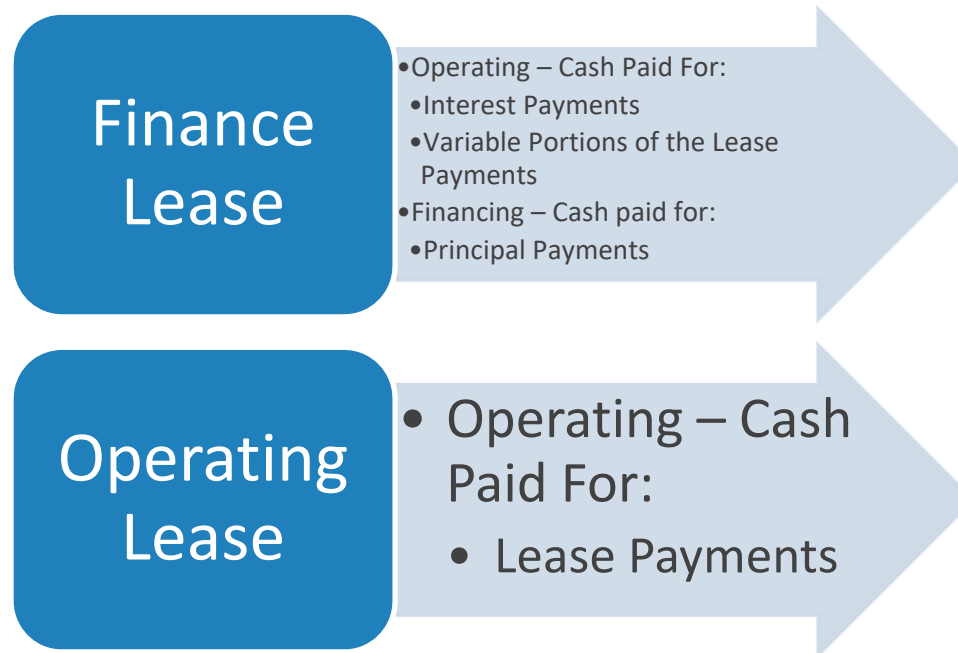
- Present value of the lease payments not yet paid, discounted using the discount rate for the lease at lease commencement
- Other than PBEs (includes all nonprofits) may elect to use the risk-free rates for measurement of all lease liabilities
 - Simpler, but will likely result in recording a larger asset and liability.
 - Can not pick and choose - It is a package
- Real estate taxes and insurance
 - Sometimes included in lease liability measurement



Income Statement Impact



Cash Flow Statement Impact



Example – Operating Lease

3 year lease term

Annual rent of \$100, escalating \$3 annually

7% interest rate



Example – Operating Lease

Initial Recognition:

Dr. ROU Asset	270	
Cr. Lease Liab		270

Year 1 Entry:

Dr. Lease Exp	103	A	
Dr. Lease Liab	81	D	
Cr. Cash			100 B
Cr. Accum Amort			84 A-C

	Expense	Liability			Asset
		Payment	Interest	Principal	Amortiza tion
Year	A	B	C	D	A-C
1	103	100	19	81	84
2	103	103	13	90	90
3	103	106	7	99	96
	309	309	39	270	270

NOTE: No amortization expense is recorded! It is a component of the lease expense!



Example – Finance Lease

3 year lease term

Annual rent of \$100, escalating \$3 annually

7% interest rate



Example – Finance Lease

Initial Recognition:

Dr. ROU Asset	270	
Cr. Lease Liab		270

Year 1 Entry:

Dr. Interest Exp	19 C	
Dr. Amort Exp	90 A	
Dr. Lease Liab	81 D	
Cr. Cash		100 B
Cr. Accum Amort		90 A

	Asset	Liability			Expense
	Amortiza tion	Payment	Interest	Principal	
Year	A	B	C	D	A+C
1	90	100	19	81	109
2	90	103	13	90	103
3	90	106	7	99	97
	270	309	39	270	309

NOTE: No lease expense is recorded.
Each component is recorded.



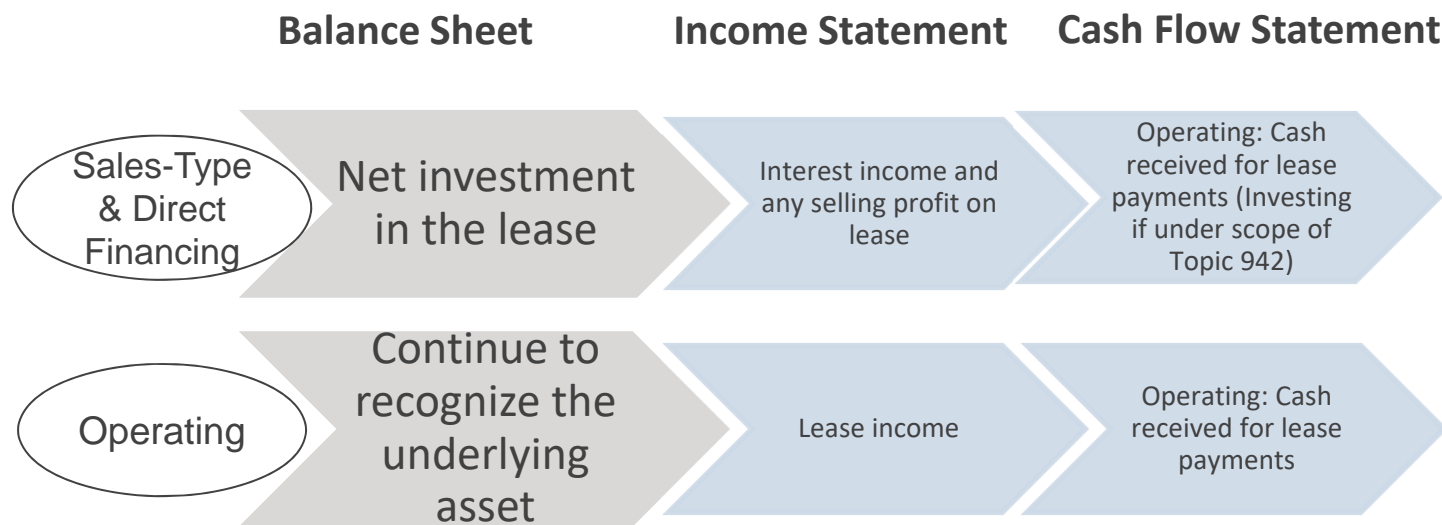


Lessor Accounting

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Lessor Accounting Model



Lessor accounting is largely unchanged

Classification criteria substantially similar to that in previous lease guidance



Sales-Type Leases—Lessor

- Derecognize the underlying asset and recognize a right to receive lease payments (the lease receivable) and a residual asset (representing the rights the lessor retains relating to the underlying asset)
- Recognize the unwinding of the discount on both the lease receivable and the residual asset as interest income over the lease term
- Recognize any selling profit or loss and initial direct costs relating to the lease at the commencement date
- Exception: if collectability of the lease payments is not probable



Direct Financing Leases—Lessor

- Derecognize the underlying asset and recognize a right to receive lease payments (the lease receivable) and a residual asset (representing the rights the lessor retains relating to the underlying asset)
- Recognize the unwinding of the discount on both the lease receivable and the residual asset as interest income over the lease term
- Recognize any selling **LOSS** relating to the lease at the commencement date
- Selling **PROFIT** and initial direct costs are deferred and included in the calculation of the net investment in the lease



Operating Leases—Lessor

- Continue to recognize the underlying asset
- Recognize lease income over the lease term typically on a straight-line basis





Other Considerations

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Transition Methods Available

CY = year of
adoption
PY =
comparative
period

Original
Transition
Method (ASU
2016-02)

- CY - 842
- PY - 842

Cumulative effect
adjustment at the
beginning of the
earliest period
presented

Additional
Transition
Method (ASU
2018-11)

- CY - 842
- PY - 840

Cumulative effect
adjustment at the
beginning of the
CY



Questions???





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Thank you!

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