OPPORTUNITY FINANCE NETWORK

Webinar: Revenue Recognition Issues for CDFI Financial Statements, **February 25, 1:00 – 2:00 PM ET**

OPPORTUNITY FINANCE NETWORK

Presenters

Beth Lipson

Chief Financial Officer

Opportunity Finance Network

Colleen Williams

Partner

RSM US LLP

Angela Dowell

Chief Financial Officer

Chicago Community Loan Fund

Webinar Logistics & Questions

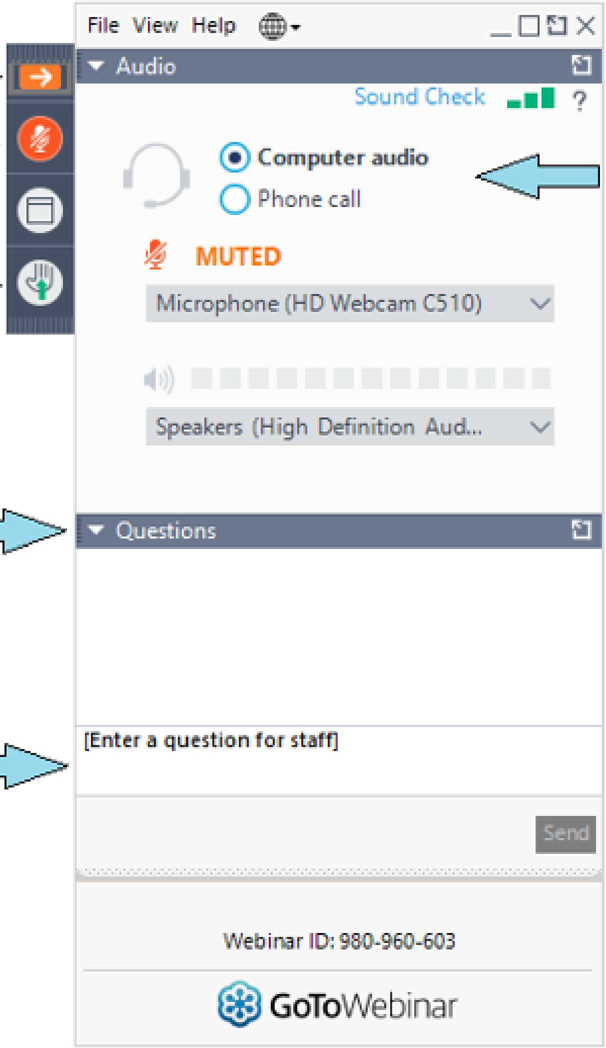
Show/hide the GoToWebinar interface

All participants are muted

Raise your hand to ask a question

Question tab

Type your question here



Choose computer or phone audio

Remember to enter your audio PIN if calling in

If you already called in, dial #audioPIN#

Agenda

- Changes in Accounting Rules/Guidance
  - ASU 2018-08 *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Made*
  - ASU 2014-09 *Revenue from Contracts with Customers – Topic 606*
  - 5 Step Process in identifying when to recognize revenue and how to document
  - CDFI Examples & Issues

ASU 2018-08 Not-for-Profit Entities

Clarifying the Scope and the Accounting Guidance for Contributions Received and Made

- Issued in June 2018
- Provides guidance for NFPs to determine:
  - Whether grants and similar contracts should be accounted for as contributions (nonreciprocal transactions) or as exchanges (reciprocal transactions).
  - Whether a contribution is conditional or unconditional

Why did the FASB issue this ASU?

- There has been a lot of diversity in practice in distinguishing between contributions and exchange transactions, particularly governmental grants and contracts.
- ASU 2014-09, *Revenue from Contracts with Customers* placed an increased focus on these issues because it adds new disclosure requirements and raised questions as to whether grants and contracts are in the scope of this guidance. Note: contributions are not within the Rev Rec Standard.
- This distinction is important because it determines what guidance to use:
  - For contributions, an entity should follow the guidance in Subtopic 958-605.
  - For exchange transactions, an entity should follow other guidance, (e.g., Topic 606, *Revenue from Contracts with Customers*)

Why did the FASB issue this ASU?

- In addition, once a transaction is deemed to be a contribution, stakeholders noted that it was difficult to determine when a contribution is conditional.

- Differences in these conclusions can effect the timing of when revenue is recognized.

- Key concepts:
  - Reciprocal vs. Nonreciprocal (contract)
  - Commensurate Value (contract)
  - Conditional vs. Unconditional (grant)

Key Concepts: Reciprocal vs. Nonreciprocal

- Is the resource provider receiving **commensurate value** in return?
  - **If yes,** then it is a **Reciprocal (or Exchange**) transaction and should follow Topic 606 or other relevant guidance.
  - **If no**, then it is a **Contribution** and the recipient should follow Subtopic 958-605.
- ASU clarifies that a ***resource provider (even a governmental agency) is not synonymous with the general public***. For the most part, the government is not getting something in return.
- A benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider.
- Furthering a resource providers mission or “feel good” sentiment does not constitute commensurate value received.

Key Concepts: Reciprocal vs. Nonreciprocal Transactions

- Need to focus on the underlying transaction rather than the type of resource provider (i.e. don’t focus on who it came from).
- People have been focusing too much on the fact that it came from a governmental agency and that because it benefits the public, they assume it must be an exchange transaction.
- But need to focus on whether the governmental agency itself (or other resource provider) is actually **receiving commensurate value** in return.

Key Concepts: Grants - Conditional vs. Unconditional

- If the transaction is deemed to be a contribution (nonreciprocal), then must determine if it is conditional or unconditional.

- For a donor-imposed condition to exist, there must be **BOTH**:

  - A barrier that must be overcome AND;

  - A right of return of assets transferred or a right of release.

Key Concepts: Conditional vs. Unconditional

- The ASU gives examples of indicators of a **barrier**:

- Specified level of service (e.g., # of units of output),
- Specific outcome
- A specific event occurs (e.g., a matching requirement)
- Limited discretion over how to spend the funds (have to follow specific guidelines about qualifying expenses)
- Administrative requirements (e.g., audit requirement) is not a barrier because it is not related to the purpose of the agreement.

- **A right of return** means – there must be some consequence if you don't do it. It has to be in the wording of the agreement or another document referenced in the agreement.

Summary of the required accounting

- Unconditional contributions
  - Recognize revenue immediately in appropriate net asset class
  - Classify as net assets “with restriction” or “without restrictions”

- Conditional contributions
  - Accounted for as a liability or unrecognized initially
  - Overcome barriers/conditions to entitlement
  - Transaction becomes unconditional
    - Recognize revenue in appropriate asset class
    - Classify as net assets “with restrictions” or “without restrictions”

CDFI Examples/Key Issues Conditional vs. Unconditional

- Multi-Year Grants
- Pass-Through Grant Revenue & Expenses
- CDFI Fund Awards
- Other Government Grants (City of Chicago)

ASU 2018-08 Effective dates for recipients

- **Annual periods beginning after:**
  - Public business entities & NFP that has issued or is a conduit debt obligor – annual periods beginning after June 15, 2018 (including interim periods)
  - All other entities – annual periods beginning after December 15, 2018.

  - For many NFP organizations, this will be effective for calendar year 2019.

- **For resource providers:** One year delay from recipient effective date**.** (Public entities – annual periods beginning after December 15, 2018.)

ASU 2014-09, *Revenue from Contracts with Customers – ASC Topic 606*

- Issued in May 2014

- The revenue standard aims to improve accounting for contracts with customers by:

  - Providing a robust framework for addressing revenue issues as they arise

  - Increasing comparability across industries and capital markets

  - Requiring better disclosures

5 steps to recognizing Revenue from Contracts – ASU 2014-09

Step 1: Identify the contract with the customer

Step 2: Identify performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations

Step 5: Recognize revenue when (or as) each performance obligation is satisfied

Revenue recognition – Disclosures

- Disaggregation of revenue that depict how revenue and cash flows are affected by economic factors

- Nonpublic entities that do not elect to provide the disaggregation of revenue disclosures required for public companies should disaggregate revenue based on when control of the goods or services transfers to the customer (e.g. at a point in time or over time)

Examples/Issues to Discuss Revenue Recognition

- Consulting/Contract income
- Dues
- NMTC Fees
- Documentation and Audit Notes for 5 step process

ASU 2014-09 Effective dates

- **Annual periods beginning after:**
  - Public business entities & NFP that has issued or is a conduit debt obligor – annual periods beginning after December 15, 2017 (including interim periods)
  - Nonpublic entities – annual periods beginning after December 15, 2018 (and interim periods within annual periods beginning after December 15, 2019).

- For many entities, this will be effective for calendar year 2019.

CDFI connect® COMMUNITY

cdficonnect.org

Online platform for the CDFI Industry to network, collaborate, and learn.

Special Interest Community:

- CDFI Financial Reporting & Management Forum

Features:

- Discussions
- Resource Libraries
- Events Calendars
- Advanced Search
- User Directory

Will only be successful if folks participate actively

<u>If you would like to be included please contact</u>: Elizabeth Specht Membership Engagement,
especht@ofn.org 202.318.0364

Materials & Questions

Webinar Materials:

- Powerpoint & Recording will be posted within a few days:

https://ofn.org/webinars

Questions:

- Type Questions in the Question Tab or Raise hand (and we will unmute you) on the GotoWebinar screen