2024 Nonprofit GAAP Update

Rehmann

EMPOWER YOUR PURPOSE

Meet the Presenter

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Session Outline

New ASU Impacting NFPs

ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments - CECL

Revenue Reporting for NFPs – Refresher!

Polling Question #1

ASU 2016-13, *FINANCIAL INSTRUMENTS – CREDIT LOSS (ASC 326)*

ASC 326: Current Expected Credit Loss Standard

- FASB ASU 2016-13, CECL, requires the immediate recognition of estimated expected credit losses over the life of a financial instrument, including loans, trade receivables, net investments in leases and certain off-balance sheet credit exposures
- Effective for fiscal years beginning after December15, 2022
- Modified retrospective approach

CECL Objective

Objective

- Reduce complexity in US GAAP by reducing the number of credit impairment models entities use to account for financial instruments
- Provide more timely recognition of losses from impairment of financial instruments
- Disclosures will provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses

In Scope vs. Out of Scope

In Scope

- Trade receivables
- Loans receivables
- Held-to-maturity debt securities
- Receivables from repurchase agreements
- Net investments in sales-type and direct financing leases
- Reinsurance receivables
- Financial guarantees

Out of Scope

- Investments at fair value with changes in fair value reported through change in net assets
- Available-for-sale debt securities
- Loans receivables that are held for sale
- Contributions receivable
- Loans and receivables between entities of common control
- Operating lease receivables
- Equity method investments
- Derivatives

Incurred Loss Model vs. Expected Loss Model

Previous Incurred Loss Model

- Losses recorded when probable of being incurred
- No indications of loss = no reserve required
- Historical experience
- Typically applied to past-due amounts (trade receivables)

Expected Loss Model

- No threshold for recognition - all expected credit losses over the life of the instrument recorded on day 1
- Allowance for credit losses is required, even if the risk is remote
- Historical, current data and forecasts of the future
- Applied to all balances, including current

Polling Question #2

Measurement of CECL

- Requires an entity to determine the allowance for credit losses based on the amortized costs of the financial asset
- Measurement is to be made on a collective pool basis when similar risk characteristics exist across multiple instruments
    - Financial asset type
    - Size
    - Term
    - Location
    - Credit loss patterns
- CECL does not identify a specific method to calculate the allowance for credit losses

Measurement of CECL

- Entity should develop an estimate of credit losses based on historical information, current conditions, and reasonable and supportable forecasts
- Requires an entity to estimate and recognize an allowance for credit losses for a financial instrument, even when the expected risk of credit loss is remote
- Requires an entity to estimate lifetime expected credit losses
  - Using available data at balance sheet date

Write-offs and Zero Expected Credit Losses

Write-offs

- Write-offs happen once determination the asset is uncollectible
  - No real change to this process
  - Requires use of judgment in this assessment

Zero Expected Credit Losses

- The standard does not require an entity to measure expected credit losses on an instrument, if historical information adjusted for current conditions AND reasonable forecasts result in zero expected credit losses in ALL scenarios
  - Examples – receivables from governmental entities or U.S. Treasury securities

Polling Question #3

CECL and Trade Receivables

- Model applies for exchange transaction receivables (ASC 606)
- Pooling of trade receivables
  - Aging buckets (common approach)
  - Locations
  - Customer industry
- Current receivables will have an allowance under the CECL model

CECL and Loan Receivables

Additional considerations needed:

- Accrued interest
- Discounts/premiums
- Forecast periods (life of the loan) or reverting to historical loss
- Risk pools and credit quality indicators
- Collateral

Disclosures

- Description of management's policy for the allowance for credit losses
- Rollforward of the allowance balance
- Aging analysis of past due amounts
- Credit quality indicators
- First year – needs to have impact of the adoption disclosed as part of the rollforward
  - Beginning balance $100,000
  - Impact of adoption $10,000
  - Adjusted beginning balance $110,000

For all new standards, NFPs should determine the scope and materiality of the standard's impact

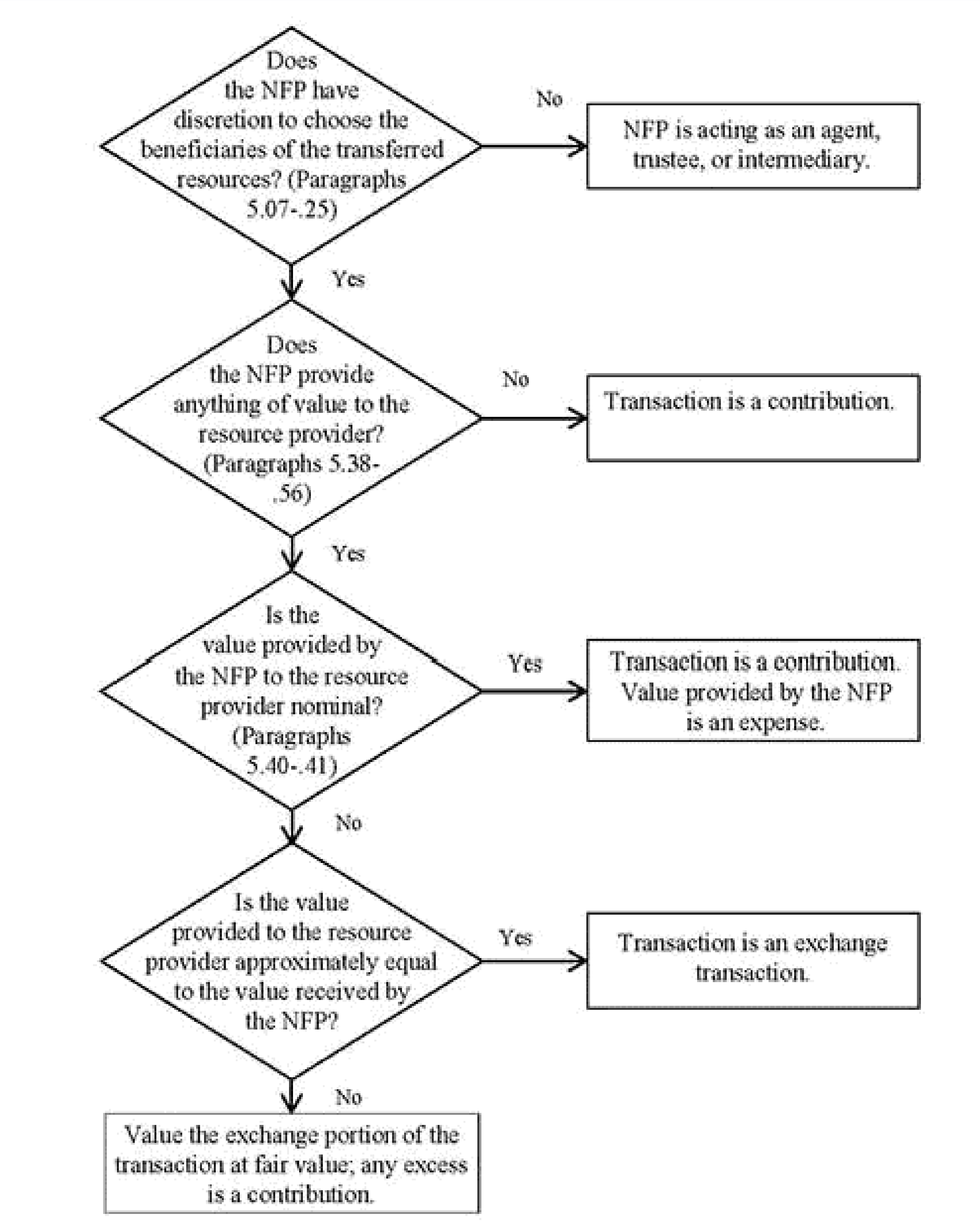
Polling Question #4

Revenue Reporting

Types of Transactions

1. Non-Exchange Transactions (conditional contributions and unconditional contributions)
2. Exchange Transactions (both parties to a transaction receive commensurate value)
3. Agency Transactions (pass-through transactions)

NFP Revenue Transaction Type Decision Process



Agency Transactions

Agency Transactions: A type of exchange transaction in which the reporting organization acts as an agent, trustee or intermediary for another party that may be a donor or a donee.

Exchange Transaction

Exchange Transactions are reciprocal transfer between two entities that results in one of the entities acquiring assets or services or satisfying liabilities by surrendering other assets or services or incurring other obligations.

Common Exchange Transactions:

- Fee for Service Arrangements, Special Events & Memberships

Revenue recognized as earned (performance obligation is satisfied)

ASC 606: Revenue from Contracts With Customers: Impact on Not-For-Profits

Contributions are excluded

- A donor is not considered a customer

Certain transactions will require bifurcation between an exchange transaction and a contribution

- Examples: membership dues, sponsorships

Private and government grants

- If the transaction is one in which each party directly receives commensurate value (i.e. reciprocal exchange transaction): ASC 606; otherwise follow ASU 2018-08 (Topic 958) for contributions

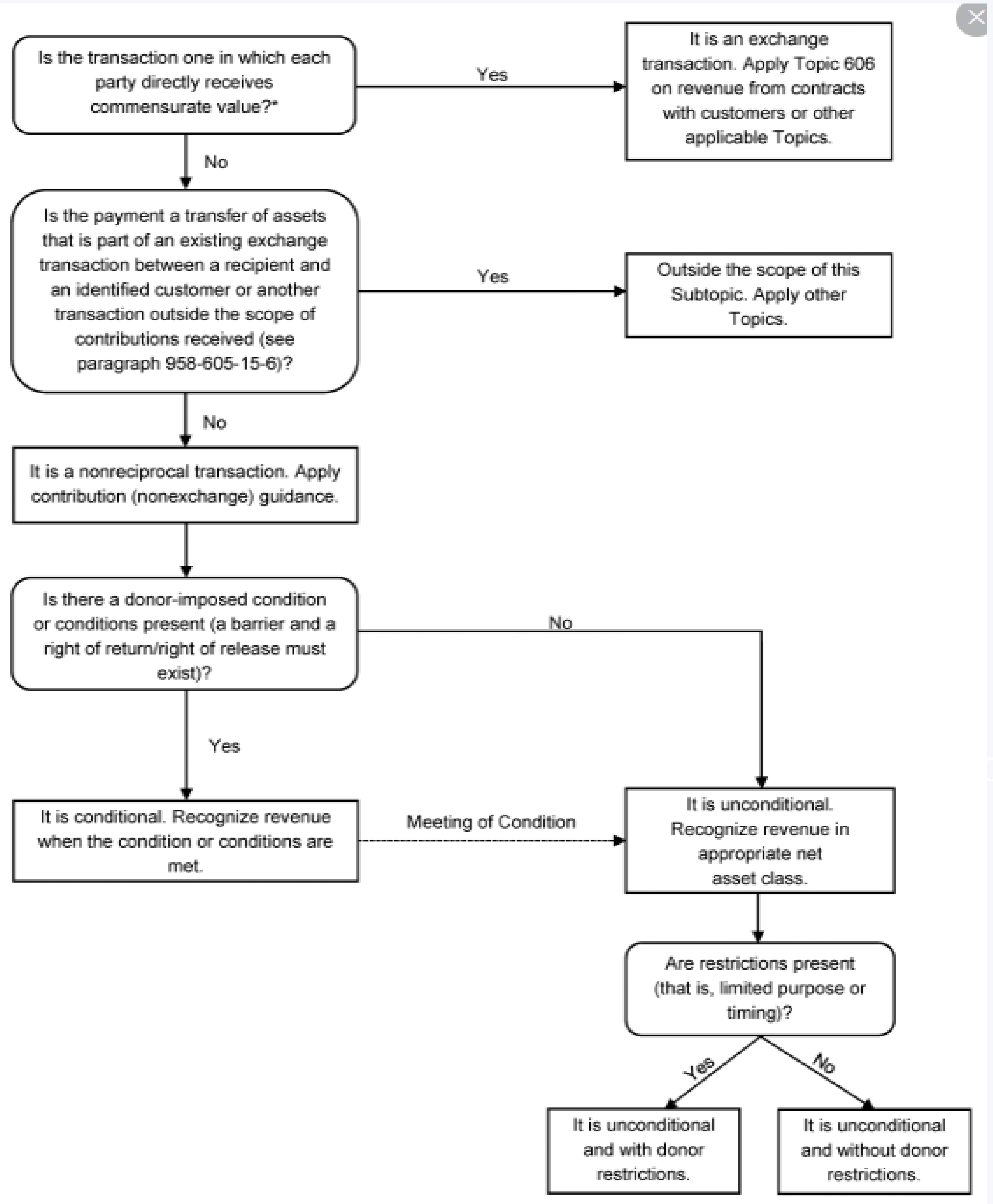
- ASU 2018-08 explicitly states that societal benefit – even if it furthers the resource provider's charitable mission – is not commensurate value

Not-for-Profit Revenue Recognition Under ASC 606: *Revenue from Contracts with Customers*

Exchange Transactions (both parties to a transaction receive commensurate value)

ASC 606 Scope	
Included	Not Included
Tuition and fees	Contributions
Exchange grants	Nonexchange grants
Membership dues	Investment returns
Sponsorship revenue	Rental income
Royalty/licensing revenue	Leases
Program fees	Insurance reimbursements
Health care revenues	Guarantees
Continuing care retirement communities	Nonmonetary exchanges

NFP Revenue Recognition Decision Process



*See paragraph 958-605-55-6 for guidance about transactions that are in part an exchange and in part a contribution.

Differentiating Donor Conditions from Donor Restrictions

- Measurable Performance-Related Barrier or Other Measurable Barrier
- Limited Discretion by the Recipient on the Conduct of an Activity (federally funded grants fall under here)
- Stipulations That Are Related to the Purpose of the Agreement

Differentiating Donor Conditions from Donor Restrictions

- In contrast to donor-imposed conditions, donor-imposed restrictions limit the use of the contribution, but they do not affect whether the recipient is entitled to the contribution.

- In cases of ambiguous donor stipulations, a contribution containing stipulations that are not clearly unconditional should be presumed to be a conditional contribution.

Conditional Promises: Conditions (both must be present)

Barriers to Overcome to be Entitled to Resources

1. Inclusion of a measurable performance barrier (e.g., help a specific number of beneficiaries or produce a certain # of units, expand facility by a certain sq footage; matching/outside event). **Likelihood of meeting minimums not considered.
2. Limited discretion over **HOW** the resources are spent (e.g., a requirement to follow specific guidelines about incurring qualifying expenses such as must follow OMB Cost Circulars (Uniform Guidance), hiring specific individuals/specific building requirements).
3. NFP is required to overcome a barrier related to the primary purpose of the agreement (NOTE: This excludes trivial or administrative requirements).

Right of Return by Recipient/Right of Release of Obligation by Promisor

Reporting After Determination

Unconditional

- Recognize into revenue upon notice of the award
- Classify as appropriate in Net Assets (with or without donor restrictions)

Conditional

- No revenue is recorded until the condition is met
  - Advanced funding received prior to conditions being met is a liability
- Once condition is met - recognize into revenue
  - Classify as appropriate in Net Assets (with or without donor restrictions)
- Conditions not yet met as of fiscal year end are required to be tracked and disclosed in the financial statements

Overview Summary for Revenue Reporting

1. Determine the type of transactions
   - Exchange – ASC 606 revenue guidance
   - Contribution – ASC 948-605 revenue guidance
   - Other
2. Document determination of revenue guidance reasoning, as appropriate
3. Document conditional or unconditional, as appropriate
4. Document and track restriction on restricted contributions
5. Don’t forget about that Net Assets Rollforward!

Polling Question #5

2024 Public Sector Webinar Series

2024 Governmental GAAP Update

Date: Jan. 24, 2024 (available on demand)
Presenter: Dan Merritt

A deep dive into 2024 accounting pronouncements and other implementation guidance from the Governmental Accounting Standards Board (GASB).

2024 Nonprofit GAAP Update

Date: Jan. 25, 2024
Presenter: Paula Bedford

A deep dive into 2024 accounting pronouncements and other implementation guidance from the Financial Accounting Standards Board (FASB).

The Comprehensive Guide to Driving Employee Engagement in the Public Sector

Date: May 1, 2024
Presenters: Kerreen Conley & Steven Gibson

An interactive session covering what great organizations do to create an engaged workforce and best practices to retain talent.

2024 Single Audit Update

Date: July 24, 2024
Presenter: Dan Merritt

Hear the latest updates on recent guidance provided by the Office of Management and Budget (OMB), the Government Accountability Office (GAO), the American Institute of CPAs (AICPA) and more.

Maximizing Organizational Effectiveness Through Technology

Date: Oct. 16, 2024
Presenters: Ben Eavey & Erinn Trask

In this webinar, you'll learn how to maximize the resources you currently have and how to identify appropriate solutions to fill in any gaps in your technology infrastructure.

Thank you for joining us!

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Questions?
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