

# Audit and Accounting Update

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# Overview

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## Audit Update

- Uniform Guidance (Super Circular)

## Accounting Update

- Revenue Recognition
- Leases
- Financial Statement Presentation



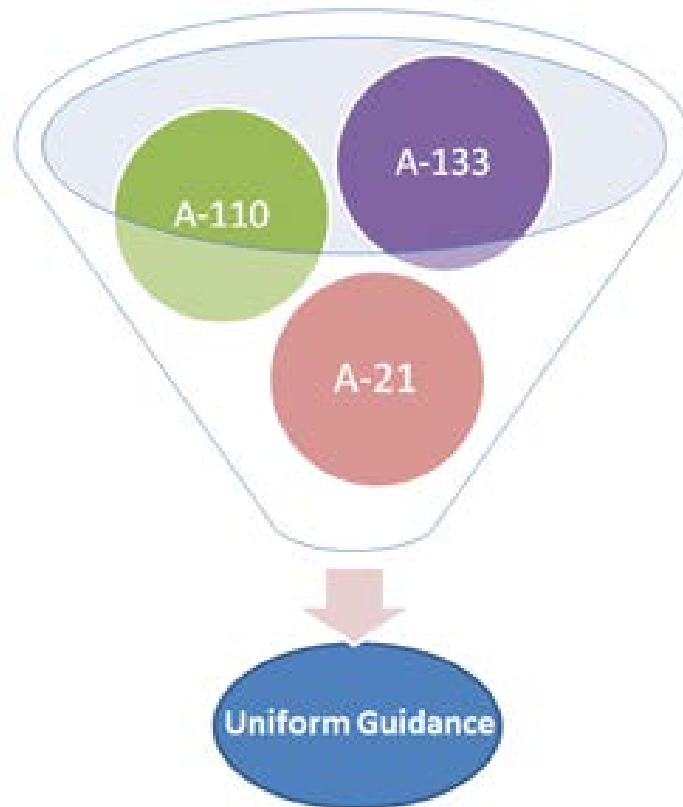


# The New Uniform Guidance for Federal Awards - “SUPER CIRCULAR”

# Uniform Guidance

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Merged various different guidance and circulars for different types of entities and from different agencies into one document.



# Effective Dates

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Federal agencies must implement policies and procedures by promulgating regulations to be **effective December 26, 2014**

- Accomplished with issuance of recent Joint Interim Final Rule

Non-federal entities will need to implement the new administrative requirements and cost principles **for all new Federal awards made after December 26, 2014**, and to additional funding to existing awards (referred to as **funding increments**) **made after that date**

- Non-federal entities wishing to implement entity-wide system changes to comply with the guidance **after December 26, 2014**, will not be penalized for doing so

Audit requirements effective for fiscal years **beginning on or after December 26, 2014**

- Not permitted to early implement any of the audit provisions

# Effective Dates



## WHAT DOES IT REALLY MEAN?

### March 31, 2015, June 30, 2015, and September 30, 2015 year-ends

- Non-federal entities will have to adopt new administrative requirements and cost principles relating to all new federal awards and to funding increments to existing awards
- Single audit requirements continue to use “old” regulation
- Auditor compliance testing will be affected by client adoption of “new” requirements (i.e., will likely have to test some awards subject to the “old” requirements and some the “new” requirements)

### December 31, 2015, year-ends and beyond

- New single audit requirements apply
- Auditors may have to test some awards subject to the “old” requirements and some the “new” requirements for several years

# Incremental Funding

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## AWARDS MADE AFTER DECEMBER 26, 2014

- New awards made after December 26, 2014.
- Additional funding added to an existing award (but not the original funding amount included in the award).
- Existing awards where the federal agency considers the funding increments to be an opportunity to modify the terms and conditions of the award.



# Key Differences - GRANTEE SIDE

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Key differences from current requirements

- Internal Control
- Davis Bacon and Real Property Acquisition and Relocation Assistance removed
- Procurement standards - significant changes





# Internal Control

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The non-federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” [Green Book] issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).



# Internal Control

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COFAR (Council on Financial Assistance Reform) FAQ 303-1, 2, and 3 clarifies that should indicates a “best practice” and is not a presumptively mandatory requirement.



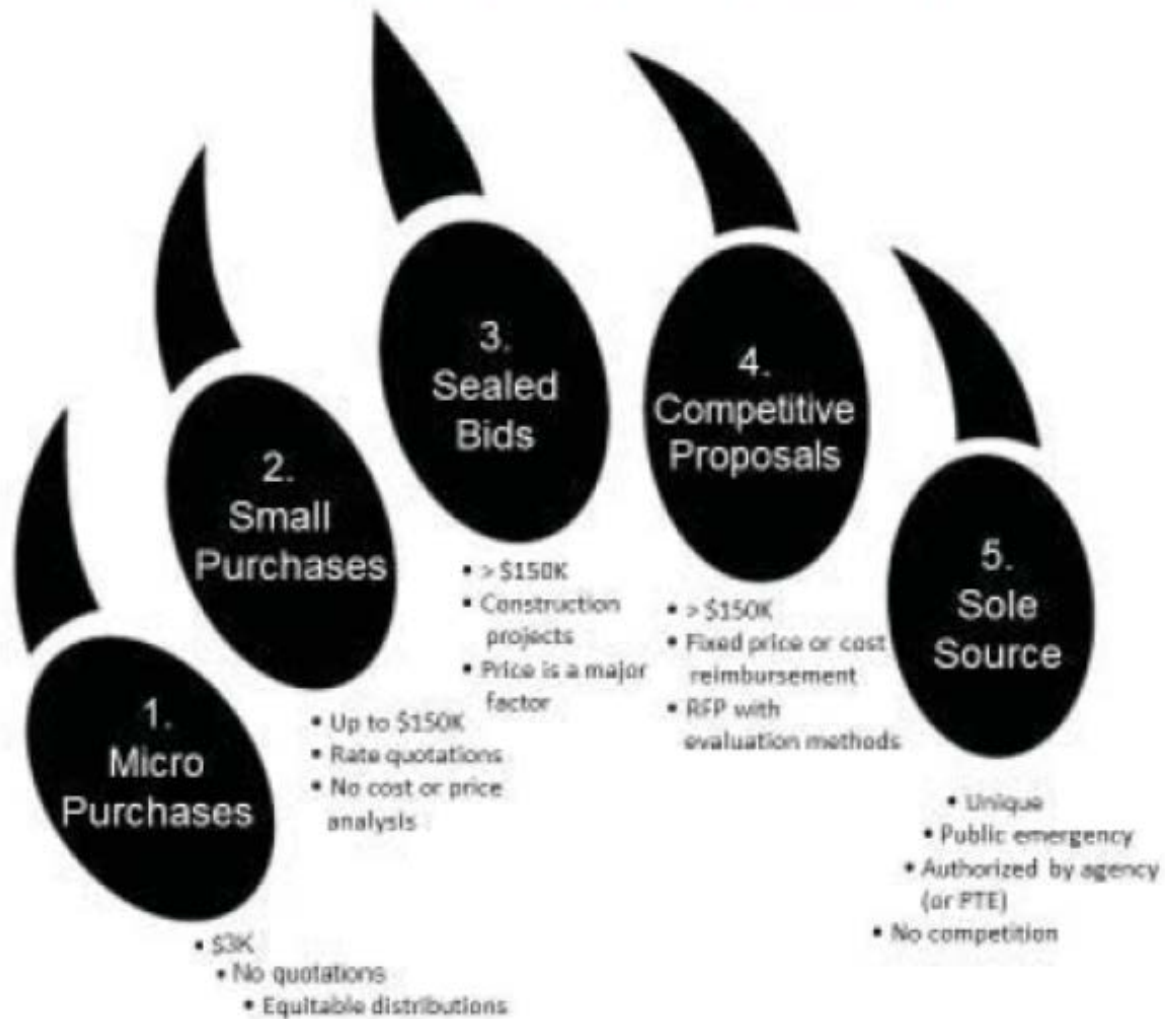
# Procurement

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For compliance with the new procurement standards only, the federal government is providing a grace period of one full fiscal year after the effective date of the Uniform Guidance.

The COFAR FAQ goes on to provide information on certain documentation that the non-federal entity will have to provide in this regard and how it will affect the single audit in its first year.

## Procurement "Claw" (Section 200.320)



# Procurement “CLAW”

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## Micro-purchases < \$3,000

- No quotes
- Equitable distributions

## Small purchases < \$150,000

- Rate quotations
- No cost or price analysis

## Sealed bids > \$150k

- Typically construction
- Price is a major factor

## Competitive proposals > \$150k

- RFP with evaluation methods

## Sole source

- Unique; public emergency
- Authorized by agency
- No competition

# Procurement - General Standards

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- Documented policies
- Necessary
- Full & open competition
- Conflict of interest
- Documentation of purchase
  - Cost and price analysis
  - Vendor selection

## Key Differences - AUDITOR SIDE

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- Increases audit threshold from \$500,000 to \$750,000
- Type A/B threshold - minimum increases from \$300,000 to \$750,000
- Loan/loan guarantee treatment in major program determination
- High-risk Type A and Type B program criteria
- Percentage of coverage from 50/25% to 40/20%
- Low-risk auditee criteria
- Schedule of expenditures of federal awards changes
- Audit findings (threshold from \$10,000 to \$25,000)
- TWO TESTING SECTIONS - subject to UG and “old rules”





# How to Prepare for the Uniform Guidance

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Understand how it will affect you

Evaluate and communicate award dates

Revisit internal control documentation

Review procurement policies and adjust if needed

Be prepared for audit process changes



# REVENUE RECOGNITION



# Revenue From Contracts with Customers

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## Introduction and Transition

- *ASC 606 Revenue from Contracts with Customers* issued in May 2014
- A single, principle-based revenue standard for U.S. GAAP and IFRS that replaces almost all existing U.S. GAAP and IFRS guidance
- The new revenue standard aims to improve accounting for contracts with customers by:
  - Providing a more robust framework for addressing revenue issues as they arise
  - Increasing comparability across industries and capital markets
  - Requiring better disclosure
- The new revenue standard states in 958-605-25-1 that exchange transaction shall be accounted for in accordance with Topic ASC 606 Revenue from Contracts with Customers

# Revenue From Contracts with Customers

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## Introduction and Transition

- Effective dates:
  - Public entities - 1<sup>st</sup> interim period within annual reporting periods beginning after Dec 15, 2016
  - Nonpublic entities - Annual reporting periods beginning after Dec 15, 2017 and interim periods within annual periods beginning after Dec 15, 2018
- Early adoption permitted for nonpublic entities only but no earlier than periods beginning after Dec 15, 2016
- Applies to:
  - **Contracts with customers**, which may include in certain circumstances:
    - Collaborations if counterparty is a customer
    - Hybrid contracts for which revenue and non-revenue components have been separated
  - Gain/loss recognition on sale of some nonfinancial assets (intangibles and PP&E)
  - Applies to all industries, with certain specific transactions excluded: leases, insurance contracts, financial instruments, guarantees, certain nonmonetary exchanges

# Revenue From Contracts with Customers

## Introduction and Transition

### Core principle

Recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity *expects to be entitled* in exchange for those goods or services

Steps to apply the core principle are:





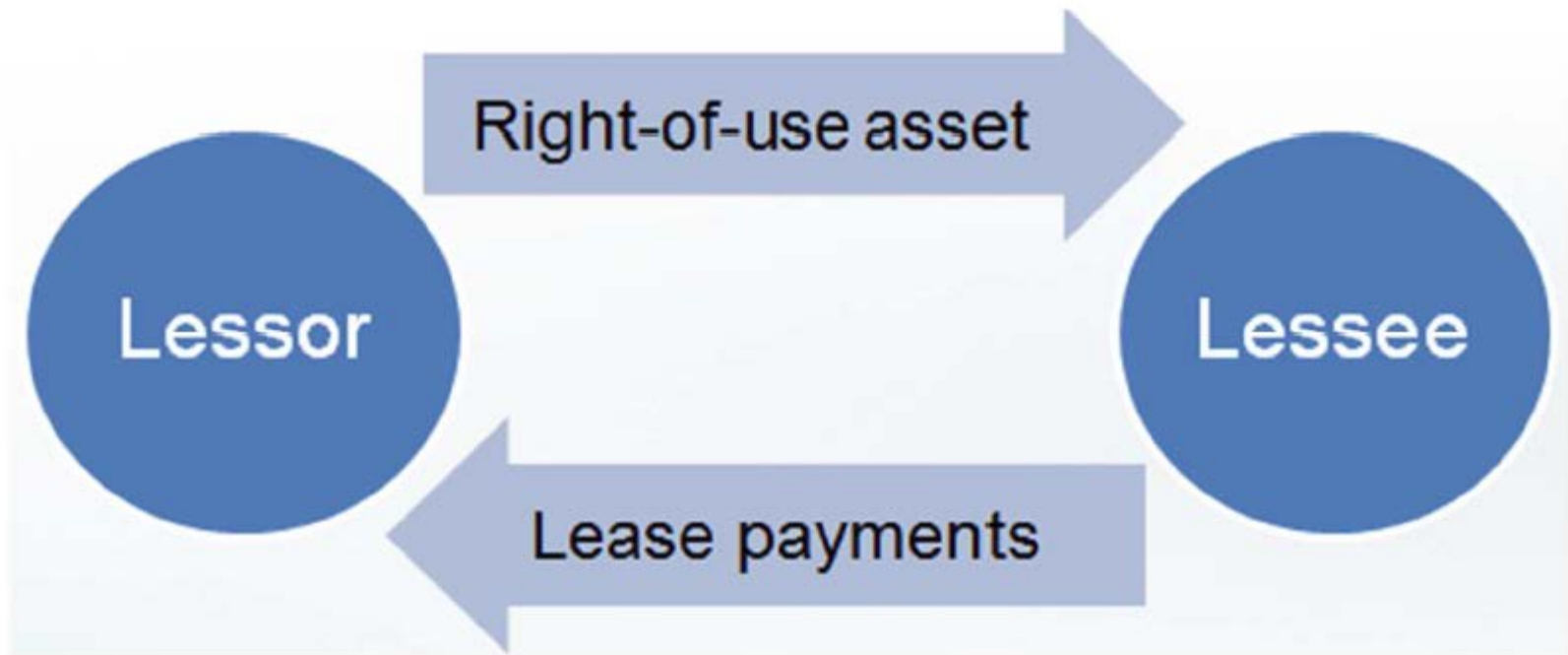
# LEASES



# Proposed Right of Use Model

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A lease contract conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration



# Lessee Model Approaches

All leases (more than 12 months) are recognized on the lessee's balance sheet

Current U.S. GAAP (IFRS)	IASB	FASB
Capital (Finance) Leases	Type A	Type A
Operating Leases	Type A	Type B



All leases are the same.

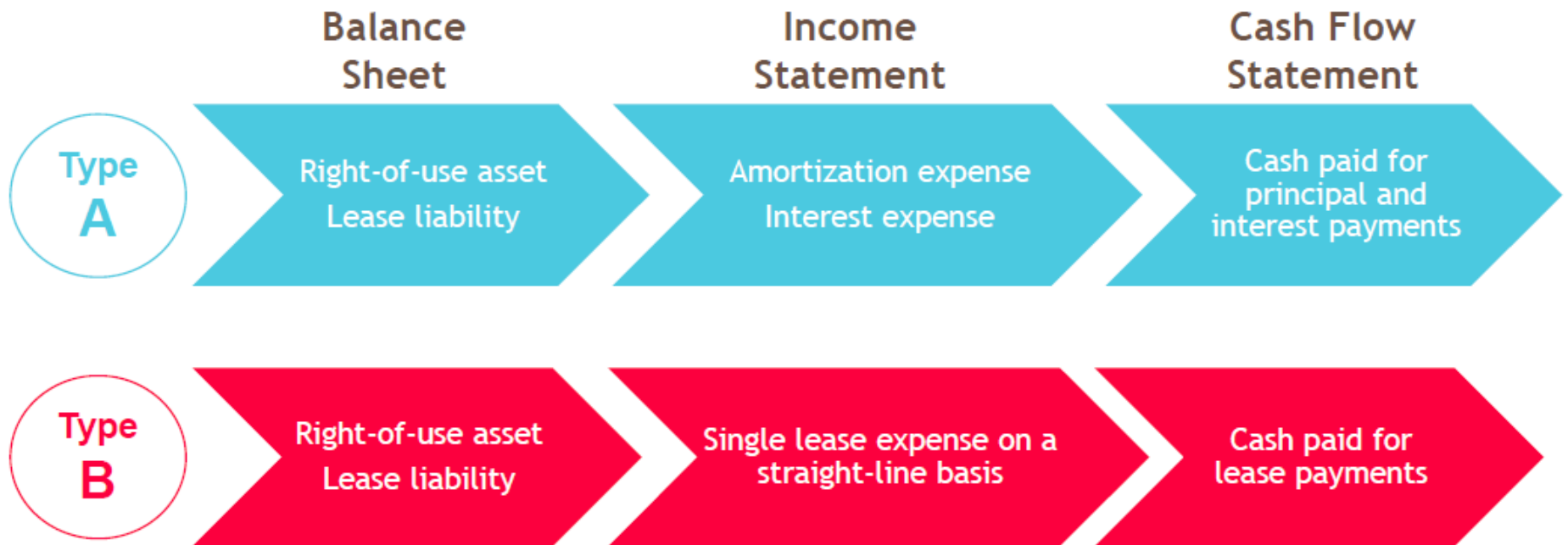


Not all leases are the same. Classification is based on IAS 17 (similar to FAS 13).



# Lessee Accounting Overview

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# Lease Update Implementation

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No effective date yet published

FASB anticipates issuing the standard shortly



# FASB's Exposure Draft, *Presentation of Financial Statements of Not-For-Profit Entities*

# Overview

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What to Expect from the FASB's Exposure Draft, *Presentation of Financial Statements of Not-for-Profit Entities*

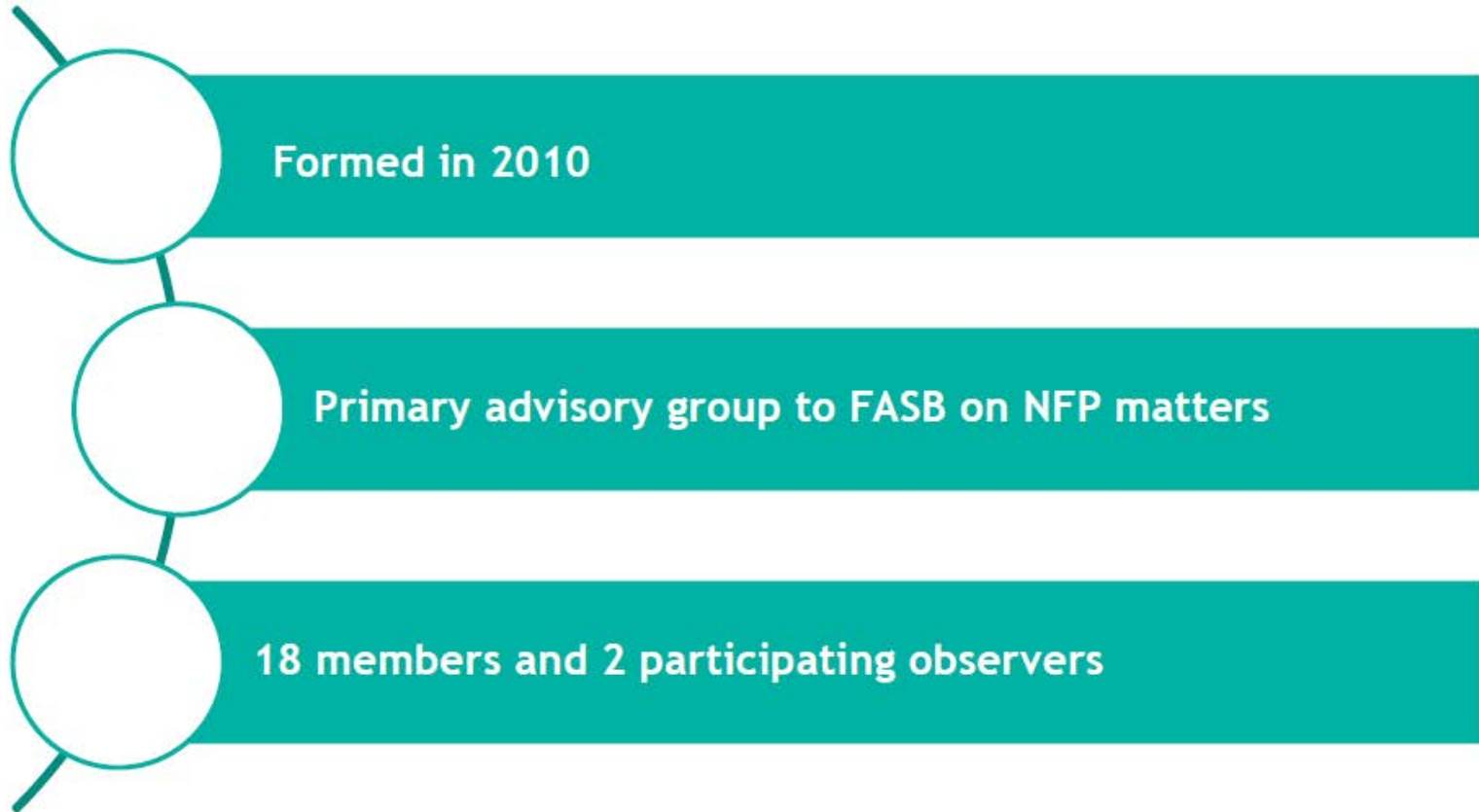
## Key elements of the proposal

- Net asset classes
- Liquidity information
- Activity statement
  - Operating measures
  - Reporting of expenses
- Cash flow statement

## Project timeline and next steps

# FASB NFP Advisory Committee (NAC)

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# Areas for Improvement Identified

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## Within GAAP

- “Refresh” the NFP financial statement (“FAS 117”) model
- Address disclosure volume/ineffectiveness
- Address complexities:
  - Simplifications
  - More practical expedients, where possible

## Outside GAAP

- Improve other financial communications
  - Management commentary/MD&A

# Project Timeline - Steps to Date

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# Financial Statements of NFPs - Topics

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**NOTE:** Board removed NFP Other Financial Communications (MD&A) project from its research agenda in January 2014.



# Liquidity

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- The Board decided that an entity should define the time horizon it uses to manage its liquidity (for example, 30, 60, or 90 days) and disclose the following information:
  1. **Quantitative information** about:
    - a) The total amount of financial assets
    - b) Amounts that are not available to meet cash needs within the time horizon because of (1) external limits and (2) internal actions of a governing board
    - c) The total amount of financial liabilities that are due within that time horizon.
  2. **Qualitative information** about how the entity manages its liquidity. For example, an entity might disclose:
    - a) Its strategy for addressing entity-wide risks that may affect liquidity, including its use of lines of credit
    - b) Its policy for establishing liquidity reserves
    - c) Its basis for determining the time horizon used for managing liquidity.



# Expenses

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May require disclosures of cost allocation methods.

# Cash Flow Statements

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- Require **Direct Method** for operating cash flows
  - No longer require Indirect Method
  - ED to ask if indirect should still be required for certain NFPs
- **Re-categorize** certain items to better align “operating” with activities statement and operating measure
  - Purchases of and proceeds on sale of long-lived assets (e.g., PP&E; capitalized and uncapitalized collections)
  - Cash gifts restricted for long-lived assets
  - Cash from interest and dividends
  - Interest paid on long-term debt

## Cash Flows from Operating Activities

Cash received from service recipients

Cash received from donors

Cash paid to employees

Cash paid to vendors

Purchase of property and equipment

Proceeds on sale of property and equipment

Contributions restricted for property and equipment

Net cash from operating activities

## Cash Flows from Investing Activities

Cash received from interest and dividends

Purchase of investment assets

Proceeds from sale of investments

Net cash from investing activities

## Cash Flows from Financing Activities

Payments of principal on long-term debt

Interest paid on long-term debt

Contributions restricted for endowment

Net cash from financing activities

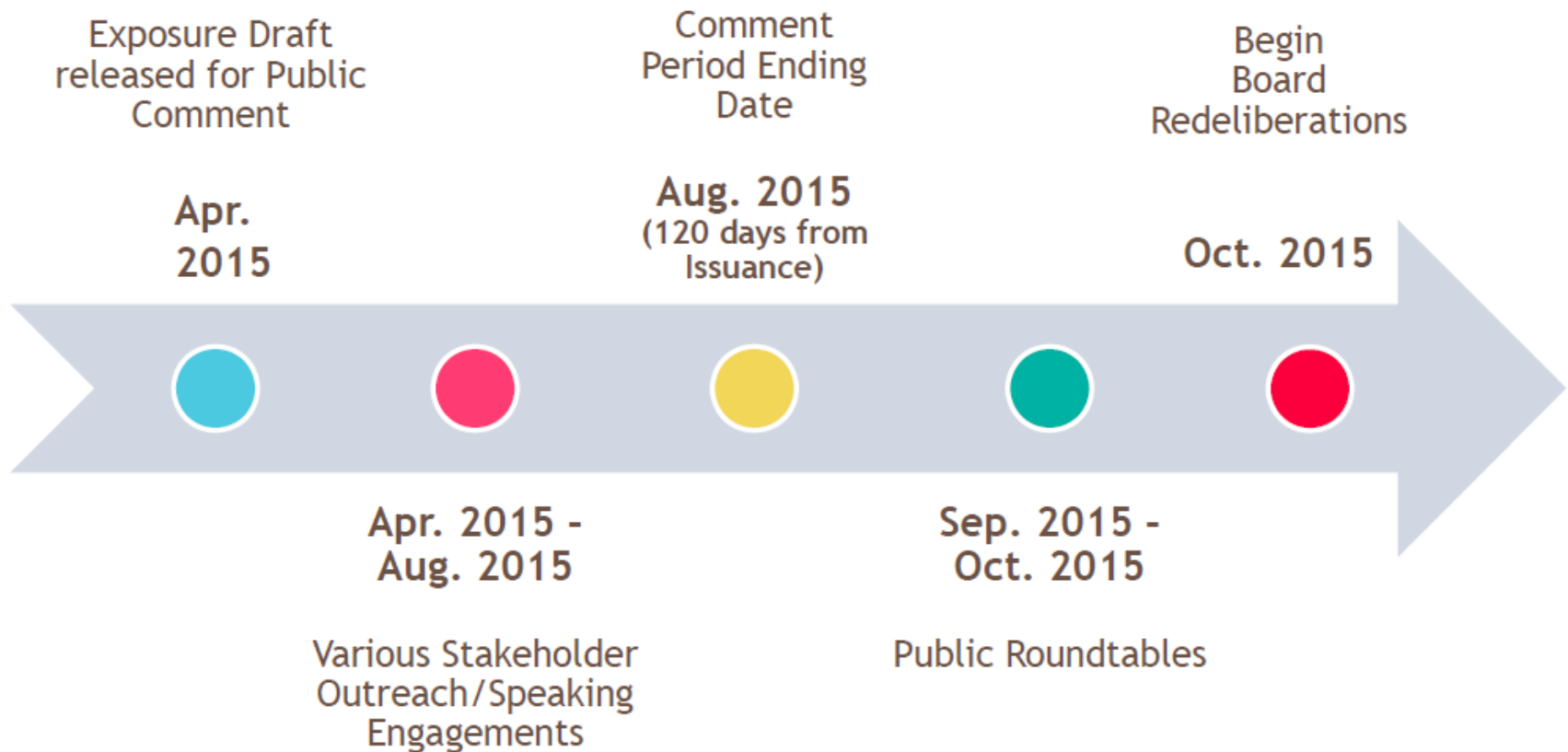
Net increase in cash

Cash at the beginning of year

Cash at end of year



# Project Timeline - Steps Still to Come





QUESTIONS?