NONPROFIT NAVIGATOR

Summer 2016

ABOUT US

Our not-for-profit niche at Henry & Horne was officially formed 30 years ago, but we have been serving the not-for-profit community since we opened our doors in 1957. We are dedicated to Arizona's nonprofit community, and as a local firm with such a long history, we truly understand what is important to our nonprofit clients. Our team members receive quality continuing education specifically in nonprofit topics and are continually researching various nonprofit issues, which results in a very broad level of nonprofit expertise.

Some Simplifications for Nonprofits Two New Accounting Changes

By Colette Kamps, CPA

This article addresses two Accounting Standards Updates that were issued last year. Although neither one is effective yet, they both provide some simplifications and can be applied early (now).

ASU 2015-03 relates to a change in presentation of loan debt issuance costs (aka loan costs). When an organization enters into a new debt agreement, there are typically loan fees or debt issuance costs that are required to be paid by the organization. In accordance with current standards, these costs are recorded as assets and amortized over the term of the associated debt. Under this new standard, the way these costs are amortized will not change, but the presentation on the Statement of Financial Position (SOFP) will change. Instead of presenting the debt issuance costs as an asset, accounting standards will require that the costs be netted against the associated debt liability in the liability section of the SOFP. Here is an example of the presentation:

LONG-TERM DEBT

Principal amount	$2,400,000
Less unamortized debt issuance costs	250,000
Long-term debt less unamortized debt issuance costs	$2,150,000

The goal in issuing this standard was to reduce complexity in general and also to better communicate that the proceeds of the loan are actually reduced by these debt costs. In addition, the FASB determined that it was inappropriate to present debt issuance costs as assets because they don't exactly meet the definition for assets, which is to provide future economic benefit.

ASU 2015-07 applies to organizations that use net asset value (NAV) as a "practical expedient" to measure the fair value of certain investments. This generally occurs when the fair value is not easily measured under an alternative method or inputs to determine valuation may not be available. Currently, when NAV is utilized, the level within the fair value hierarchy (for the footnote disclosure) is determined based on the redeemability of those investments as well as the length of time from the date of the financial statements to when the investments are able to be redeemed. In other words, if the investments can be redeemed within 60 days, you may determine they are "level 2" in the hierarchy. But if they cannot be redeemed for two years, you may determine they are "level 3". Because of the differing approaches and opinions in determining when the line is crossed from level 2 to level 3, this new accounting standard now requires that investments measured at NAV *not* be assigned a level within the fair value hierarchy/table. Other disclosures relating to investments measured at NAV are still in effect, but you no longer need to make this determination of where they fit into the fair value table in your footnote.

Both of these standards are effective for calendar years ending December 31, 2016 and for fiscal years ending in 2017 (such as June 30, 2017). However, since they both provide some simplification and since they are both allowed to be early adopted, you may want to consider adopting both now.

If you have any questions, Colette can be reached at (480) 839-4900 or ColetteK@hhcpa.com.

HENRY & HORNE, LLP
Certified Public Accountants

Coordinates

In June 2016, the Advisory Committee on Tax Exempt and Government Entities (ACT) released its "2016 Report of Recommendations" to the IRS. See the report at https://www.irs.gov/pub/irs-pdf/p4344.pdf.

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Giving USA 2016 reports that in 2015, charitable donations hit record highs at an estimated $373 billion. This is the second year in a row that a record was set.

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Who should manage your endowment fund? The Phoenix Philanthropy Group published an article by Deborah Whitehurst to answer this question at http://www.phoenixphilanthropy.com/news/articles.

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Introduction to the New Lease Accounting Standard

By Kristin Cullen, CPA

After talking about leases for over a decade, the new standard has finally been issued! Now we have the task of figuring out how to implement it. In general, Accounting Standards Update 2016-02, Lease (Topic 842) will require organizations that lease assets to recognize the assets and associated liabilities on the Statement of Financial Position (SOFP) for the rights and obligations created by those leases. In this article, I will cover some key points and decisions you should be considering now.

When is it effective? It's effective for fiscal years beginning after December 15, 2019 and early application is permitted.

Who does it apply to? It applies to any entity that enters into a lease agreement, including subleases.

Is a retrospective presentation required? Yes, you are required to recognize and measure leases at the beginning of the earliest period presented. Beginning net assets will be adjusted as if the standard had always been applied.

Optional Accounting Policy Elections – The following describes accounting policies an entity may elect. Election of any of these policies will be disclosed in the footnotes.

Short-Term Leases – A lessee may elect not to apply the recognition requirement to short-term leases and would instead recognize the lease payments in the Statement of Activities on a straight-line basis over the lease term and variable lease payments in the period in which the obligation for those payments is incurred. This is the same as how operating leases are currently recognized. A short term lease is defined as a lease that has a lease term of 12 months or less and does not include an option to purchase the underlying asset.

Practical Expedient – An entity may elect the following as long as it applies this policy consistently to all leases. These would apply to any expired or existing contracts. An entity does not need to reassess:

- Whether any expired or existing contracts are or contain leases
- The lease classification for any expired or existing leases
- Initial direct costs

Basically, however the leases were originally classified (operating or capital) under the old standard is how they will be classified and treated under the new standard. The difference is that under the new standard, both types of leases will be required to be recognized on the SOFP.

Factors to Consider

Timing – What are the current lease terms, does a significant lease expire or have significant changes in the next few years? That may be the time to implement the new standard.

Bond Covenants – Discuss with your bankers ahead of the implementation about any possible changes to covenants or how the new standard will affect how the bank looks at your financial statements.

Budget – Plan ahead. You will want to communicate with your board of directors or possibly even significant donors regarding the changes coming to the financial statements. Nobody likes surprises!

Stay tuned…there will be more information to come. Planning ahead will make this process a lot smoother! For more information see the FASB website at http://www.fasb.org/jsp/FASB/Page/BridgePage&cid=1351027207574.

If you have questions, Kristin can be reached at (480) 839-4900 or KristinC@hhcpa.com.