AAFCPAs Regulatory Update: Accounting Standards

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Nonprofit Financial Statement Framework

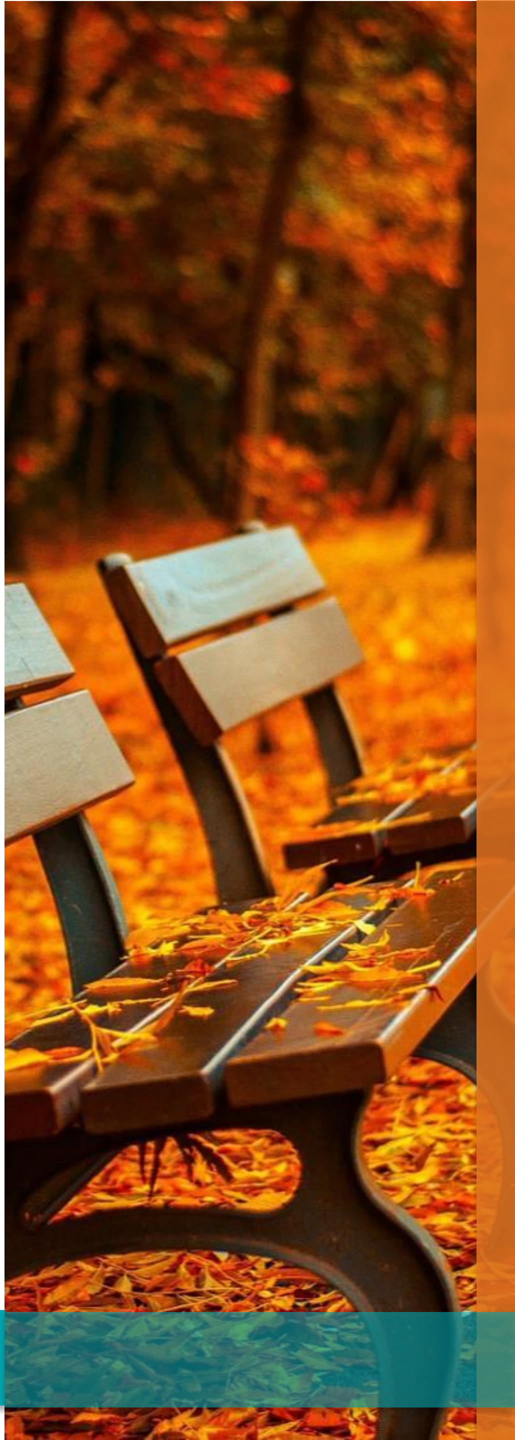
Summary of Topics

Core Topics:

- ✓ Nonprofit Financial Statement Framework
- ✓ Revenue from Contracts with Customers
- ✓ Lease Accounting

Additional Topics if Time Permits:

- ✓ Accounting for Credit Impairment
- ✓ Consolidation
- ✓ Other Future Changes

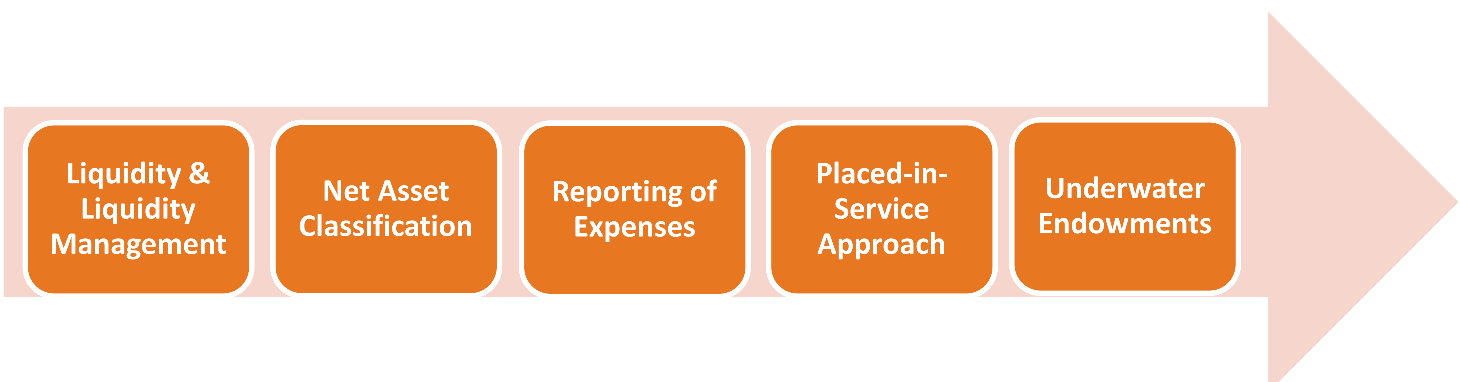


Nonprofit Financial Statement Framework

Overall

Main provisions of this new standard include:

- Liquidity & liquidity management (qualitative & quantitative)
- Net asset classification (with and without donor restrictions)
- Reporting expenses by natural function and classification, including disclosure addressing the method used to allocate costs
- Placed-in-service approach
- Underwater endowments
- Other: Statement of cash flows and investment return



Nonprofit Financial Statement Framework (Continued)

Overall (Continued)

- Effective for calendar year filers beginning in 2018 and fiscal year filers 2019
- Provisions under this new guidance will be retroactively applied in the year of adoption
- Emphasis-of-matter paragraph will be included in the auditor's report if the adoption results in a material effect on the financial statements
- Reporting entities will need to disclose the nature of any reclassifications or restatements and their effects, if any, on changes in the net assets for the periods presented
- If presenting comparative (dual year) financial statements, the reporting entity has the option to omit the following for the year prior to adoption:
  - Reporting expenses by function and classification (if not current required to do so)
  - Disclosure about liquidity and availability of resources

Nonprofit Financial Statement Framework (Continued)

Other Considerations

- Can be early adopted, in whole or in pieces- the provisions that can be early adopted are:
    - Reporting expenses by function and classification
    - Placed-in-service approach
    - Qualitative and Quantitative
- The only changes noted within this standard that cannot be made without formally adopting the entire standard are:
    - Presenting one class of restricted net assets
    - Eliminating requirement to provide reconciliation of operating activities if using direct method of reporting cash flows
    - Underwater endowment reporting
    - Eliminating disclosures of investment return components and netted expenses
- Adoption of this standard takes a minimum of 16 hours and can take much longer depending upon which areas are applicable.

Nonprofit Financial Statement Framework (Continued)

Hurdles of Implementation

- Reading the standard and identifying the responsibilities of your organization in ensuring compliance with the new standard.
- Underestimating the time and resources needed to implement the necessary changes in order to ensure compliance with the new standard; this includes, but is not limited to, the following:
  - Time to read/understand the standard
  - Train appropriate staff members on the standard and the change in processes
  - Identifying the provisions that impact your organization, including assessment as to how significant that impact may be

Nonprofit Financial Statement Framework (Continued)

Hurdles of Implementation (Continued)

- The impact attempting to implement the necessary changes internally has on an organization's operations
  - Can result in other fiscal and/or programmatic functions taking a back seat for the duration of the implementation process

- Certain provisions of this standard require a deep understanding of the impact both internal and external limitations have on financial resources, and how to articulate the liquidity position of an organization in a manner that "paints the best picture" within your financial statements/footnotes.

Nonprofit Financial Statement Framework (Continued)

Preparation & Application of This Standard

Overall

- Assess the resources needed to read, understand, and implement the necessary changes under this new standard.

Reporting of Expenses

- Method of reporting expenses by nature and classification
  - Assess the capabilities of your information system and its ability to meet the needs under this standard.
  - Decide if your organization wishes to report a full statement of functional expenses or a more summarized version in the footnotes.

- Develop and implement a cost allocation policy sooner than later
  - When developing a cost allocation policy, be sure to consider the key concepts of general and management expenses; direct conduct, direct supervision.

Nonprofit Financial Statement Framework (Continued)

Preparation & Application of This Standard (Continued)

Liquidity

- If not already done, develop a policy for managing your organization's liquidity needs. This policy will be disclosed in the footnotes to the financial statements (qualitative requirement).
- Begin to consider entity-wide risks that may affect liquidity and a strategy that addresses those risks
    - Entity-wide risks may include external factors such as political climate, condition of financial markets, and economic trends.
    - Strategy for addressing entity-wide risks should assess the nonprofit organization's current access to liquid resources, how the risks will adversely affect the availability of those resources and what tools have been or can be implemented to ensure access to liquid resources if needed (i.e. line of credit or rainy day fund).
- Begin to consider how donor-imposed restrictions affect the nonprofit organization's use of resources
    - Consider these restrictions when developing the budget and making decisions as to how the nonprofit organization is going to utilize and allocate its resources.
    - Assess any necessary programmatic changes that may need to be made due to said restrictions.

Nonprofit Financial Statement Framework (Continued)

Preparation & Application of This Standard (Continued)

Net Assets

- Determine if the change in reporting restricted net assets results in a need to adjust/update the tracking mechanism currently utilized to accommodate the requirements of the change in reporting.

- Determine the level of detail and disaggregation you wish to report on the face of the statement of financial position, versus what you wish to report in the notes to the financial statements. Examples include board designated net assets, net assets with purpose restriction, or net assets to be held in perpetuity.

Nonprofit Financial Statement Framework (Continued)

Preparation & Application of This Standard (Continued)

- Underwater endowments
  - If not yet done, develop and implement a policy regarding appropriating funds from an endowment that is underwater.
  - Begin to assess information regarding the original amount of the permanently restricted gift, the fair value of endowment funds, and the aggregate amount by which the endowment is underwater, as this new guidance requires the aforementioned information to be disclosed in the footnotes to the financial statements.

- Place in service approach
  - Educate the person(s) responsible for grant writing tasks and whenever possible, explicitly state in the proposal (or other forms of solicitation) that the intention is to utilize the funds over the duration of the construction project.
  - Beginning immediately, consider following the placed-in-service approach as it is allowed under current standards.
  - Doing so will reduce the impact to the financial statements in the year this guidance is required to be adopted.

- Consider the number of changes that apply to your organization
  - Look prospectively at the level of effort and resources needed to implement the necessary changes.

Nonprofit Financial Statement Framework (Continued)

Liquidity & Liquidity Management

- Quantitative information, either on the face of the balance sheet or in the notes that communicates the availability of an entity's financial assets at the balance sheet date to meet cash flow needs for operations within one year from the balance sheet date.
    - Total amount of financial assets
    - Amounts that are not available to meet cash needs within 12 months from the balance sheet date because of: 1) external limits such as donor restrictions and 2) internal actions from the Board of Directors such as Board Designated net assets

- Qualitative information that discloses how the reporting entity manages its liquid resources to meet cash flow needs for operating expenses within one year from the balance sheet date.
    - Strategy for addressing risks that may affect liquidity, including its use of a line of credit
    - Policy for establishing liquidity reserves
    - Basis for determining the time horizon used for managing liquidity

Nonprofit Financial Statement Framework (Continued)

Liquidity & Liquidity Management (Continued)

- Examples of items to consider in the assessment surrounding liquidity of financial assets include:
  - Nature of the asset- is the asset able to be liquidated quickly and used as working capital?
  - External limits imposed by donors, contracts, laws, etc.
  - Internal limits imposed by Board of Directors

Nonprofit Financial Statement Framework (Continued)

Net Asset Classification

Current Presentation	Unrestricted	Temp. Restricted	Perm. Restricted
New Presentation	**Without Donor Restrictions**	**With Donor Restrictions**	
+			
Disclosures	**Amount, Purpose, and Type of Board Designations**	**Nature & Amount of Donor Restrictions**	

Nonprofit Financial Statement Framework (Continued)

Net Asset Classification (Continued)

- Amounts and purpose of board designated net assets no longer required (but still allowed) to be disclosed on the face of the financial statements
  - Need to disclose the process relating to the use of board designated net assets (i.e. Board of Directors must vote)
  - If balance reported on the face of the statement of financial position, no need to duplicate in the footnotes

- Composition of net assets with donor restrictions and how the restrictions affect the use of resources

Nonprofit Financial Statement Framework (Continued)

Reporting of Expenses

- Report expenses by nature and function in one location in the financial statements
  - Can be presented on the face of the statement of activities, separate statement of functional expenses, or within the notes to the financial statements

- Include in the footnotes to the financial statements a description of the method used to allocate costs among program and support functions.
  - The level of detail disclosed in the footnotes will depend on the complexity of the agency and its allocation plan – large complex agencies will have a more robust method for allocating costs
  - A disclosure containing a high level overview of the agency's allocation methodology is sufficient

- Tracking and disclosing expenses between general and administrative (G&A) and fundraising is necessary if fundraising expenses are material or significant.

Nonprofit Financial Statement Framework (Continued)

Reporting of Expenses (Continued)

- More specific guidance over support functions (general and management expenses), examples include:
  - Human resource related functions (recruiting and employee benefit related activities)
  - Financing, including unallocated interest costs
  - Budgeting
  - Oversight and business management
  - General recordkeeping, including payroll
  - Advertising
  - Expenses of the governing body (Board of Directors' retreat)

- The changes relating to reporting of expenses are most significantly going to impact:
  - Nonprofit organizations that do not currently include a statement of functional expenses, or other means of reporting expenses by nature and function, within their financial statements.
  - Nonprofit organizations that do not have a policy over the allocation of expenses between program and supporting (general and management) functions – i.e. organization may need to implement a time study to properly allocate salary costs, which will take time and resources to implement.

Nonprofit Financial Statement Framework (Continued)

Placed-in-Service Approach

- No longer able to release restricted contributions of property and equipment (PP&E) or cash for purchase of PP&E over the useful life of said asset.
- When considering the classification of donations of capitalized property, PP&E, or contributions of cash for the purchase or construction or PP&E, the placed in service approach should be used.
- For clients that have donor contributions classified as restricted at the time this new guidance is adopted, said amounts shall be re-classified as unrestricted if the PP&E was placed in service as of the beginning of the reporting period of adoption.
- Unless otherwise stated by the donor, the restriction has not yet been met unless the long-lived asset has been purchased and placed into service.

Nonprofit Financial Statement Framework (Continued)

Underwater Endowments

- To be reflected in net assets with donor restrictions rather than in net assets without donor restriction
- Disclosure in the footnotes to the financial statements with the following information is required:
    - Aggregate amount of original gift
    - Aggregate fair value of such funds at year end
    - Aggregate amount by which funds are underwater, which are to be classified as part of net assets with donor restrictions
    - The reporting entity's policy and any actions taken concerning appropriation from underwater endowment funds

"Underwater" portion of the endowment are to be reflected in net assets with donor restrictions rather than in net assets without donor restriction.

Nonprofit Financial Statement Framework (Continued)

Other - Statement of Cash Flows

- A nonprofit organization may choose to report its statement of cash flows using either the direct or indirect method.
- If the direct method is used, a reconciliation to the indirect method is not required (though allowed, if the reporting entity desires to show said reconciliation).
- If you feel the direct method is most useful to the users of the financial statements and you currently use the indirect method, you certainly can make the change to the direct method.

Indirect
- Reconciles from net income to cash provided by operating activities

Direct
- Reports all cash receipts and disbursements from operating activities

Nonprofit Financial Statement Framework (Continued)

Other – Investment Return

- Intended to improve comparability between entities that manage their own investments (internally) and those that hire external managers

- Can still report investment return net of investment fees (no change from existing standard)

- No longer need to disclose the following information in the footnotes to the financial statements:
  - The external and/or direct internal expenses netted against investment earnings
  - The components of investment return

- Direct internal investment expenses include the following:
  - Costs such as salaries, benefits, and other costs associated with staff who are responsible for the execution of a nonprofit organization's investment strategy, monitoring the nonprofit's investment position, or any other activities that assist in generating investment return.
  - Do not include costs incurred that are not directly related to investment income generating activities, such as management of an endowment.

Nonprofit Financial Statement Framework (Continued)

Phase II

- Overall
  - The following items have been deferred for further consideration to a second phase of the FASB's project.
  - Timing of the FASB's second phase of this project is to be determined (TBD)

- Statement of Cash Flows
  - Potential re-categorization within the statement of cash flows
    - Reclassifications between type of activity – operations, investing, and financing
    - Better align the statement of cash flows with the statement of activities

- Health Care Nonprofit Organizations - Expense Reporting
  - Segment reporting for nonprofit health care organizations
    - Versus the current required analysis of expenses by their natural and functional classification.

Nonprofit Financial Statement Framework (Continued)

Phase II (Continued)

- Operating Measure
  - Whether to require a measure of operations
  - How to define a measure of operations

Defined **required** intermediate operating measures for all NFPs—based on two dimensions:	**Mission (Business & Charitable Activity):** based on whether resources are from or directed at carrying out a NFP's purpose for existence (vs. investing and financing)
	Availability: based on whether resources are available for current period activities and reflecting limits imposed by: -external donors -internal actions of a NFP's governing board

Revenue from Contracts with Customers

Grants & Contributions

- Grants and contributions are scoped out of the new revenue recognition standard and will continue to be covered by Topic 958 (current standard).
- Clarifies the scope and accounting guidance for contributions received and contributions made.
- Effective date of this standard mirrors that of the new revenue recognition guidance, which is calendar year 2019 or fiscal year 2020.
- Enhanced guidance for determining when an exchange transaction exists.
- If commensurate value was not exchanged, revenue would be recognized under the model for conditional contributions.

Revenue From Contracts with Customers

- Effective for calendar year filers beginning in 2019 and fiscal year filers 2020

- Need to apply retrospective approach

  - Need to apply revenue recognition changes to all years presented in your financial statements (if multiple) or to beginning net assets (if single year presented)
  - Means that you should have the necessary changes in place at the beginning of the year that this standard is required (thus, 1/1/2019 or 7/1/2019)

Revenue From Contracts with Customers (Continued)

- Objectives of this standard are to:

  - Remove the highly segmented/industry specific revenue recognition practices, and replace with a more uniform principles based standard.
  - Recognize revenue in a manner that depicts the transfer of promised goods/services to a customer, in an amount that reflects the consideration to which the entity expects to be entitled for those goods and services.

- New standards applies to non-profit organizations with exchange transactions. Does not apply to revenue recognition of grants and contributions that are not deemed to be (or contain components of) exchange transactions.

  - There could be cases where a non-profit organizations has a transaction that has characteristics of both an exchange and contribution transaction. In such cases, the non-profit would bifurcate the transaction between the exchange and contributions portions.
  - Example is special event revenues (portion to cost of attending event and portion is a contribution)

Revenue From Contracts with Customers (Continued)

- 5 step process over revenue recognition
  1. Identify the contract with a customer
  2. Identify the separate performance obligations in the contract
  3. Determine the transaction price
  4. Allocate the transaction price to the separate performance obligations
  5. Recognize revenue when each separate performance obligation is satisfied

Identify the contract with a customer → Identify the performance obligations (promises) in the contract → Determine the transaction price → Allocate the transaction price to the performance obligations in the contract → Recognize revenue when (or as) the reporting organization satisfies a performance obligation

- The standard requires organizations to estimate the effects of variable consideration, which include:
  - Ability to return (return of consideration)
  - Warranties
  - Discounts

Revenue From Contracts with Customers (Continued)

- Potential complications for non-profit organizations – when this new standard came out, there was concern as to how certain revenue streams of non-profit organizations would be affected. Those included, but are not limited to:
  - Government contracts – is the government a funding agency or a customer?
  - Whether contributions should be explicitly excluded from the scope of this standard
  - Tuition discounts

- Certain revenue streams of non-profit organizations have potential to be more impacted than others. The level each revenue stream is impacted depends on the number of offers/promises (or components). Some revenue streams that have higher potential of impact are:
  - Special events
  - Tuition/room and board
  - Certain grants & contracts (need to identify the beneficiary – funder or general public)
  - Developer fees
  - Membership dues
  - Subscriptions
  - Royalty agreements
  - Sales of products and services
  - Third party fees

Revenue From Contracts with Customers (Continued)

Preparation & Application of This Standard

1. Identify a person (or task force) within the organization that can study and be the point-person on this new standard, or contact the manager and/or partner on your engagement here at AAF to help apply the new standard to your organization's specific operational facts/circumstances.

2. Dissect your revenue streams into two categories; (1) those that are (or contain components of) exchange transactions and (2) those that do not.

3. Make an assessment of the potential impact this standard may have on your organization's accounting and information systems.
   - Develop and document the revenue recognition policy and process for each of your revenue sources.
   - This assessment should include the capabilities of your accounting system and if it can handle the level of reporting necessary to comply with this new standard.

4. Because contracts may span over multiple years and the standard is required to be adopted in 2019 (for calendar year filers) or 2020 (for fiscal year filers), you should begin to think about how this will impact your contracts and make the necessary changes (to those contracts) now.

5. Develop a plan to train staff members who may be affected by the changes in revenue recognition. These employees may expand to persons outside of the finance office, such as grant writers/development department.

Lease Accounting

Lease Accounting

- This standard update applies to lessees in leasing arrangements. There is no significant changes to the lessors in leasing arrangements.

- Recognition of rental income is covered by the lease standards and not the new (previously discussed) revenue recognition standard.

- Effective for calendar year filers beginning in 2020 and fiscal year filers 2021
  - Organizations may elect to not retrospectively apply the changes under these standards.
  - This means that if your organization presents two years of financial information in its audited financial statements in the year of adoption, it may apply the old standards to the previous year presented.

- Applies to all leases and subleases except:
  - Short-term leases (12 months or less)
  - Leases of intangible assets
  - Leases of inventory
  - Leases of assets under construction

- Major components of new standard:
  - Right to use asset & liability
  - Assess if there are lease and non-lease components within agreement
  - Segregate leases into operating and financing leases

Lease Accounting

Right to Use Asset & Liability

- Right of use (ROU) model – recognize a ROU asset and liability at inception for all leases.
  - Should equal total lease payments X discount rate based on lease term (see next slide)

- The calculation over total lease payments should reflect all payments over the term of the lease, which may include:
  - Fixed lease payments
  - Variable payments tied to an index, such as a consumer price index (CPI) escalator (based on the rate at lease commencement)
  - Exercise price of purchase option (if it is probable the lessee will exercise the purchase option)
  - Initial direct costs in obtaining the lease (i.e. commissions)

- The discount rate based on lease term should reflect one of the following:
  - The rate implicit in the lease, if determinable
  - Incremental borrowing rate
  - Nonpublic companies are able to implement a policy to elect to use the risk-free rate

Lease Accounting (Continued)

Right to Use Asset & Liability (Continued)

- The term of a lease should include the non-cancellable period included in the agreement, plus any extension periods if the lessee believes it is probable they will exercise the option/s to extend the term.

Non-Cancellable Lease Period + Periods Likely to Extend + Options to Extend Controlled by Lessor

Lease Accounting (Continued)

Lease & Non-Lease Components

- ROU asset/liability should exclude service estimates contained within lease agreements.

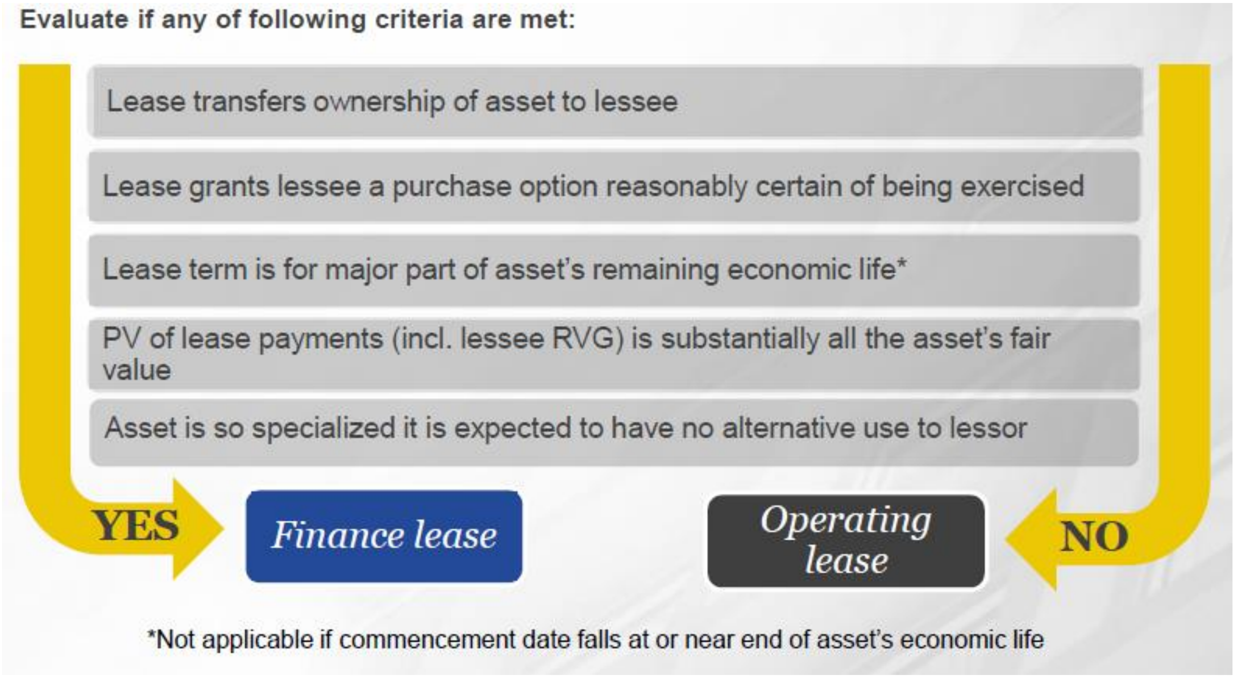
- Fees for service related activities should be accounted for separately (not as part of the lease transaction).

- Organizations may elect to apply a practical expedient, whereby lessee's are able to account for a single component when applying these standards. This would allow an organization to not segregate service related components of a lease. There are pros and cons with selecting this application, which are:
  - Pro: will likely reduce the costs incurred to implement this new standard
  - Con: will result in larger balances reported on the statement of financial position (BS), including a larger liability

Lease Accounting (Continued)

Operating & Financing Leases

- Requirement to segregate all leases into two categories and those are:
  - Operating – lessee does not obtain control of the underlying asset
  - Financing – lessee obtains control of the underlying asset



Lease Accounting (Continued)

Operating & Financing Leases (Continued)

- Financing and operating leases have a similar statement of financial position (BS) impact but differ in their classification on the statement of activities (P&L).

- Accounting for operating leases throughout the lease term:
  - Record a ROU asset and liability (see previous slides)
  - Reduce ROU asset and recognize rent expense over the term of the lease
  - Reduce the ROU liability as rent payments are made

- Accounting for financing leases throughout the lease term:
  - Record a ROU asset and liability (see previous slides)
  - Reduce ROU asset and recognize interest expense and depreciation expense using the shorter of the lease term or the useful life of the underlying asset
  - Reduce the ROU liability as rent payments are made

Lease Accounting (Continued)

Operating & Financing Leases (Continued)

	Balance Sheet	Income Statement	Cash Flow Statement
Finance	• Right-of-use (ROU) asset • Lease liability	• Amortization expense • Interest expense	• Principal-financing Interest-operating
Operating	• Right-of-use (ROU) asset • Lease liability	• Single lease expense on a straight-line basis	• Lease expense-usually operating

Lease Accounting (Continued)

Preparation & Application of This Standard

1. Consider implications on your organization's financing instruments
    - May impact compliance with your debt covenants, if applicable
    - Calculate your debt covenant ratios, being sure to incorporate what your ROU asset & liability would be under this standard
    - Consider the need to amend loan agreements to be able to exclude the impact of bringing on the ROU asset and liability

2. Assess the impact these changes will have to your financial results and if necessary, begin to educate users of the financial statements of the upcoming changes.

3. Consider these standard changes when negotiating new lease arrangements and if purchasing the property and/or equipment would be more economically beneficial to your organization.

4. Look at the impact of these changes to your expenses and the impact on any contracts, compensation agreements, etc.

Accounting for Credit Impairment

Accounting for Credit Impairment

- Effective for calendar year filers beginning in 2021 and fiscal year filers 2022
  - Early adoption is permitted beginning in 2019 (calendar year filers) and 2020 (fiscal year filers)
  - Need to apply this standard to all years presented in your financial statements (if multiple) or to beginning net assets (if single year presented)

- This standard applies to all entities and financial asset included in the scope of this standard include, but are not limited to:

Included	Excluded
Loans receivable	Pledges receivable
Contract assets / trade receivables	Available -for-sale debt securities
Held-to-maturity debt securities	Loans made to participants by defined contribution employee benefit plans & insurance companies
Lessor's net investment in sales-type and direct financing leases	Loans and other receivable balances with related parties that are under common control
Other financial assets carried at amortized cost	Other financial assets carried at fair value

- Will likely result in earlier recognition of credit losses

Accounting for Credit Impairment (Continued)

- Assets carried at amortized cost will now follow the current expected credit loss model (CECL)
  - Replaces the "incurred loss" model with the "expected loss" model

- Differences between "incurred loss" model and "expected loss" (or CECL) model

Incurred Loss (existing guidance)	Expected Loss/CECL (new guidance)
Loss or allowance is recognized only when an event has occurred that causes the entity to believe that a loss is probable	Loss or allowance is recognized upon initial recognition of the financial asset that reflects future events that will lead to a loss being realized, regardless of whether it is probable that the future event will occur
The loss is estimated by considering past events and current conditions	The loss is estimated by considering the same items at the incurred loss model but also will be required to consider its expectations for the future

Accounting for Credit Impairment (Continued)

- This standard results in more robust disclosures of both qualitative and quantitative information, including the following:

Qualitative	Quantitative
How management develops its expected loss estimates, including its accounting policies and methodology	Roll-forward of the allowance for credit losses by segment – should include beginning balance, current year provisions, write offs, recoveries, and ending balance
The factors that management considered in its estimate of expected credit losses, including past events, current conditions and reasonable and supportable forecasts of **future events**	Amortized cost basis of financial assets by "credit quality indicator" or segment
The method applied to revert to historical credit loss experience for periods beyond which the entity is able to make or obtain reasonable and supportable forecasts	Reconciliation of opening to closing amounts of the amortized cost basis, showing key drivers of change
Changes in factors that influenced management's current estimate of credit losses and reasons for those changes	Monetary impact resulting from a change in accounting policies
Policy for recognizing write-offs and any significant changes to the write -offs	
Changes to the organization's accounting policies and methodology from the prior period, including the rationale for making those changes	

Accounting for Credit Impairment (Continued)

- Impact on organizations that are not in the business of making loans
  - May not result in significant impact to your financial results
  - Will result in expanded disclosures surrounding the (applicable) qualitative information on the previous slide
  - Will need to consider future supportable forecasts when estimating the need or balance of an allowance or loss against assets such as trade receivables (including contract receivables)
  - Compare how historical loss patterns to current conditions and reasonable/supported forecasts

Accounting for Credit Impairment (Continued)

Preparation & Application of This Standard

- The preparation and application of this standard will differ significantly for organizations who are in the business of lending and those who are not.
- Examples of steps organizations can take to ensure they are compliant with the new standard are:

Lending Organizations	Other Organizations
Assess the control structure currently in place and how that aligns with the new standard. For example, prospectively it may be most beneficial to have a collaboration of financial and credit risk (or portfolio management) personnel to ensure the accounting function is aligned to the economics of lending.	Same as lending organizations but potential for changes in control structure may be less.
Assess the data necessary for your organization to effectively and accurately forecast estimated future losses. This should include evaluating ability to access relevant information.	Same as lending organizations.
Leverage existing models, when able to do so (without relying on them too much).	Same as lending organizations – likely will continue to (largely) utilize current methods.
Assess your current method of calculating and tracking credit loss information. Given the expansion in information required to be disclosed, organizations currently using a manual process may want to explore solutions through technology.	Likely will not significantly impact organizations who are not in the business of lending.
Review current accounting policies, processes, controls, and documentation to conclude if changes are necessary to be in compliance with the new standard (including disclosure requirements).	Same as lending organizations.
Be prepared to reasonably estimate the impact of the new standard on your financial results and begin to educate users of the financial statements, when necessary.	Same as lending organizations but will not have as significant of an impact on financial results.

Consolidation

ASU 2017-02

- Applicable in 2017 for calendar year filers and 2018 for fiscal year filers.
- Specifically for NFP entities – prior to this ASU, there was no specific guidance for a NFP entity and when it should consolidate a for-profit limited partnership or similar entity (i.e. corporate entity). There was only interpretative literature on guidance for for-profit corporations.
- Discusses the concept of “control” and states “control” exists when, among other things, the investor partner does not have “substantive participating rights” and the investor partner does not have “substantive kick-out rights”
    - ***Substantive kick-out rights***- when an investor can remove the general partner without cause
    - ***Significant participating rights-*** is achieved when a partner controls the day to day operations of the partnership that most significantly impact economic performance

ASU 2016-17

- Applicable in 2017 for calendar year filers and 2018 for fiscal year filers.
- Specifically relates to interests held through related parties that are under common control.
- When determining if the reporting entity is the primary beneficiary, this ASU allows a reporting entity to consider only its direct and proportionate share of interest held in a VIE. The old guidance (ASU 2015-02) required the reporting entity to treat the indirect interest as if it was its own.

Other Future Changes

ASU 2016-18 – Statement of Cash Flow / Restricted Cash

- Applicable in 2019 for calendar year filers and 2020 for fiscal year filers.
- Under the new ASU, amounts generally described as restricted cash and cash equivalents should be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows.

ASU 2016-15 – Statement of Cash Flow / Classification of Certain Receipts & Disbursements

- Applicable in 2019 for calendar year filers and 2020 for fiscal year filers.
- Aimed to promote consistency with reporting certain transactions on the statement of cash flow, including: debt prepayments, distributions from equity method investments, proceeds from settlement of insurance claims, proceeds from settlement of corporate-owned life insurance policies, contingent consideration made after a business combination.

ASU 2016-07 – Equity Method Investments

- Applicable in 2017 for calendar year filers and 2018 for fiscal year filers.
- Eliminates the requirement to retroactively adopt the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence for an investment.

Questions & Comments

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