Today’s instructors

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Agenda

• FASB Activity for Nonprofits
• Nonprofit Financial Statements
• Revenue Recognition
• Grants and Contracts – a FASB Clarification
• Leases
• Fair value disclosures
• Other Matters
• Q&A
FASB ACTIVITY FOR NONPROFITS
FASB Activity for Nonprofits

• Standards to be implemented
  - ASU 2016-14 – Financial Statement Presentation
  - ASU 2016-18 – Cash Flows
  - Topic 606 – Revenue Recognition
  - ASU 2018-08 – Contributions and Grants
  - Topic 842 – Leases
  - ASU 2018-13 – Fair Value Disclosures
  - ASU 2017-07 and 2018-14 – Defined Benefit Pension Plans
  - ASU 2019-03 – Definition of Collections

• Proposed Standards
  - Goodwill and Intangibles
NONPROFIT FINANCIAL STATEMENTS
ASU 2016-14
ASU 2016-14 – Effective Date and Transition

- **Effective date**: For fiscal years beginning after 12/15/2017 (e.g., CY 2018 or FY2019)
  - Interim financials the following year
- **Early Adoption**: Permitted, but must apply the regular transition provisions.
- **Transition**:
  - For year of adoption: apply all provisions.
  - For comparative years presented: apply all provisions, except can choose not to present:
    a) Analysis of expenses by nature and function (where requirement is new), and/or
    b) Disclosures around liquidity and availability of resources
Key Provisions of ASU 2016-14

- Net asset classification
- Liquidity & Availability
- Reporting of expenses
- Cash flows statement
- Investment Return
## ASU 2016-14 - Net asset classification

<table>
<thead>
<tr>
<th>Current GAAP</th>
<th>Revised GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Assets:</strong></td>
<td><strong>Net Assets:</strong></td>
</tr>
<tr>
<td>• Unrestricted</td>
<td>• Without Donor Restrictions</td>
</tr>
<tr>
<td>• Temporarily Restricted</td>
<td>• With Donor Restrictions</td>
</tr>
<tr>
<td>• Permanently Restricted</td>
<td></td>
</tr>
<tr>
<td><strong>Disclosure:</strong></td>
<td><strong>Disclosure:</strong></td>
</tr>
<tr>
<td></td>
<td>• Amount, purpose and type of board designations</td>
</tr>
<tr>
<td></td>
<td>• Nature and amount of donor restrictions</td>
</tr>
<tr>
<td><strong>“Underwater” Endowments</strong></td>
<td><strong>Net Assets:</strong></td>
</tr>
<tr>
<td>• Reduce unrestricted net assets</td>
<td>• Reflect in net assets with donor restrictions</td>
</tr>
<tr>
<td><strong>Disclosure:</strong></td>
<td><strong>Disclosure:</strong></td>
</tr>
<tr>
<td></td>
<td>• Aggregate of original gift amounts, fair value</td>
</tr>
<tr>
<td></td>
<td>• Board policy</td>
</tr>
</tbody>
</table>
# Statement of Financial Position

## NET ASSETS

<table>
<thead>
<tr>
<th></th>
<th>Without donor restrictions</th>
<th>With donor restrictions</th>
<th>Total net assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undesignated</td>
<td>999,000</td>
<td>324,000</td>
<td></td>
</tr>
<tr>
<td>Designated by the Board for endowment</td>
<td>600,000</td>
<td>590,000</td>
<td>1,599,000</td>
</tr>
<tr>
<td>Total without donor restrictions</td>
<td>1,599,000</td>
<td>914,000</td>
<td>2,644,000</td>
</tr>
<tr>
<td>Time restricted</td>
<td>170,000</td>
<td>197,000</td>
<td>1,045,000</td>
</tr>
<tr>
<td>Purpose restricted</td>
<td>150,000</td>
<td>295,000</td>
<td>1,192,000</td>
</tr>
<tr>
<td>Endowment</td>
<td>725,000</td>
<td>700,000</td>
<td></td>
</tr>
<tr>
<td>Total with donor restrictions</td>
<td>1,045,000</td>
<td>1,192,000</td>
<td>2,106,000</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td><strong>2,644,000</strong></td>
<td><strong>2,106,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

FASB definition of board-designated net assets includes when board delegates decisions to management – consider need for Board policy.
# ASU 2016-14 – Donations of Long-lived assets

## Current GAAP vs. Revised GAAP

<table>
<thead>
<tr>
<th>Current GAAP</th>
<th>Revised GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Assets:</strong></td>
<td><strong>Net Assets:</strong></td>
</tr>
<tr>
<td>• Gifts of cash restricted for acquisition or construction of long-lived assets:</td>
<td>• All NFPs required to use placed-in service approach</td>
</tr>
<tr>
<td>• Implied time restriction, or</td>
<td>• Time restriction only if explicit by donor</td>
</tr>
<tr>
<td>• Placed-in-service approach</td>
<td></td>
</tr>
<tr>
<td><strong>Note:</strong> Healthcare NFPs are already required to use placed-in service approach</td>
<td></td>
</tr>
</tbody>
</table>
ASU 2016-14 – Expense reporting

• All NFPs required to disclose expenses by function and natural classification in notes or on face of statements

• New requirement to disclose methods used to allocate costs among programs and support functions

<table>
<thead>
<tr>
<th></th>
<th>Program A</th>
<th>Program B</th>
<th>Program Services</th>
<th>Management and General</th>
<th>Fundraising</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants</td>
<td>$1,524,000</td>
<td>$93,000</td>
<td>$1,617,000</td>
<td>$105,000</td>
<td>$-</td>
<td>$1,722,000</td>
</tr>
<tr>
<td>Salaries and benefits</td>
<td>1,243,000</td>
<td>42,000</td>
<td>1,285,000</td>
<td>16,000</td>
<td>531,000</td>
<td>1,832,000</td>
</tr>
<tr>
<td>Education and awareness</td>
<td>676,000</td>
<td>30,000</td>
<td>706,000</td>
<td>54,000</td>
<td>245,000</td>
<td>975,000</td>
</tr>
<tr>
<td>Occupancy</td>
<td>178,000</td>
<td>25,000</td>
<td>203,000</td>
<td>30,000</td>
<td>72,000</td>
<td>280,000</td>
</tr>
<tr>
<td>Professional services</td>
<td>35,000</td>
<td>85,000</td>
<td>120,000</td>
<td>48,000</td>
<td>45,000</td>
<td>128,000</td>
</tr>
<tr>
<td>Printing</td>
<td>104,000</td>
<td>33,000</td>
<td>137,000</td>
<td>1,000</td>
<td>74,000</td>
<td>179,000</td>
</tr>
<tr>
<td>Information technologies</td>
<td>10,000</td>
<td>5,000</td>
<td>15,000</td>
<td>4,000</td>
<td>35,000</td>
<td>49,000</td>
</tr>
<tr>
<td>Travel</td>
<td>46,000</td>
<td>33,000</td>
<td>79,000</td>
<td>1,000</td>
<td>11,000</td>
<td>58,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>33,000</td>
<td>11,000</td>
<td>44,000</td>
<td>6,000</td>
<td>13,000</td>
<td>52,000</td>
</tr>
<tr>
<td>Other</td>
<td>47,000</td>
<td>33,000</td>
<td>80,000</td>
<td>18,000</td>
<td>113,000</td>
<td>178,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$3,896,000</strong></td>
<td><strong>$390,000</strong></td>
<td><strong>$4,286,000</strong></td>
<td><strong>$283,000</strong></td>
<td><strong>$1,139,000</strong></td>
<td><strong>$5,453,000</strong></td>
</tr>
</tbody>
</table>
Certain expenses are attributable to more than one program or supporting function. These expenses are allocated consistently on the following bases:

- Depreciation, interest and occupancy costs are allocated based on square-footage used by each function.
- Salaries and benefits are allocated based on estimates of time and effort

See FASB ASC 958-720-55-176 and 958-205-55-21 for other examples.
ASU 2016-14 – Expense reporting

• New concept –
  - *Direct conduct* or *direct supervision* of a function should be allocated out of management and general

• Examples:
  - Information technology
  - Direct supervision of program by senior manager
  - Direct conduct of fundraising by CEO
ASU 2016-14– Liquidity and Availability of Resources

Qualitative
In notes
• How NFP manages its liquid available resources
• How NFP manages liquidity risks

Quantitative
In notes and/or on the face
• Information about the availability of financial assets at balance sheet date to meet cash needs for general expenditures within one year
• Availability may be affected by nature, external or internal limits
ASU 2016-14 – Liquidity Disclosure, Qualitative

• The organization has a policy to maintain available cash and short-term investments to meet 90 days of normal operating expenses, which are, on average, approximately $1,250,000. Cash in excess of daily requirements is invested in various short-term investments with maturities designed to meet obligations as they come due. In addition the organization, as more fully described in note 11, has committed lines of credit of $100,000.

• See FASB ASC 958-210-55-5 through 958-210-55-8 for other examples
ASU 2016-14 – Availability Disclosure, Quantitative

Financial assets, at June 30, 2017* $ 523,000
Less those unavailable for general expenditures within one year, due to:

Contractual or donor-imposed restrictions:
- Restrictions by donor with time or purpose restrictions (52,000)
- Donor-restricted endowments** (185,000)
- Investments held in annuity trust (8,000)
- Deposits with banks securing letters of credit (100,000)

Board designations:
- Quasi-endowment fund, primarily for long-term investing** (125,000)
- Amounts set aside for liquidity reserve (10,000)

Financial assets available to meet cash needs for general expenditures within one year $ 43,000

*Total assets, less nonfinancial assets (e.g., PP&E, inventory, prepaids)

**Excludes amounts that have been appropriated for next 12 months that do not have purpose restrictions
ASU 2016-14– Liquidity and Availability of Resources

• See FASB ASC 958-210-55-5 through 958-210-55-8 for examples and Appendix A in AICPA Audit and Accounting Guide

• Additional examples are available online to AICPA NFP Section members
ASU 2016-14—Liquidity and Availability of Resources

• Difficult areas
  - There is no definition of general expenditures
    • Should you include projects funded with restricted contributions?
  - How to present quantitatively
    • Show all financial assets and deduct those not available, or present only those that are available?
    • Are all endowments available to appropriate available, or only the amounts based on board spending policy?
    • What to do with financial assets of subsidiary subject to subsidiary boards for distribution?
  - How much information to include in qualitative note?
  - Important to include information to indicate organization’s interpretations and policies
Investment return will be shown net of external and direct internal investment expenses

May report in multiple lines (e.g. different portfolios, operating versus non-operating)

Disclosure of investment expenses not required
Disclosure of investment return components no longer required
ASU 2016-14 – Investment Expenses

<table>
<thead>
<tr>
<th>Do not include investment expenses in functional expense analysis – except for programmatic investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net expenses that involve <strong>direct conduct</strong> or <strong>direct supervision</strong> of strategic and tactical activities involved in generating investment return</td>
</tr>
<tr>
<td>Net direct and allocable costs.</td>
</tr>
<tr>
<td>Do not net costs such as unitization or endowment recordkeeping</td>
</tr>
</tbody>
</table>
ASU 2016-14 Operating measure: Improved disclosures

• For those nonprofits that utilize an operating measure and show governing board designations, appropriations, and similar actions (internal transfers) in the measure
  - Must report these type of internal transfers appropriately **disaggregated**, described by type,
  - either on the face of the financial statements or in the notes
### Operating Cash Flows

#### Direct Method

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash received from tuition</td>
<td>$23,258,000</td>
<td>$22,800,000</td>
</tr>
<tr>
<td>Cash received for auxiliary services</td>
<td>16,800,000</td>
<td>16,450,000</td>
</tr>
<tr>
<td>Cash received for contributions</td>
<td>4,500,000</td>
<td>3,723,000</td>
</tr>
<tr>
<td>Cash payments to employees and vendors</td>
<td>(43,029,000)</td>
<td>(42,279,000)</td>
</tr>
<tr>
<td>Interest and dividends received</td>
<td>55,000</td>
<td>38,000</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>1,584,000</td>
<td>732,000</td>
</tr>
</tbody>
</table>

#### Indirect Method

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net assets</td>
<td>$1,158,000</td>
<td>$783,000</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash provided (used in) operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>148,000</td>
<td>133,000</td>
</tr>
<tr>
<td>Donated securities</td>
<td>(120,000)</td>
<td>(85,000)</td>
</tr>
<tr>
<td>Net depreciation (appreciation) on investments</td>
<td>85,000</td>
<td>(23,000)</td>
</tr>
<tr>
<td>Decrease (increase) in receivables</td>
<td>183,000</td>
<td>(85,000)</td>
</tr>
<tr>
<td>(Increase) decrease in prepaid expenses and other assets</td>
<td>(11,000)</td>
<td>13,000</td>
</tr>
<tr>
<td>Increase (decrease) in accounts payable and accrued expenses</td>
<td>203,000</td>
<td>(15,000)</td>
</tr>
<tr>
<td>(Decrease) increase in other liabilities</td>
<td>(54,000)</td>
<td>11,000</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>1,584,000</td>
<td>732,000</td>
</tr>
</tbody>
</table>
• Prepare pro-forma with new layout
• Draft new/expanded disclosure requirements
• Determine needed board policies for:
  - Maintenance of liquid resources
  - Evaluating availability
  - Delegation of authority for designation of net assets
• Most significant new disclosures to consider:
  - Liquidity
  - Availability
  - Expenses
REVENUE RECOGNITION
The following table lists the mandatory effective date and early adoption provisions of ASC 606.

<table>
<thead>
<tr>
<th></th>
<th>Public entities*</th>
<th>Other entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective date:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interim reporting periods within that annual period.</td>
<td>Interim reporting periods within annual reporting periods beginning after December 15, 2019.</td>
</tr>
<tr>
<td>Early adoption:</td>
<td>Permitted for:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Annual reporting periods beginning after December 15, 2016.</td>
<td>Permitted for:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Interim reporting periods:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• within the annual reporting period of adoption; or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• within the annual reporting period subsequent to the annual reporting period of adoption.</td>
</tr>
</tbody>
</table>

* (1) public business entities, (2) not-for-profit entities that have issued or are conduit bond obligors for securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and (3) employee benefit plans that file or furnish financial statements with or to the SEC.
Applications to most contracts with customers
- Contributions are excluded
  - Most revenue sources that are exchange transactions will be impacted, in particular those with impact beyond reporting period:
    - Tuition and fees
    - Membership dues
    - Licenses and royalties
    - Health care revenues
    - Continuing care retirement communities
Each organization needs to identify all revenue streams and **document** how revenue recognition is being addressed.
ASU 2014-09 - Nonprofit Implementation issues

- AICPA’s Revenue Recognition Audit and Accounting Guide:
  - Not-For-Profit Entities
    - Tuition and Housing Revenues
    - Subscriptions and Membership Dues
    - Bifurcation of Transactions Between Contribution and Exchange Components
  - Health Care Entities

- NACUBO Guidance on Tuition Revenue Recognition
GRANTS AND CONTRACTS – A FASB CLARIFICATION
Revenue recognition – grants and contracts

• Key question addressed by FASB
  - Which grants and contracts should be subject to new revenue recognition rules?
  - When is a grant or contract a contribution, when is it a contract with a customer?

• Diversity in practice – particularly for government contracts

• Two issues:
  1. Reciprocal vs. nonreciprocal
  2. Conditional vs. unconditional
ASU 2018-08 - Clarifying the Scope and the Accounting Guidance for Contributions Made and Contributions Received

• Effective Date
  - For public business entities, nonprofit entities that have public debt or are conduit debt obligors for public debt and certain employee benefit plans
    • Transactions as recipient: annual periods beginning after June 15, 2018, including interim periods.
    • Transactions as provider: annual periods beginning after December 15, 2018, including interim periods.
  - For all other transactions as recipients: annual periods beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2019.
  - For all other transactions as providers, annual periods beginning after December 15, 2019 and interim periods within annual periods beginning after December 15, 2020.
  - Early adoption is permitted.

• Note that an entity can both receive and provide grants and have different implementation dates for each type
NFP Revenue Recognition Decision Process – Step 1

Transaction in which each party directly receives commensurate value?
- Yes: Reciprocal transaction. Apply Rev Rec (ASC 606) or other guidance.
- No: Payment from third party on behalf of existing reciprocal transaction?
  - Yes: Balance sheet only transaction.
  - No: Apply contribution guidance.

Based on FASB chart
Contributions Made Decision Process

Transaction in which each party directly receives commensurate value?

Yes

Exchange transaction. Follow expense accounting.

No

Apply contribution guidance

Based on FASB chart
Reciprocal vs. nonreciprocal

• Current Practice
  - Exchange transactions:
    - Benefit to resource provider
    - Benefit to third parties
    - Benefit to general public

• FASB Clarification
  - Exchange transactions:
    - Benefit to resource provider
    - Benefit to third parties
    - Eg tuition or Medicare
  - Contributions:
    - Benefit to general public

Execution of the resource provider’s mission, or the donor receiving ‘positive sentiment’, does not constitute commensurate value for purposes of evaluating exchange transaction or contribution accounting.
NFP Revenue Recognition Decision Process – Step 2

- Conditions present (i.e., right of return/release and barrier)?
  - Yes: Conditional - Recognize revenue when condition is met
  - No: Restrictions present (i.e., limited purpose or timing)?
    - Yes: Unconditional and restricted
    - No: Unconditional and without restrictions (unrestricted)

Based on FASB chart
NFP Contributions Made Decision Process – Step 2

- **Conditions present (i.e., right of return/release and barrier)?**
  - Yes
    - **Conditional:** Recognize expense when condition or conditions are met
  - No
    - **Meeting of Conditions**
    - **It is unconditional. Recognize expense**

Based on FASB chart
Conditional vs. Unconditional Contributions

• Conditions must include
  - Right of return of funds or release of obligation to make additional payments
  - A barrier that must be overcome

• Probability assessment no longer used
  - Do not consider remoteness
  - Do not consider likelihood that recipient NFP will meet conditions
Indicators to Determine a Barrier

- Measurable performance related barrier
- Stipulations related to purpose of agreement
- Limited discretion by recipient
Measurable performance related barrier - Examples

• Recipients entitlement to assets contingent upon:
  - A specified level of service
  - Identified number of units of output
  - Specific outcome
  - Matching requirement
Stipulations related to purpose of agreement - Examples

• Administrative and trivial stipulations are considered unrelated to purpose and therefore do not constitute a barrier
• A requirement for a research report summarizing findings could constitute a barrier
• A report on whether or not stipulations are met would not constitute a barrier
Limited discretion by recipient - Examples

• Specific guidelines for incurring qualifying expense – such as federal cost regulations
• The hiring of specific employees, or an identified professor at a university
Impact of Changes

• More grants likely considered conditional
• Challenge for granting entities to know when conditions are met
• May impose administrative burden on granting entities
ASU 2018-08 - Transition

• The ASU may be adopted using the modified prospective basis, with no restatement of opening net assets or equity, with the full retrospective method of adoption permitted. Under the modified prospective basis, it is applied to agreements that are:
  - Not completed as of the effective date, with the ASU’s guidance applied only to the portion of revenue or expense not yet recognized (before the effective date).
  - Entered into after the effective date.
LEASES
• A lease contract provides the right to use an asset for a period of time from lessor to lessee.

• New accounting is like owning the asset for a limited period of time, less than useful life, often less than useful life

• Will have significant impact to balance sheets

• Could impact debt covenants
### Operating Leases
- Balance Sheet:
  - Right-of-use asset
  - Liability
  - Activities
  - Lease expense

### Finance Leases
- Balance Sheet:
  - Right-of-use asset
  - Liability
  - Activities
  - Interest expense
  - Amortization expense

Assets and liabilities should be recognized for all leases other than those with a lease term of 12 months or less.
Items of specific interest to not-for-profit entities

• Discount rate: Risk-free discount rate may be used
• Related party leases: Account for based on the legally enforceable terms and conditions
  - “Substance over form” guidance in current US GAAP will not be retained
• Disclosure requirements: Many new disclosures
  - No relief for nonpublic business entities
ASU 2016-02 - Leases

• Effective date for NFPs for calendar year 2019 for those with public or conduit debt and one year later for others.
• This is one year after effective date for revenue recognition.
• Early adoption is permitted.
Ten year office lease - annual rent $50,000

Current disclosure:

Statement of financial position - NONE

Statement of activities:
Occupancy expense $ 50,000

Note:
Summarize terms of lease.
Lease commitments:
Year ending December 31:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$ 50,000</td>
</tr>
<tr>
<td>2018</td>
<td>50,000</td>
</tr>
<tr>
<td>2019</td>
<td>50,000</td>
</tr>
<tr>
<td>2020</td>
<td>50,000</td>
</tr>
<tr>
<td>2021</td>
<td>50,000</td>
</tr>
<tr>
<td>Thereafter</td>
<td>250,000</td>
</tr>
<tr>
<td>Total</td>
<td>$ 500,000</td>
</tr>
</tbody>
</table>
### Future disclosure:

#### Statement of financial position:

<table>
<thead>
<tr>
<th>Assets:</th>
<th>Liabilities:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Right of use asset - office lease</td>
<td>Lease obligation $405,545</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Statement of activities:</th>
<th>Note:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupancy expense $50,000</td>
<td>Summarize terms of lease and describe it as operating lease that has been discounted at a risk free rate of return of 4 percent based on treasury rates.</td>
</tr>
</tbody>
</table>

Disclose total lease cost - $50,000, payable as follows:

<table>
<thead>
<tr>
<th>Year ending December 31:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$ 50,000</td>
</tr>
<tr>
<td>2018</td>
<td>50,000</td>
</tr>
<tr>
<td>2019</td>
<td>50,000</td>
</tr>
<tr>
<td>2020</td>
<td>50,000</td>
</tr>
<tr>
<td>2021</td>
<td>50,000</td>
</tr>
<tr>
<td>Thereafter</td>
<td>250,000</td>
</tr>
<tr>
<td>Total</td>
<td>500,000</td>
</tr>
<tr>
<td>Less discount at 4% per annum</td>
<td>(94,455)</td>
</tr>
<tr>
<td>Lease obligation</td>
<td>$405,545</td>
</tr>
</tbody>
</table>

In subsequent years, lease obligation increases by amortization of discount and reduces by payment. Right of use asset increases by amortization of discount and reduces by annual straight-lined expense.
FAIR VALUE MEASUREMENTS
ASU 2018-13 – Fair Value Disclosures
  - Modifications to disclosure requirements

Effective for fiscal years beginning after December 15, 2019

Early adoption of all provisions or just the removal and modification items is permitted

Certain items, as applicable, should be applied prospectively while others should be applied retrospectively
• **Removals from the fair value table**
  - Amount and reasons for transfers between Level 1 and 2
  - The policy for timing of transfers between levels
  - The valuation processes for Level 3 items
  - Changes in unrealized gains/losses for the period included in earnings for recurring Level 3 items (only for nonpublic entities) (this was generally N/A for NFP as a practical matter)
• Modifications to the fair value table
  - Level 3 roll-forward can be replaced with just disclosures of transfers in/out of Level 3 and purchases/issues of Level 3 items (nonpublic entities only)
  - For NAV/NAV-equivalent investments, the entity is required to disclose the timing of liquidation of investee’s assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly
  - The measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date
• Additions to the fair value table (not required for nonpublic entities)
  - The changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period
  - The range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements
OTHER MATTERS
ASU 2016-18 - Restricted cash

• Practice issues identified:
  - Restricted cash is not defined
  - Classification of changes in restricted cash on the cash flows statement

• Requires
  - Disclosure of nature of restrictions
  - Restricted cash to be included in cash and cash equivalents on the cash flows statement
  - Tabular reconciliation

• Effective date
  - Public business entities for fiscal years beginning after December 15, 2017
  - All others, including all nonprofit entities, fiscal years beginning after December 15, 2018
ASU 2017-07, ASU 2018-14, Compensation—Retirement Benefits (Topic 715)

• ASU 2017-07
  - Service cost component to be presented in same line as compensation costs
  - The other components to be presented separately from the service cost component and outside the operating measure, if one is presented.
  - Effective for CY 2018, FY 2019

• ASU 2018-14
  - Streamlines disclosure
Other FASB modifications

• ASU 2019-03 – Definition of Collections
  - Permits use of proceeds from deaccessioned collections to be used for ‘direct care.’

• Proposed statement – Goodwill and intangibles
  - Extends private company accounting alternative to nonprofit entities
    • Permits amortization of goodwill and simplification of accounting for intangibles identified in an acquisition.
AICPA

- AICPA has no GAAP writing authority
- Audit Guides continue to be most readable information readily available to assist in applying GAAP
- New AICPA Not-for-Profit Section
- AICPA Not-for-Profit Certificate Program
Thought Leadership Available from RSM

• Nonprofit Industry Pages
  - Muse newsletter and webcasts

• Financial Reporting Resource Center
  - [www.rsmus.com/FRRC](http://www.rsmus.com/FRRC)

• Revenue Recognition Resource Center

• Industry Resources
QUESTIONS AND ANSWERS
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