1) If a donation is restricted only due to timing because it is a pledge payment, would it be with or without donor restriction? This can be a tricky area under GAAP (old GAAP and new GAAP). However, the principles are still the same, if you conclude there is an “implied” time restriction on future pledge payments, they would be recorded to net assets “with” restrictions and released to “without” once collected (caution on pledge payments for building projects where the building has already been placed into service).

2) If the organization owns buildings partially purchased with federal funds, is the federal interest considered "with donor restrictions" or "without donor restrictions"? It all depends on facts and circumstances of the agreement. The first step would be to analyze the agreement to see if it qualifies as an exchange transaction or a non-exchange transaction. If the agreement were an exchange transaction (i.e. benefit back to the funder), then it could only be recorded to net assets without donor restrictions (i.e. only non-exchange transactions could ever qualify for net assets with donor restrictions classification). If the transaction were deemed to be a non-exchange transaction, the next analysis would be to determine if the agreement contained a condition. If it did not contain a condition and assuming it was restricted toward the building, it would most likely be initially recorded as a net asset with donor restrictions. However, if this agreement were deemed conditional (as many federal awards are), the restriction and condition would likely be met simultaneously and the revenue recognition would be recorded directly to net assets without donor restrictions.

3) I thought that underwater endowments would only apply to net assets with donor restrictions. This chart says "reduce unrestricted net assets". Do we need to track "underwater" if an endowment is considered unrestricted (without restrictions)? The chart was only referring the old/new treatment for donor-restricted endowment funds. Board designated (quasi endowments) will only be recorded to net assets without donor restrictions.

4) Where do quasi-endowments fit in this? As per #3, quasi endowments can only be recorded in net assets without donor restrictions but it will be labeled as “designated” funds and have disclosure requirements similar to donor-restricted endowments.
5) Can you define "underwater" endowment? An endowment fund (usually referring to a donor-restricted fund), where the current fair value of the fund (measured by the allocated investments) is below the original gift amount. For example, a donor established an endowment fund with a gift of $100,000. However the value at 12/31/XX was only $95,000 due to unrealized market losses. In this example, the fund is underwater by $5,000.

6) Will a disaggregated statement eliminate the need for distinction of restrictions in disclosures? I think it can help and perhaps reduce certain elements of the disclosures but probably unlikely that all disclosures could be eliminated. Ultimately, the level of disaggregation should balance the needs of the reader with making sure the face of the statements don’t get too confusing (i.e. information over-load).

7) Is the underwater net amount reclassified? If there was an underwater portion in unrestricted net asset upon adoption of ASU 2016-14, there would be a need to reclassified that portion over to donor restricted net assets at the time of the adoption as the new standards no longer view under-water portions of donor restricted endowments as part of unrestricted/without donor restrictions.

8) How are grants classified, restricted assets? See discussion on ASU 2018-08. If a grant is received and determined NOT to be “conditional” (does not contain both a right of refund and barrier) but does contain a purpose restriction, the grant would be initialed recorded to net assets with donor restrictions and released from donor restricted as allowable costs are incurred.

9) Can we aggregate all Board designated funds? Yes (on the face of the statement of financial position). The notes should disaggregate the components.

10) Donations of long-live assets change—is the adopted prospectively or retroactively? Retrospectively. An organization that previously elected the release from restrictions over the life of the asset(s) would have a reclassification change (release the rest from donor restricted) upon adoption of the ASU.

11) Should pledges receivable still be recorded as "with donor restrictions" due to the time restriction, even if the pledge is intended to support general operating (i.e. unrestricted) expenses? See response to Question #1.
12) If you can't move the donation for capital purposes until assets are placed in service, how do you release the cash to pay for CIP? Cash vs. net assets are two different concepts. Effectively you are trading donor restricted cash for a donor restricted CIP item. Once the project is built, the restricted CIP is reclassified to net assets without donor restrictions.

13) Is there a certain percentage that each category should have compared to total expenses? Under GAAP no. The numbers should be what they are. Watchdog organizations may have desired metrics.

14) This looks similar to the 990, has the 990 presentation changed? The analysis of expenses by nature and function are very similar in concept to the Form 990 presentation. I am not aware of the IRS changing the presentation of the 990. I just caution nonprofits that you don’t need the same level of detail of expense items in the audited financial statements as you do in the 990. The audited financials can focus on expenses at a materiality level.

15) Would using your 990 functional expenses as a guide be a good start to the new disclosure? As stated in #14, I think it can be a good start, but further aggregation is likely appropriate (for example, no need to breakout every type of employee benefit). As a good practice, the level of expense detail in the general ledger should be able to be mapped for both types of presentations. The functional totals should generally agree between both (except for cases where certain expenses are netted to income for GAAP but reported with expenses for the 990, etc.)

16) Would it be recommended that grant expenditures be called out separately or should it be what makes sense to the institution? Materiality will be a primary factor.
17) Why can’t chief financial officer and finance staff salaries no longer be allocated to programs? We pay their bills, payroll, etc. even though we don’t supervise them? Under this theory, every single expense incurred by an organization would contribute to the exempt purpose of the organization. However, GAAP defines certain back-office functions as “management and general”. The ASC and AICPA A&A Guide go into a lot of detail on what is a program service, management/general and fundraising as well of what expenses qualify for allocations as it relates to functional reporting. The functional expense schedule can show the components that qualify as “gross” expenses under GAAP and then add allocations below the sub-total to reflect further management allocations.

18) What would be a good basis for allocation IT to programs? FTE? Total program direct costs? Those are good drivers to use. Each organization will have different facts and circumstances so reasonable judgement can be used to come up with something appropriate.

19) Is the accounting staff that directly manages grants for these programs considered direct staff? If any employee is conducting direct supervision of program staff, that time would be eligible for allocation.

20) Would donor advised funds (donor recommended grant making) be considered "liquid" resources? I would suspect that an organization that maintains donor-advised funds would likely have them designated into separate pools. In that case, they would not be eligible for financial assets available for general expenditures. Other facts and circumstances could lead to a different conclusion.

21) How do you handle donor advice funds held by the organization? Legally available but no chance they will be used. See Question #20.

22) If the organization receives notification 55 days after fiscal year-end that it has received a material effective 60 days after fiscal year-end, can that be discussed in the liquidity narrative? The organization has a lot of discretion in what they can disclose in the qualitative disclosure so this is something that could be disclosed but there is no requirement that subsequent funding be disclosed.

23) How should accrued expenses or accounts payable be handled in the liquidity footnote? Should these amounts be reducing the resources available? There is no requirement to do so.
24) When is ASU 2016-14 effective? ASU 2016-14 is effective for years beginning after Dec. 15, 2017 (i.e. generally speaking, calendar 2018 entities and fiscal 2019 entities).

25) Can the expected collections on permanent trusts within one year be included as available for liquidity purposes? Generally, yes.

26) Will a negative "liquid assets" available within a year lead to a question of "going concern"? Could be. It will spark discussion.

27) Liquidity not available for general expenditures within one year: why wouldn't you subtract out accounts payable, since they have already been committed to be paid from existing funds as of the financial statement date? There is no requirement to back out those amounts. Readers can certainly see the level of current liabilities on the balance sheet. Added disclosures can be made to the table and narrative so long as the “GAAP” sub-total is arrived at and properly labeled.

28) Slide 22 - expense reporting - what type of documentation is required to support the allocation (e.g., information technology to various programs)? The general ledger coding of expenses (nature and cost centers) will be the base-level documentation for expenses. Further allocations of cost centers (i.e. IT) would then be supported by the system (if automated) or Excel spreadsheet (if manual) that note the inputs used to drive the allocation(s).

29) How does the ability to classify certain administrative salaries as operating impact an existing indirect cost rate? These are two completely different concepts. ASU 2016-14 determines the rules for expense reporting under GAAP. Uniform Guidance (2 CFR 200), Subpart E determines how costs are reported for federal award purposes.

30) Bad question, no one would sell the bond unless in dire straits, nor would they invest in it knowing it may be needed within one year. This question deals with the polling question for which items are and are not part of the financial assets available for expenditure over the next 12 months. This person took exception at the bond that has a maturity date of more than 12 months but contains no donor or board designations. Nonprofits have accounted for investments on a mark-to-market basis for almost 25 years now. The concept of “held to maturity” does not exist (unlike the for-profit world). As an item in the portfolio, a bond can be traded at any time and thus it is liquid under these rules, absent the investment being connected to a long-term fund (endowment or board designation).
31) If "spending policy" is purpose restricted (i.e. not for general expenses) would it be appropriate to include in availability disclosure? It depends. If the purpose restriction is fairly easy to spend (i.e. financial aid for a private school where they always offer more aid than donations to support it), then I think it is fine to include. If the restriction is fairly specific and not a given it can be spent right away, then it may be proper not to include in the table. If so why (mission of NFP)? Mission or an obvious situation that operations will eat up the amounts without much difficulty.

32) Are unused lines of credit available for liquidity purposes? I have seen that argument being made and think it can be reflected but in cases where the LOC also expires within the next 12 months, it may be reason not to include.

33) If the organization owns substantive real estate in a very "hot" real estate market area, could you consider a portion of that real estate as available for spending? No. Real estate is not a financial asset and would be ineligible for inclusion in the table.

34) The future spend can be an estimate correct? Yes, but generally should be based on the documented spending policy of the organization.

35) As audit committee chair of my nonprofits, I am requiring that they use the direct method since the indirect causes board members’ eyes to glaze over. What is important is what the readers can digest.

36) Will revenue from mentoring and providing professional development be impacted? There are two new revenue ASUs impacting nonprofits. Just about every revenue stream will be impacted by one or the other.

37) We receive contributions in order to provide future services to clients. Do we wait to recognize revenue until the services are provided? Contributions are only "deferred" if they meet the new definition of "conditional". If not conditional but only restricted for the stated purposes, the contributions will be recognized as received but recorded to net assets with donor restrictions. The restrictions would be released as they are met.

38) If you have signed an exchange contract but not received any funds or provided any services, do you record the AR/deferred revenue? No.
39) Timing of reclassification of underwater endowments: If two years of financial statements are presented, is the reclassification applied to the most recent year presented? If presenting comparative financial statements, the reclass should be reflected to the earliest period presented.

40) How would the new revenue recognition standards impact a school that is a June 30 year end? All services will have been provided within the fiscal year. ASC 606 will have less of an impact for organizations whose contracts align with their fiscal year. For a school, summer school/camp or any type of service that spans over two fiscal periods will be impacted.

41) If you adopt 2018-08 early, do you need to also adopt 606 at the same time? For a non-public entity? There is no requirement to link these standards.

42) How does the idea of irrevocable pledge fit into 606? It does not. Contributions are not within the scope of ASC 606.

43) Can you give an example of an exchange transaction? Tuition, publications, conferences, dues for a trade association, etc. – basically areas where a resource provider receives value in exchange for their resources (payments/fees).

44) RE: Nonprofit contributions: Does this mean that individual contributions are not recognized for tax purposes until the conditions are met? These are GAAP requirements that we are discussing. There is no link to the tax rules.

45) Do you have any guidance on how this would apply to non-returnable initiation fees to a 501c7 private club? Would you recognize that initiation fee over the expected life of the term of the membership (could be 50 years)? Perhaps. Please speak with your CPA sooner than later to map this out. You can also email our private club practice using this LINK.
46) We have contracts with universities where ultimately the research results are provided to the general public. However both the nonprofit and the universities have to agree how to release to the public and have rights to control the release to the public. Is this still an exchange despite the ultimate use of the research goes to the general public? There are a lot of factors that will go into the evaluation of exchange vs. non-exchange. The key question is how the resource provider benefits from the arrangement. If the findings from the research are in the strict domain of the resource provider and they use it for organizational gain, then it would fall more toward exchange. If the research will be generally made available or to benefit down-stream beneficiaries, it is more likely a non-exchange transaction. As these decisions can be very tricky and agreement specific (even with the same resource provider). Please discuss with your CPA/auditor to ensure you are both on the same page. You may also reach out to the presenter of this webcast as well.

47) Conditional: Does it required both a barrier and right or return, or is this an either/or requirement? BOTH

48) Did you say that contributions/endowments are not deductible to the donor until the funds are used by the nonprofit for the ultimate purpose? (So, multi-year endowment would be deductible to donor only proportionately each year? The question appears to be a tax question in nature. The rule changes discussed on the webcast focus on changes to recognition for gifts made and received as per generally accepted auditing standards (GAAP). The donor would have to evaluate the deductibility of gifts for tax purposes with their tax provider.

49) With conditions to revenue, would we have any such thing as a restricted by donor net assets? There is nothing to record to net assets so long as amounts are conditional (conditions are blockers to recognition and must be overcome before amounts are recorded).

50) If the nonprofit received a grant for a one year period, and the funds are supposed to use for grant making, based on the new revenue recognition, do I have to wait until the grant making takes place? Currently we record the pledge, do the grant making, and then do a release entry from temp to unrestricted. Would that change? Maybe. It all depends on how the grant is worded and if deemed to be conditional or not.

51) Government grants with both activity and cost share requirements pose a problem. Activity is measured throughout, ratably, but the cost share is not
required to be ratable. It is measured at the end of the grant. Agreed. The FASB is looking at the cost share requirements to see if that should impact revenue recognition. In the end, we hope there is no change in this area for the reason you state. Stay tuned.

52) If there is a right of return and a both barrier and non-barrier component of grant payment, the non-barrier component can be recognized, it would only be the barrier component which is not recognizable, correct? Agreements can be split as appropriate.

53) We have reimbursable state grants that prepay before we have incurred the expense. Would this non-expensed money be a donor restriction? IF, the state grant was determined to be “conditional”, the transfer of money would be treated as just a balance sheet transaction (debit=cash;credit=liability) until revenue recognition criteria are met. CASH RECEIPTS IN ADVANCE DO NOT OVERRIDE THE CRITERIA.

54) Do you expect banks to be lenient to modify debt covenants due to the change in lease accounting? We have seen different responses. You should contact your bank sooner than later to get their input.

55) Can you give an example on how you would record an operating lease payment? This was covered later in the presentation. You would need to utilize the amortization tables created at the effective date of the lease but generally the typical entry will credit cash for the actual lease payment, debit the S/L expense for the period from the amortization tables, and then adjust the right of use asset and lease obligation components on the balance sheet as called for in the amortization tables.

56) For implementation of standards impacted by public debt, if debt is matured in the year the standard is applicable, are you considered having the debt in that year? Since the standards are generally effective at the beginning of the fiscal year after a certain date, I would think you would have to adopt early even though a refinancing took place later during the year. There may be some practical considerations so chat with your auditor to have a meeting of the minds.

57) Where may I obtain the value to use for a "risk-free interest rate"? I presume that is available in one or more websites. This will typically be tied to the U.S. T-Bill rate for a similar termed item. You will be able to search for these rates on the internet.
58) What is the best source for determining the discount rate? See #57

59) Do we use the risk-free rate based on treasury rates as of the first day of the lease for the entire term? Yes, the rate should not change after it is determined.

60) Does this apply to equipment leases? All material leases with a probable term of more than 12 months will be impacted, including equipment leases.

61) What is the definition of restricted cash? Cash received from donors for restricted purposes but not yet expended? Not necessarily. Donor restricted gifts usually don’t create a restricted asset, but a net asset – this goes to the fungible nature of cash. Perhaps uninvested cash receipts for an endowment would be the exception. Typically, restricted cash relates to draws from new financing but that have not been spent on the project yet, sinking funds for debt, collateral on lines of credits or other purposes.

62) Regarding the previous discussion on investment returns, what is the rationale for offsetting salary time? It would seem a lot of deviation in practice for calculating these time estimates could skew the actual return, or in cases where some organizations have no salaried staff, two entities with an identical investment portfolio would show a completely different return. Your point is valid. However, a nonprofit with a very large portfolio who pays material amounts of investment management fees will be different than a non-profit who does not pay these fees as they have experts on staff.

63) Should accounts payable and accrued expenses be considered for the liquidity footnote calculation? Not required as previously discussed.

64) What is the effective date for ASU 2018-08 for non-public entities on a fiscal year basis? The revenue portion is effective for years beginning after 12/31/18 (i.e. calendar 2019 or Fiscal year 2019)

65) If my fiscal year-end is June 30 and my LOC expires November 2019, I should not include in liquidity? Perhaps not

66) Did you confirm that an unused line of credit can be used? Yes, in certain circumstances as previously discussed.