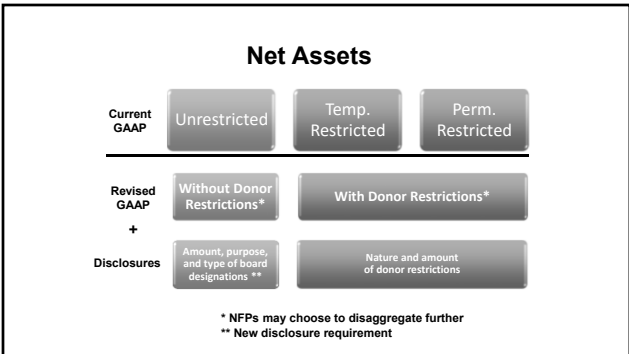
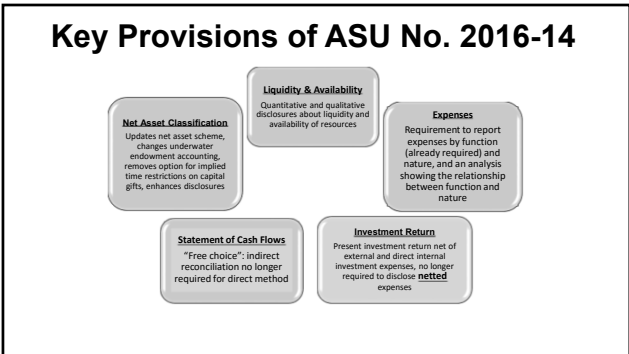


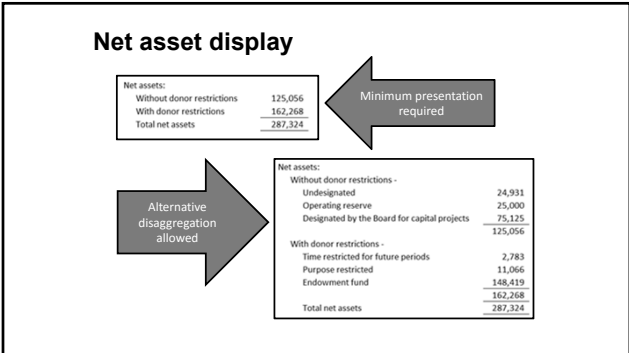
2017 Accounting and Financial Reporting Update

- ## Agenda
- Presentation of Financial Statements of Not-for-Profit Entities ASU 2016-14 and ASU 2017-07
 - Implementation Challenges
 - Financial Statement Presentation
 - Disclosures (a bunch)
 - Contributions Received and Contributions Made
 - Proposed ASU
 - Other ASU's Impacting Not-for-Profits



Implementation – Balance Sheet

	Current GAAP	Reclassifications	New GAAP
Assets:			
Cash and cash equivalents	16,003		16,003
Receivables and other	23,095		23,095
Investments	145,794		145,794
Property & equipment	120,581		120,581
Total assets	305,473		305,473
Liabilities:			
Accounts payable	1,915		1,915
Accrued expenses	8,566		8,566
Long-term debt	7,668		7,668
Total liabilities	18,149		18,149
Net assets:			
Unrestricted	23,237	(28,237)	-
Temporarily restricted	119,097	(119,097)	-
Permanently restricted	144,990	(144,990)	-
Without donor restrictions	125,056		125,056
With donor restrictions	182,268		182,268
Total net assets	287,324		287,324
Total liabilities and net assets	305,473		305,473



Net asset display

You can make it look very familiar:

	2017	2016
Net assets:		
Net assets without donor restrictions	45,391,394	41,724,674
Net assets with donor restrictions		
Restricted by purpose or time	12,608,031	10,560,660
Restricted in perpetuity	36,450,653	35,381,690
	49,058,684	45,942,350
Total Net Assets	94,450,078	87,667,024

Net Asset Disclosure

958-210-45-9
Composition of net assets with donor restrictions and how the restrictions affect the use of resources

	June 30, 2017	June 30, 2016
Net Assets With Donor Restrictions		
Subject to expenditure for specified purpose:		
Scholarships and grants	\$ 3,496,129	\$ 3,606,427
Academic, student programs and support	1,310,902	1,269,315
	4,807,031	4,875,742
Subject to the passage of time:		
Contributions receivable from third party trusts	333,917	367,634
Life income funds	988,819	657,118
	1,322,736	1,024,752
Subject to the Seminary's spending policy and appropriation:		
Accumulated gains and term endowments	6,478,264	4,660,166
Endowment funds restricted in perpetuity	35,924,567	34,848,107
	42,402,831	39,508,273
Subject to restriction in perpetuity:		
Perpetual trusts held by others	511,721	519,218
Annuity funds	14,365	14,365
	526,086	533,583
Total Net Assets With Donor Restrictions	49,058,684	45,942,350

Operating Measure: Improved Disclosures 958-225-45-12

Reinforcing current GAAP requirement about transparency of components of any operating measures presented:

- NFPs utilizing an operating measure that reflects governing board designations, appropriations, and similar actions (internal transfers) must report these types of internal transfers appropriately disaggregated and described by type (either on the face of the statement of activities or in the notes)

Statement of Activities

	2017	2016
Changes in net assets without donor restrictions:		
Tuition and fees, net of scholarships of \$4,337,280 and \$3,273,656 in 2017 and 2016, respectively	\$ 15,556,692	\$ 15,068,697
Contributions	12,513,845	14,843,333
Investment return appropriated for spending	1,086,568	739,301
Educational activities and other income	371,359	726,748
Auxiliary enterprises	3,221,329	3,173,322
Total operating revenue	33,115,793	34,661,401
Net assets released from restrictions:		
Satisfaction of program restrictions	4,243,377	3,446,523
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	1,928,370	1,849,666
Total net assets released from restrictions	6,169,747	5,296,189
Total Operating Revenues and Other Additions	39,285,540	39,897,592
Operating Expenses		
Salaries and wages	17,647,765	16,268,578
Employee benefits	4,937,923	5,337,658
Services, supplies, and other	6,309,881	6,889,823
Depreciation, utilities, and maintenance	2,170,897	2,893,822
Grants to others	3,500,599	2,686,718
Depreciation and amortization	2,312,014	2,572,591
Interest	659,013	689,345
Total Operating Expenses	36,697,334	36,662,077
Change in Net Assets from Operations	2,344,206	3,235,515

Statement of Activities, page 1 continued

	2017	2016
Nonoperating Changes in Net Assets Without Donor Restrictions		
Other components of net periodic pension cost	(1,854,647)	(1,708,765)
Pension related changes other than net periodic pension cost	4,163,531	(3,560,167)
Investment return, net in excess of amounts appropriated for spending	(666,066)	(126,738)
Change in value of split-interest agreements	95,691	(328,031)
Net assets released from restrictions due to acquisition of long-lived assets	-	12,234,065
Change in Net Assets from Nonoperating Activities	1,738,509	6,510,364
Change in Net Assets Without Donor Restrictions	\$ 4,086,715	\$ 9,745,879

Improving the Presentation of Net Periodic Pension Cost & Net Periodic Postretirement Benefit Cost—ASU No. 2017-07

Background

- Net benefit cost contains several components with different nature
- Reduced predictive value and usefulness of information to users

Presentation of net benefit cost in the income statement (retrospective application)

- Service cost in the same line item or items as other current employee compensation costs
- Remaining components in a separate line item or items outside operating items, if applicable

Capitalization of only service cost in assets (prospective application)

ASU No. 2017-07 is effective December 15, 2017 for public business entities and December 15, 2018 for other entities

Disclosure Employee Benefits

This disclosure was modified to illustrate components of Net Periodic Cost and where they are reported.

	2017	2016
Net periodic benefit cost:		
Service costs (Include costs within operating)	\$ 685,806	\$ 594,834
Interest costs	1,498,498	1,645,127
Expected return on plan assets	(1,574,380)	(1,505,805)
Reclassification of net gain or loss	1,930,529	1,388,463
Reclassification of net prior service costs	-	(19,030)
Other components of net periodic pension costs (Within nonoperating)	1,854,647	1,708,765
Net periodic pension costs (Within disclosure expense matrix)*	\$ 2,540,453	\$ 2,303,599

* Include all of Net Periodic Cost within the disclosure of Analysis of Expense by Nature and Function.

ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost.

Gifts of cash restricted for acquisition or construction of PP&E

In absence of explicit donor restrictions, NFPs would be required to use the **placed-in-service** approach (*no more implied time restrictions*)

- Healthcare NFPs are already required to do so



Statement of Activities, page 2, continued

	2017	2016
Changes in net assets with donor restrictions:		
Contributions	4,750,511	6,624,540
Investment return, net	3,732,660	106,504
Net asset released for restrictions		
Release of appropriated endowment amounts	(1,928,370)	(1,849,666)
Release of restrictions related to long-lived assets place into service	-	(12,234,065)
Release of other restrictions	(4,241,377)	(3,446,525)
Change in value of split-interest agreements	382,912	185,865
Changes in net assets with donor restrictions	2,696,336	(10,613,347)
Changes in net assets	6,783,051	(867,468)
Net Assets, Beginning of Year	87,667,027	88,534,492
Net Assets, End of Year	\$ 94,450,078	\$ 87,667,024

Cash Flow Statement

- Continue to allow choice between the Direct Method and the Indirect Method in presenting operating cash flows
- However, indirect reconciliation no longer required for Direct Method

Operating Cash Flows

	2016	2015
Cash received from donors for operations	\$ 1,756,001	\$ 1,390,824
Cash received from program fees and other	700,622	645,201
Cash payments to employees	(1,257,765)	(1,319,769)
Cash payments to vendors and others	(1,046,017)	(983,778)
Cash paid for interest	(87,878)	(32,922)
Net Cash From Operating Activities	104,963	(300,442)

← Direct Method

	2016	2015
Change in net assets	\$ (97,821)	\$ (540,078)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	269,584	254,559
Contributions restricted for property purchases	(60,582)	-
(Gains) losses on investments	(22,060)	2,574
Changes in operating assets and liabilities:		
Grants and pledges receivable	(125,862)	27,305
Prepaid expenses and other assets	26,615	(2,300)
Accounts payable and accrued expenses	59,108	(44,825)
Deferred revenue	55,981	2,315
Net Cash From Operating Activities	104,963	(300,442)

← Indirect Method

Operating Cash Flows

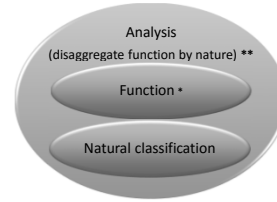
	Year ended June 30,	
	2017	2016
Cash Flows from operating activities		
Cash received from tuition and fees	\$15,989,829	\$ 15,324,808
Cash received from donors	14,922,510	14,981,883
Cash collected from contributions receivable	1,059,871	2,162,147
Cash received from auxiliary enterprises	3,207,567	3,157,108
Interest and dividends received	1,241,133	1,071,499
Miscellaneous receipts	741,713	948,239
Cash paid to employees	(17,038,182)	(16,294,206)
Cash paid for benefits	(6,341,991)	(6,802,595)
Cash paid to suppliers and vendors	(10,276,191)	(10,112,733)
Interest paid	(660,774)	(690,825)
Grants paid	(3,529,742)	(2,696,718)
Loans issued to students	-	-
Collection of loans from students	-	-
Net Cash Provided by Operating Activities	(684,257)	1,048,608

Investing and Financing Cash Flows

	2017	2016
Cash flows from investing activities		
Purchase of property and equipment	(865,814)	(3,942,721)
Proceeds on sale of equipment	-	-
Proceeds on sale of investments	17,454,664	24,039,681
Purchase of investments	(15,070,557)	(25,950,085)
Net Cash Used by Investing Activities	1,518,293	(5,853,126)
Cash flows from financing activities		
Proceeds from contributions restricted for:		
Investment in perpetual endowment	1,339,295	3,224,386
Investment in term endowment	24,675	14,830
Investment in property and equipment	68,968	661,925
Proceeds from note receivable collection	34,610	31,988
Other financing activities:		
Interest and dividends restricted for reinvestment	-	-
Payments on annuity and trust obligations	(777,232)	(958,589)
Payments on notes payable	(858,669)	(628,618)
Net Cash Provided by Financing Activities	31,647	2,345,922

Expense Reporting

Report expenses, either on the face of financial statements or in the notes, by:



Analysis of Expense by Nature and Function 958-720-45-15

Total expenses include all operating expenses AND the nonoperating other components of net periodic pension cost.

	Program Activities			Supporting Activities			Total Expense 2017
	Academic and Student Programs	Public Service	Auxiliaries	Administrative Support	Facilities operation & maintenance	Fundraising	
Salaries and wages	\$10,379,378	\$ 281,909	\$ 640,120	\$ 3,490,873	\$ 925,721	\$1,229,701	\$ 17,047,702
Employee benefits	3,644,267	66,271	232,752	2,114,024	299,990	434,667	6,792,571
Services, supplies, and other	2,692,437	197,439	663,405	1,005,302	445,270	1,309,442	6,313,295
Occupancy, utilities, and maintenance	89,334	1,148	574,694	82,009	1,417,970	5,742	2,170,897
Grants to others	311,198	3,187,401	-	-	-	-	3,498,599
Depreciation and amortization	726,676	24,234	1,254,185	255,685	41,161	7,903	2,309,844
Interest	-	-	659,013	-	-	-	659,013
	17,843,290	3,758,402	4,024,169	6,948,493	3,130,112	3,087,515	38,791,981
Facilities operation and maintenance	886,175	42,542	1,606,357	517,760	(3,130,112)	77,278	-
Total expense in FY 2017	\$ 18,729,465	\$ 3,800,944	\$ 5,630,526	\$ 7,466,253	\$ -	\$ 3,164,793	\$ 38,791,981

Cost Methodology Issues - DTS

Allocation	Current Cost Allocation Method	Revised Allocation Method
Facilities O&M	Sq. Footage basis	Service & effort estimate
Depreciation & amortization	Sq. Footage basis	No change
Interest	Usage of Space	No change
IT related costs	Did not allocate	Service & effort estimate and costs of specific technology utilized
Media production & Communication	Did not allocate	Service & effort estimate

Higher Education	Education and Instruction	Research	Auxiliaries	Support Activities	Student Services	Total
Salaries and benefits	\$ 54,485	\$ 5,715	\$ 8,573	\$ 19,050	\$ 10,478	\$ 98,300
Supplies and services	11,543	9,405	10,260	8,123	3,420	42,750
Depreciation	5,605	1,520	950	760	665	9,500
Interest	425	115	72	58	50	720
Total expenses	\$ 72,057	\$ 16,755	\$ 19,855	\$ 27,990	\$ 14,613	\$ 151,270

Example 2

Analysis of Expenses

Presentation on face of the statement of activities

Expenses:	
Grant activities -	
Grants	12,125
Salaries, benefits and taxes	1,808
Occupancy costs	970
Depreciation	845
Supplies	1,255
Other	56
	<u>17,059</u>
Management and general -	
Salaries, benefits and taxes	452
Occupancy costs	243
Depreciation	211
Supplies	314
Other	14
	<u>1,234</u>
Total expenses	18,293

Expense Reporting (cont'd.)

NFPs required to provide qualitative disclosures about methods used to allocate costs among program and support functions

ASU also provides enhanced guidance on allocations from M&G expenses

- Key concept: **direct conduct** or **direct supervision**

958-720-55-176 Description of the methods used to allocate costs among program and support functions.

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Seminary. These expenses include depreciation and amortization, interest, the president's office, communications, media production, information technology, and facilities operations and maintenance. Depreciation is allocated base on square footage and interest is allocated based on usage of space. Costs of other categories were allocated on estimates of time and effort.

Guidance on Management and General Allocations

Terms Clarified	Revised Definition	Examples
<i>Management and general</i>	"Supporting activities that are not directly identifiable with one or more program, fundraising, or membership development activities." [958 Glossary]	<ul style="list-style-type: none"> • Employee benefits management and oversight(human resources) and Payroll • Administrating & reporting sponsored contracts [958-720-45-7]
<i>Direct conduct or direct supervision of program or other supporting activities</i>	These require allocation from management and general activities to the activities that they benefit [958-720-45-2A]	<ul style="list-style-type: none"> • CEO (M&G, Fundraising, other) • CFO (M&G, Investment expense) • Grant accounting and reporting, Human Resources (all M&G) [958-720-55-171 thru 175]

Disclosure on Board Designations Net Assets Without Donor Restrictions 958-210-45-11

Voluntary resolutions of your board

- Board designated endowments
- Other resolutions earmarking net assets for a specific future expenditure (not budget approval)
 - Considered board decisions related to year-end operating surplus
 - DTS Considered Not Designated where board decisions were in the nature of a spending authorization
 - DTS focused on decisions regarding net assets where saving or setting aside, i.e., not spending, was determined
- Include designations where delegation decisions are delegated to internal management

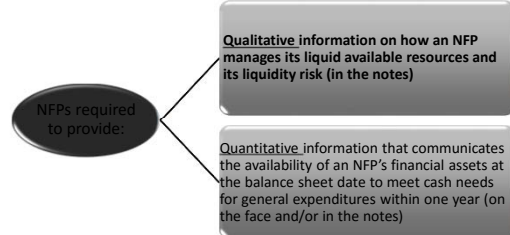
Disclosure on Board Designations Net Assets Without Donor Restrictions

958-210-45-11

The Seminary's governing board through specific action has created self-imposed limits on net assets without donor restrictions. The board has earmarked \$1,958,584 for the following purposes as of June 30, 2017. These net assets can be drawn upon if the board approves such action.

	2017	2016
For investment as a board designated-endowment	632,584	604,086
Reserves for health insurance contingency	326,000	326,000
Reserves for debt retirement	1,000,000	-
	<u>\$ 1,958,584</u>	<u>\$ 930,086</u>

Liquidity and Availability of Resources



Quantitative – Example 958-210-50-1A

	2017	2016
Financial assets		
Cash and cash equivalents	\$ 8,458,155	\$ 7,592,481
Accounts and contributions receivable	4,163,630	3,836,405
Investments	93,608,838	86,604,472
Perpetual trusts held by others	511,721	519,218
Financial assets, at year-end	106,742,344	98,552,576
Less those unavailable for general expenditure within one year, due to:		
Investments and perpetual trusts held by others not convertible to cash within next 12 months	(2,998,357)	(2,954,525)
Contribution and accounts receivable collectible beyond one year	(1,559,603)	(1,593,323)
Investments and other financial assets held for others	(28,404,703)	(18,671,223)
Perpetual and term endowments and accumulated earnings subject to appropriation beyond one year	(35,191,761)	(35,479,448)
Investments held in trusts and various state required annuity reserves	(9,976,066)	(9,714,640)
Investments in board designated endowments	(632,584)	(604,086)
Board designated reserves for future contingencies	(326,000)	(326,000)
Board designated reserves for debt retirement	(1,000,000)	-
Financial assets available to meet cash needs for general expenditures within one year	\$ 26,653,270	\$ 29,209,331

Examples of limitations that may make financial assets unavailable for General Expenditures within 12 months:

Its nature	Financial assets not convertible to cash within next 12 months	Examples of limitations that may make financial assets unavailable for General Expenditures within 12 months:
External limits of donors, laws, contracts	Donor restrictions limiting availability	• Contribution receivables due > 1 year
		• Accounts receivable due > 1 year
Contracts or legal restrictions	Contracts or legal restrictions	• Illiquid investments not redeemable within 1 year
		• Endowment assets considered perpetually restricted
Internal limits imposed by governing board decisions	Financial assets intended for long-term investing	• Assets from unappropriated endowment earnings, beyond 1 year
		• Restricted for programs in future years, beyond 1 year
Intended for future years or for specific contingencies	Intended for future years or for specific contingencies	• Time restrictions beyond 12 months, e.g., trusts and life income funds
		• Donor sinking funds
		• State required annuity reserves
		• Quasi-endowments intended for long-term investment
		• Designated to future periods beyond 1 year, e.g., construction, deferred maintenance projects
		• Specific contingencies

Note: Financial assets for the acquisition of significant property plant and equipment are not considered general expenditures, therefore these are considered unavailable.

Liquidity and Availability – DTS Disclosure

Qualitative information on available financial assets:
 The following table reflects the Seminary's financial assets as of June 30, 2017, reduced by amounts not available for general use within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, state required annuity reserves, trust assets, assets held for others, perpetual endowments and accumulated earnings net of appropriations within one year, or because the governing board has set aside the funds for a specific contingency reserve or a long-term investment as board designated endowments. These board designations could be drawn upon if the board approves that action.

Liquidity and Availability – DTS Disclosure

Qualitative information regarding liquidity:
 The Seminary has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Seminary also has an unsecured \$5,000,000 line of credit, which it could draw upon in the event of an anticipated liquidity need. The line of credit matures on December 31, 2017. The interest rate is PRIME (4.25% as of June 30, 2017), with interest due monthly and principal due upon maturity. No funds were borrowed under this agreement during the fiscal year ended June 30, 2017.

Underwater Endowments
Net asset classification revised

- Reflect underwater amount in net assets with donor restrictions rather than without donor restrictions

Disclosures enhanced

- Aggregate of original gift amounts (or level required by donor or law) for such funds, fair value, and any policy or decision to reduce or not spend from such funds

Example of Reclassification of Opening Balances

	Current GAAP	Reclassifications			New GAAP
		Implied time restriction	Underwater portion of endowment	Other	
Assets:					
Cash and cash equivalents	16,093	-	-	-	16,093
Receivables and other	23,095	-	-	-	23,095
Investments	145,794	-	-	-	145,794
Property & equipment	120,981	-	-	-	120,981
Total assets	305,973				305,973
Liabilities:					
Accounts payable	1,915	-	-	-	1,915
Accrued expenses	8,566	-	-	-	8,566
Long term debt	7,668	-	-	-	7,668
Total liabilities	18,149				18,149
Net assets:					
Unrestricted	23,237	-	1,084	(24,321)	-
Temporarily restricted	119,097	(100,735)	-	(18,362)	-
Permanently restricted	144,999	-	-	(144,999)	-
Without donor restrictions	100,735	(1,084)	1,084	24,321	125,056
With donor restrictions	287,324	-	-	-	287,324
Total net assets	305,473	-	-	-	305,473
Total liabilities and net assets	305,473				305,473

Endowments – Two Net Asset Categories

Endowment net asset composition by type of fund as of June 30, 2017:

	With donor restrictions				Total funds
	Without donor restrictions	Original gift amount	Accumulated gains (losses) and other	Total with donor restrictions	
Donor-restricted funds	\$ -	\$ 35,924,567	\$ 6,478,264	\$ 42,402,831	\$ 42,402,831
Board-designated funds	632,584	-	-	-	632,584
	\$ 632,584	\$ 35,924,567	\$ 6,478,264	\$ 42,402,831	\$ 43,035,415

Included in accumulated gains (losses) and other are accumulated investment returns and term endowment funds which total \$576,785 and \$744,104 at June 30, 2017 and June 30, 2016, respectively. Term endowments are gifts of cash and other assets with stipulations that they be invested to provide a source of income for a specified term and that the income be used for a specified purpose are both time and purpose restricted.

Endowment Roll Forward

Changes in endowment net assets for the year ended June 30, 2017:

	With donor restrictions				Total funds
	Without donor restrictions	Original gift amount	Accumulated gains (losses) and other	Total with donor restrictions	
Endowment net assets, beginning of year	\$ 604,086	\$ 34,848,107	\$ 4,660,166	\$ 39,508,273	\$ 40,112,359
Investment return, net	59,494	-	3,606,248	3,606,248	3,665,742
Contributions	-	1,339,295	24,675	1,363,970	1,363,970
Amounts appropriated for expenditure	(30,996)	-	(1,928,370)	(1,928,370)	(1,959,366)
Reclassification	-	(262,835)	115,545	(147,290)	(147,290)
	28,498	1,076,460	1,818,098	2,894,558	2,923,056
Endowment net assets, end of year	\$ 632,584	\$ 35,924,567	\$ 6,478,264	\$ 42,402,831	\$ 43,035,415

This disaggregation is not required. However, we find it helpful.

Disclosure on interpretation of UPMIFA and Spending from Underwater Endowments

The Seminary's endowment consists of 160 individual funds established for scholarships and educational programs. Its endowment includes both donor-restricted endowment funds and funds designated by the board to function as endowments. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Donor-restricted endowments are classified as net assets with donor restrictions and board-designated endowments are classified as net assets without donor restrictions.

The "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) was enacted in the state of Texas in 2006. Although UPMIFA does not preclude the Seminary from spending below the original gift value of donor-restricted endowments, the Seminary considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Seminary has adopted a policy to not spend from underwater endowments unless directed otherwise by the donor.

Disclosure on Underwater Endowments Deficiencies

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Seminary to retain as a fund of perpetual duration. Deficiencies of this nature exist in 2 donor-restricted endowment funds, which together have an original gift value of \$62,780, a current fair value of \$59,930, and a deficiency of \$2,850 as of June 30, 2017. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent.

Investment Expense

Current GAAP: Two Options

- Report investment expense net (against investment return), or
- Report investment expenses gross (in expenses)

New ASU: Only 1 option

- Report investment expense net (against investment return) (958-225-45-14)
- Netted investment expense limited to external and direct internal investment expenses
- Investment expense excluded from analysis of expense by nature and function

Reporting of Investment Return

How to present?

- **Net presentation** of investment expenses against investment return on the face of the statement of activities (excludes programmatic investing)
 - Netting limited to external and **direct** internal expenses
 - May report net return in **multiple**, appropriately labeled lines (e.g., from different portfolios, in different net asset classes, or in operating versus nonoperating)

What to disclose?

- Disclosure of investment expenses **no longer required**
 - If reported, carefully label and don't include in expense analysis
- **No longer** require disclosure of investment return **components**

What is Direct Internal Investment Expense?

- Direct internal investment expenses involve the direct conduct or direct supervision of the strategic and tactical activities involved in generating investment return.
 - a. Salaries, benefits, travel, and other costs associated with the officer and staff responsible for the development and execution of investment strategy
 - b. Allocable costs associated with internal investment management and supervising, selecting, and monitoring of external investment management firms.
- Exclude expenses that are not associated with generating investment return.
 - For example, the costs associated with unitization and other such aspects of endowment management would not be allocated.

Effective Date, Early Adoption, and Transition

- **Effective Date:** For fiscal years beginning after 12/15/2017 (calendar YE '18 and fiscal YE '19)
- **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:
 - (1) Analysis of expenses by nature and function, and/or
 - (2) Disclosures around liquidity and availability of resources

Example of Early Adoption

- Choose to early adopt in FY 2017-18
 - Apply all provisions to FY 2017-18
 - If choose to present comparative financials for FY 2016-17, apply all provisions to FY 2016-17, except can choose not to present:
 - (1) Analysis of expenses by nature and function, and/or
 - (2) Disclosures around liquidity and availability of resources

Important Notes

NFPs are *already permitted* to incorporate many of the changes in the ASU

The only changes that cannot be done without formally adopting the ASU are:

Presenting one class of restricted net assets (consolidating temporarily and permanently restricted)

Underwater endowment accounting

Eliminated disclosures of investment return components and netted expenses

Eliminated requirement to provide indirect reconciliation if using direct method for operating cash flows

Proposed ASU: Contributions Received and Made

- Issued: August 3, 2017
- Provides Guidance:
 - On whether a transaction should be treated as an Exchange Transaction (reciprocal) or a Contribution (nonreciprocal)
 - On whether a Contribution is Conditional or Unconditional [affects the timing of the revenue recognized]
- Many grants received by NFPs would likely shift from an exchange transaction to the model for "conditional contributions"

Is It an Exchange Transaction?

- Reciprocal benefits of "commensurate value" flow directly between the parties to the arrangement
- Resource Provider (private foundation, government, other) is not considered synonymous with the General Public
 - If resource provider receives incidental value and the benefits flow to the general public, then it is a contribution
 - Execution of resource providers mission or positive sentiment as a donor is not commensurate value
- If the primary beneficiary of a grant or contract is a third party, an NFP must use judgment to determine if the transaction is reciprocal or nonreciprocal.

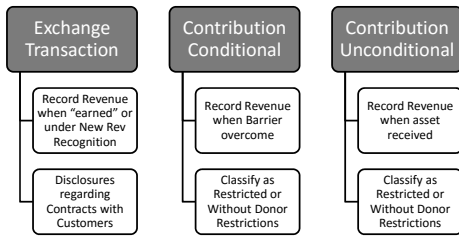
Indicators a Transaction is a Contribution

- Recipient solicits assets from the resource provider without the intent of exchanging goods or services
- Resource provider has full discretion in determining the amount of transferred assets
- If the penalties assessed on the recipient for failure to comply with the terms of the agreement are limited to the delivery of assets provided and return of the unspent amount

Conditional Gift Definition Revised

- A **barrier** exists that must be overcome before the recipient is entitled to the promised funds
- A requirement that the **funds be returned if barrier not overcome**
 - existence of a right of return to the promisor for assets or a right of release of the promisor from its obligation to transfer assets

Accounting Differences



Examples of Barriers

- Measurable performance-related barriers
 - A specified level of service
 - An identified number of units of output
 - A specific outcome
- Other measurable barriers
 - Stipulation that a recipient is entitled to receive assets upon the occurrence of an identified event (a matching gift requirement)
- Only stipulations related to the purpose of the agreement
 - Exclude administrative tasks and trivial stipulations as barriers

Examples of Barriers, continued

- Limited Discretion by the Recipient
 - Little discretion over how funds should be spent
 - Recipient has broad discretion, then unconditional:
 - Spend for general operating purposes, including limitations which could include amounts restricted for ongoing programs or activities
- Additional Actions
 - To be entitled to the transferred assets, the recipient shall undertake an additional action (for either a new or existing activity) if otherwise would not have taken

Other Considerations

- Agreements limiting spending to "Qualified Expense"
 - May result in limited discretion over how to spend, or could be viewed as a measurable barrier, i.e., conditional contribution
 - Standard budget that accompanies the agreement might be considered a "guideline" and not result in a significant limitation, i.e., no barrier so an unconditional contribution
- Conditional Contribution is the Default
 - Stipulations that are not clearly unconditional or are ambiguous shall be presumed to be a conditional contribution

Other ASUs Impacting NFP

Revenue Recognition – Contracts with Customers

CY 2018 (FY 2018-19) for public entities & NFP w Conduit Debt
CY 2019 (FY 2019-20) for nonpublic entities

Leases

CY 2019 (FY 2019-20) for public entities & NFP w Conduit Debt
CY 2020 (FY 2020-21) for nonpublic entities

Other Recent ASUs Affecting NFPs

- Consolidation
- Financial Instruments—Classification and Measurement
- Financial Instruments—Credit Losses
- Goodwill
- Cash Flow Classification Issues

56

QUESTIONS?

Dale Larson
Vice President for Business and Finance/CFO
Dallas Theological Seminary
dlarson@dts.edu
214-887-5021