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*****EXTRA! EXTRA! READ ALL ABOUT IT!!!*****

FASB Issues Revenue Recognition Standard

On May 28, 2014 the FASB has issued a new revenue recognition standard.

The Revenue Recognition Standard Accounting Standard Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers" will have an impact on many companies following US GAAP. The new standard will create a more principles-based approach to revenue recognition compared to the rule based approach under the existing standards. Under the existing standards companies, depending on their industry, may follow industry revenue recognition guidance. This standard would supersede most industry specific revenue recognition guidance.

Under the new standard, companies will recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which a company expects to be entitled in exchange for those goods or services.

The new standard would require companies to recognize revenue by applying a five-step process:

- Step 1: Identify the contract with a customer.
- Step 2: Identify the separate performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the separate performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The new standard will require additional disclosures and provide more guidance for transactions such as service revenue and contract modifications.

Effective date of the new standard:

For nonpublic companies in the United States, the standard takes effect for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Under the new standard, a nonpublic entity may elect to apply this guidance earlier, however, only as of the following:

1. An annual reporting period beginning after December 15, 2016, including interim periods within that reporting period (public entity effective date).
2. An annual reporting period beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017.
3. An annual reporting period beginning after December 15, 2017, including interim periods within that reporting period.

(Continued on page 2)

Welcome to our June 2014 edition of the **A&A Advisor**. Our A&A Advisor continues to focus on issues impacting the Commercial, Governmental and Non-Profit Sectors; providing you with insight and guidance on new rules, proposed changes and views of standard setters to assist you in the management of the financial and reporting aspects of your organization. I encourage you to contact us with any comments or questions you may have.

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Private Company Council Provides VIE Alternative

The Private Company Council ("PCC") has provided private companies an alternative for allowing private companies not to consolidate certain variable Interest Entities ("VIE") which are being consolidated based on leasing arrangements. This alternative method is applicable when the following exists:

A) the private company lessee and the lessor entity are under common control,

B) the private company lessee has a lease arrangement with the lessor entity,

C) substantially all of the activities between the private company lessee and the lessor entity are related to leasing activities (including supporting leasing activities) between those two entities, and

D) if the private company lessee explicitly guarantees or provides collateral for any obligation of the lessor entity related to the asset leased by the private company, then the principal amount of the obligation at inception of such guarantee or collateral arrangement does not exceed the value of the asset leased by the private company from the lessor entity. Examples of supporting leasing activities between the private company lessee and the lessor entity include issuance of a guarantee and provision of collateral on the obligations of the lessor entity that are related to the asset(s) leased to the private company lessee.

The accounting alternative is an accounting policy election that, when elected, should be applied by a private company lessee to all current and future lessor entities that meets the criteria noted above. Therefore, you will not be allowed to apply this guidance to one leasing arrangement that meets the criteria above and not to another leasing arrangement that also meets the above criteria. When electing this alternative method certain disclosures will be required. Listed below are two examples of required disclosures Per ASU 2014-07 *"Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements".*

a) You will be required to disclose the amount and key terms of liabilities recognized by the lessor entity that expose the private company lessee to providing financial support to the lessor entity and

b) A qualitative description of circumstances not recognized in the financial statements of the lessor entity that expose the private company lessee to providing financial support to the lessor entity.

Please contact your accountants or review the ASU for the disclosure requirements when considering adopting the alternative method described above. As with any PCC alternative method, if you are considering at any point to have your company become a public company or be acquired by one, we do not recommend that you adopt the alternative approach. We strongly recommend that you discuss this approach with your accountants.

Revenue Recognition Standard Has Been Released (continued from page 1)

When applying the amendment it should be applied using either of the following methods:

1. Retrospectively, to each prior reporting period presented and the entity may elect certain practical expedients. We advise that you consult with your accountants.
2. Retrospectively, with the cumulative effect of initially applying this Update recognized at the date of initial application. If an entity elects this transition method it also should provide the additional disclosures in reporting periods that include the date of initial application of:
   a. The amount by which each financial statement line item is affected in the current reporting period by the application of this Update as compared to the guidance that was in effect before the change.
   b. An explanation of the reasons for significant changes.

The International Accounting Standard Board (IASB) has also issued IFRS 15 "Revenue from Contracts with Customers," the new revenue recognition standard for companies using IFRS. If your company reports under IFRS, you should contact your accountants since the adoption date is a different date than the U.S. standard. Please also keep in mind that the adoption date for non-public and public companies are different.

For the actual revenue recognition standard please visit FASB.org.

OMB Issues the "Supercircular"

By Diana Miller, Director of Not-for-Profit

In December 2013, the Office of Management and Budget ("OMB") issued the 'Supercircular' which is effective December 26, 2013 and will be implemented by December 26, 2014. The objective of the Supercircular is to provide a government-wide framework for grants management, reduce administrative burden, and improve performance. The Supercircular streamlines the Federal government's guidance on the following three categories for Federal awards:

Administrative Requirements

The following three circulars are superseded into the Code of Federal Regulations:

- A-102, Grants and Cooperative Agreements with State and Local Governments
- A-110, Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations
- A-89, Catalog of Federal Domestic Assistance

The significant reforms to the administrative requirements are focused on the following areas:

- Conflict of Interest Guidance
- Definition of Supplies
- Review of Risk
- Procurement Standards
- Performance Measurement
- Greater focus on Internal Controls
- Cost Sharing
- Requirements for Pass-Through Entities
- Mandatory Disclosures

Cost Principles

The Supercircular consolidates the cost principles in the following three circulars in the Code of Federal Regulations:

- A-21, Cost Principles for Educational Institutions
- A-87, Cost Principles for State, Local, and Indian Tribal Governments
- A-122, Cost Principles for Non-Profit Organizations

The final guidance covers changes to direct costs, indirect cost rates, and cost accounting standards. The Supercircular provides guidance since currently there is no universal rule for classifying certain costs as either direct or indirect, a cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective.

- **Indirect Costs:** Organizations will be permitted to elect an automatic indirect cost rate of 10% of modified total direct costs – which can be used indefinitely if they wish, or negotiate a higher rate.
- **Direct Costs:** In certain circumstances, program administration costs can be reported as direct costs applicable to a specific program. Previously, grantees sometimes were required to pass these charges on via their indirect cost rates.

Audit Requirements

The Supercircular amends the following two circulars in the Code of Federal Regulations:

- A-133, Audits of States, Local Governments, and Non-Profit Organizations
- A-50, Audit Follow-up

The single audit changes consist of 1) Increased Threshold for Single Audit Requirement; 2) Changes to the Major Determination Process; 3) Reduction in the Number of Compliance Requirements (will be in compliance supplement); and 4) Modification to Reporting of Audit Findings and Questioned Costs.

(Continued on page 4)

OMB issues the "Supercircular" (continued from page 3)

The OMB has increased the Single Audit Threshold to $750,000 (from $500,000), the threshold for reporting questioned costs was raised to $25,000 (from $10,000), and changes were made to the risk determinations and the process of distinguishing between Type A and Type B programs. The percentage of coverage rule was decreased to 20% (from 25%) of total federal awards expended for low-risk auditees and decreased to 40% (from 50%) for all others. The following are the criteria that all must be met for each of the two preceding audit periods to qualify as Low-Risk Auditees:

- Single audits were performed annually, including submitting the data collection form and the reporting package to the Federal Audit Clearinghouse in a timely manner;

- Unmodified auditor's opinion on the financial statements and the auditor's in relation to opinion on the schedule of expenditures of awards;

- No Generally Accepted Governmental Accounting Standards (GAGAS) material weaknesses;

- No substantial doubt about the auditee's ability to continue as a going concern; and

- None of the Type A programs had internal control deficiencies identified as material weaknesses, questioned costs that exceeded 5%, or a modified opinion on a major program in the auditor's report.

The proposed changes to the compliance requirements will be published separately in the annual compliance supplement, and are expected to reduce/consolidate/eliminate many of the compliance attributes. A preview of the modified 2015 requirements is expected to be published in the 2014 edition of the compliance supplement.

In summary, this article provides an overview of the new uniform guidance and highlights the significant changes issued by the OMB. Stay tuned for release of the final compliance supplement changes and action from Federal agencies once OMB's guidance is implemented in their policies, procedures and official regulations by December 26, 2014. Organizations that receive federal funding will be impacted by the Supercircular and should consider these modifications to ensure they are in compliance with upcoming federal agencies regulation.

For further details visit www.federalregister.gov.