

Tibet House, Inc.

Independent Auditor's Report and Financial Statements

December 31, 2018 and 2017



Tibet House, Inc.
December 31, 2018 and 2017

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Independent Auditor's Report

Board of Directors
Tibet House, Inc.
New York, New York

We have audited the accompanying financial statements of Tibet House, Inc., which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tibet House, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, in 2018, Tibet House, Inc. adopted ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

BKD, LLP

New York, New York
September 1, 2020

Tibet House, Inc.
Balance Sheets
December 31, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,310,501	\$ 1,609,093
Investments	606,175	657,795
Contributions receivable - current	161,243	153,399
Inventory	262,220	231,704
Prepaid expenses and other assets	59,817	33,078
Total current assets	2,399,956	2,685,069
Property and equipment, net	4,107,052	4,180,273
Total assets	\$ 6,507,008	\$ 6,865,342
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 27,953	\$ 95,652
Deferred revenue	150,187	91,997
Mortgage payable	10,937	10,379
Total current liabilities	189,077	198,028
Mortgage payable	25,292	36,833
Total liabilities	214,369	234,861
Net Assets		
Without restriction	6,263,358	6,617,686
With donor restriction	29,281	12,795
Total net assets	6,292,639	6,630,481
Total liabilities and net assets	\$ 6,507,008	\$ 6,865,342

Tibet House, Inc.
Statements of Activities
Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
Revenues						
Program income	\$ 916,745	\$ -	\$ 916,745	\$ 995,334	\$ -	\$ 995,334
Membership fees	101,316	-	101,316	64,517	-	64,517
Store sales	\$ 113,760			\$ 122,367		
Cost of sales	<u>(59,365)</u>	54,395	54,395	<u>(69,578)</u>	52,789	52,789
Rental income	1,025,231	-	1,025,231	1,132,043	-	1,132,043
Contributions	216,619	22,500	239,119	288,195	40,000	328,195
Investment income (loss)	(53,417)	-	(53,417)	53,960	-	53,960
Special events	658,707			766,169		
Less: direct costs of special events	<u>(213,808)</u>	444,899	444,899	<u>(208,606)</u>	557,563	557,563
Miscellaneous	10,642	-	10,642	94,583	-	94,583
Net assets released from restrictions	<u>6,014</u>	<u>(6,014)</u>	<u>-</u>	<u>43,312</u>	<u>(43,312)</u>	<u>-</u>
Total revenues	<u>2,722,444</u>	<u>16,486</u>	<u>2,738,930</u>	<u>3,282,296</u>	<u>(3,312)</u>	<u>3,278,984</u>
Expenses						
Program services - cultural awareness	2,599,010	-	2,599,010	2,574,052	-	2,574,052
Management and general	210,626	-	210,626	229,559	-	229,559
Fundraising	<u>267,136</u>	<u>-</u>	<u>267,136</u>	<u>284,671</u>	<u>-</u>	<u>284,671</u>
Total expenses	<u>3,076,772</u>	<u>-</u>	<u>3,076,772</u>	<u>3,088,282</u>	<u>-</u>	<u>3,088,282</u>
Change in Net Assets	(354,328)	16,486	(337,842)	194,014	(3,312)	190,702
Net Assets, Beginning of Year	<u>6,617,686</u>	<u>12,795</u>	<u>6,630,481</u>	<u>6,423,672</u>	<u>16,107</u>	<u>6,439,779</u>
Net Assets, End of Year	<u>\$ 6,263,358</u>	<u>\$ 29,281</u>	<u>\$ 6,292,639</u>	<u>\$ 6,617,686</u>	<u>\$ 12,795</u>	<u>\$ 6,630,481</u>

Tibet House, Inc.
Statements of Functional Expenses
Years Ended December 31, 2018 and 2017

	2018					2017				
	Program Services	Supporting Services		Direct Costs of Special Events	Total	Program Services	Supporting Services		Direct Costs of Special Events	Total
		Cultural Awareness	Management and General				Fundraising	Management and General		
Salaries	\$ 935,992	\$ 23,201	\$ 61,050	\$ -	\$ 1,020,243	\$ 905,899	\$ 23,925	\$ 60,745	\$ -	\$ 990,569
Payroll taxes and benefits	112,770	2,723	7,165	-	122,658	100,684	2,838	7,205	-	110,727
	1,048,762	25,924	68,215	-	1,142,901	1,006,583	26,763	67,950	-	1,101,296
Occupancy	146,693	2,369	6,430	-	155,492	154,296	3,091	8,389	-	165,776
Supplies and equipment	432,330	3,190	10,960	-	446,480	511,753	3,623	18,951	-	534,327
Repairs and maintenance	14,113	-	-	-	14,113	32,913	1,109	2,958	-	36,980
Postage and shipping	25,863	486	4,734	-	31,083	16,980	473	5,392	-	22,845
Printing	26,006	1,984	11,946	-	39,936	10,465	1,128	11,619	-	23,212
Professional fees	312,134	31,961	128,814	-	472,909	344,573	59,289	125,820	-	529,682
Insurance	74,899	4,975	13,502	-	93,376	46,199	3,594	9,756	-	59,549
Advertising	104,521	837	2,441	-	107,799	43,126	1,435	4,195	-	48,756
Travel	19,749	414	1,542	-	21,705	22,258	392	7,198	-	29,848
Bank, credit card and other fees	-	127,995	-	-	127,995	-	119,228	-	-	119,228
Depreciation	194,357	2,128	5,775	-	202,260	184,267	2,159	5,859	-	192,285
Grants and donations	46,035	-	-	-	46,035	25,259	-	-	-	25,259
Facility maintenance	48,934	3,003	12,589	-	64,526	53,931	3,883	14,738	-	72,552
Event space rental and refreshments	-	-	-	213,808	213,808	-	-	-	208,606	208,606
Honorarium	101,906	-	-	-	101,906	113,657	-	-	-	113,657
Interest	-	2,217	-	-	2,217	-	2,777	-	-	2,777
Cost of sales	59,365	-	-	-	59,365	69,578	-	-	-	69,578
Miscellaneous	2,708	3,143	188	-	6,039	7,792	615	1,846	-	10,253
Total expenses	2,658,375	210,626	267,136	213,808	3,349,945	2,643,630	229,559	284,671	208,606	3,366,466
Less expenses deducted directly from revenues on the statements of activities										
Cost of sales	(59,365)	-	-	-	(59,365)	(69,578)	-	-	-	(69,578)
Direct costs of special events	-	-	-	(213,808)	(213,808)	-	-	-	(208,606)	(208,606)
Total expenses reported by function on the statements of activities	\$ 2,599,010	\$ 210,626	\$ 267,136	\$ -	\$ 3,076,772	\$ 2,574,052	\$ 229,559	\$ 284,671	\$ -	\$ 3,088,282

Tibet House, Inc.
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets	\$ (337,842)	\$ 190,702
Items not requiring (providing) operating activities cash flows		
Depreciation	202,260	192,285
Net unrealized/realized gains on investments	72,235	(37,567)
Changes in		
Accounts receivable	-	25,909
Contributions receivable	(7,844)	24,815
Inventory	(30,516)	(40,483)
Prepaid expenses and other assets	(26,739)	(2,485)
Accounts payable	(67,699)	2,840
Deferred revenue	58,190	37,284
Net cash (used in) provided by operating activities	(137,955)	393,300
Investing Activities		
Property and equipment acquisitions	(129,039)	(69,688)
Purchase of investments	(570,033)	(81,771)
Sale of investments	549,418	60,914
Net cash used in investing activities	(149,654)	(90,545)
Financing Activities		
Repayment of mortgage payable	(10,983)	(10,422)
Net cash used in financing activities	(10,983)	(10,422)
Net Change in Cash and Cash Equivalents	(298,592)	292,333
Cash and Cash Equivalents, Beginning of Year	1,609,093	1,316,760
Cash and Cash Equivalents, End of Year	\$ 1,310,501	\$ 1,609,093
Supplemental Cash Flows Information		
Cash paid during the year for interest	\$ 2,217	\$ 2,777

Tibet House, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Tibet House, Inc. is a not-for-profit organization whose purpose is to foster cultural exchange between Tibet and the western hemisphere, to promote awareness of Tibet and the Tibetan political, social, economic and cultural structure, and to provide charitable assistance to the Tibetan people. Tibet House, Inc. is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Tibet House, Inc. is funded primarily by program income, rental income, contributions and special events.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

Tibet House, Inc. considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, cash equivalents consisted primarily of money market accounts.

At December 31, 2018, Tibet House, Inc.'s cash accounts exceeded federally insured limits by approximately \$880,000.

Accounts Receivable

Accounts receivable are primarily for rental of space and are recorded at net realizable value. Interest is not charged on outstanding receivables.

Allowance for Doubtful Accounts

Management determines whether an allowance for uncollectibles should be provided for accounts and contributions receivable. Such estimates are based on management's assessment of the aged basis of its accounts and contributions receivable, current economic conditions, subsequent receipts and historical information. Management has determined that an allowance for doubtful accounts is not required.

Inventory

Inventories consist of books and other cultural items held for resale. Costs of books and cultural items are determined using the first-in, first out (FIFO) method. FIFO inventories are stated at the lower of cost or net realizable value.

Tibet House, Inc.
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Investments and Net Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external investment expenses.

Investment return is reflected in the statements of activities as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Property and Equipment

Property and equipment acquisitions over \$1,000 are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is charged to expense on the straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Building and improvements	28 - 40 years
Furniture and equipment	5 - 7 years

Long-Lived Asset Impairment

Tibet House, Inc. evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2018 and 2017.

Deferred Revenue

Revenue from fees for facility rentals and program events is deferred and recognized over the periods to which the fees relate.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions.

Tibet House, Inc.
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Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Program Income

The Tibet House, Inc. program income includes retreats and workshops sponsored by Tibet House, Inc. and other like-minded entities in Menla Mountain Retreat Center, various publications and in-house programs teaching about the Dalai Lama, meditation, yoga, Zen and other spiritual ideas. Program revenue is recognized at the time the program is held.

Rental Income

Tibet House, Inc. recognizes rental income once the space has been utilized under a signed contract agreement.

Membership Fees

Tibet House, Inc. records membership fees when they are earned. Any payments received in advance that cover the subsequent period are recorded as deferred revenue.

Contributions

Contributions are provided to the Tibet House, Inc. either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on Tibet House, Inc. overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

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In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period the gift is received are recorded as revenue with donor restrictions and then released from restriction.

Conditional contributions and investment income having donor stipulations which are satisfied in the period the gift is received and the investment income is earned are recorded as revenue with donor restrictions and then released from restriction.

Income Taxes

Tibet House, Inc. is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, Tibet House, Inc. is subject to federal income tax on any unrelated business taxable income.

Tibet House, Inc. files tax returns in the U.S. federal jurisdiction.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general and fundraising categories based on salaries and other methods.

Revisions

Certain immaterial revisions have been made to the 2017 financial statements which include the following: the amount of the cost of goods sold reported on the statements of functional expenses was updated to match the statements of activities; certain investments shown as common stocks are now shown as exchange traded and closed end funds; and on the statements of cash flows in investing activities purchases and sales of investments are now shown at gross amounts. These revisions did not have a significant impact on the financial statement line items impacted.

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Change in Accounting Principle

In 2018, Tibet House, Inc. adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

Statement of Financial Position

- The statement of financial position distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.

Statement of Functional Expenses

- Expenses are reported by both nature and function in one location.
- Investment income shown net of external and internal investment netted against investment income is no longer required.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statement of financial position.

This change had no impact on previously reported total change in net assets.

Subsequent Events

Subsequent events have been evaluated through September 1, 2020, which is the date the financial statements were available to be issued.

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of Tibet House, Inc. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

On March 27, 2020, the *Coronavirus Aid, Relief, and Economic Security Act* was signed into law. During May 2020, Tibet House, Inc. received a loan of \$253,000 pursuant to the Paycheck Protection Program. The loan is due two years from the date of the first disbursement under the loan and has a fixed rate of 1 percent per year. A portion or all of the loan may be forgiven if the funds are spent in compliance with the government's granting provisions; however, as of the date of this report any amount of forgiveness is unable to be determined.

Additionally, Tibet House, Inc. received an Economic Injury Disaster Loan of \$150,000 during June 2020. The loan is payable in monthly payments of \$641 starting 12 months from the date of the promissory note, with the remaining balance due 30 years from the date of the promissory note. The loan has a fixed interest rate of 2.75 percent.

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Notes to Financial Statements
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Note 2: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy comprises three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2018 and 2017:

	2018	
	Total	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)
Investments		
Mutual funds - domestic bond funds	\$ 95,893	\$ 95,893
Common stocks - domestic equities	409,639	409,639
Corporate bonds	90,553	90,553
Total investments reported on the fair value hierarchy at fair value	596,085	\$ 596,085
Money market funds	10,090	
Total investments	\$ 606,175	

Tibet House, Inc.
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	2017	
	Total	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)
Investments		
Mutual funds - domestic	\$ 183,912	\$ 183,912
Exchange traded and closed end funds	11,746	11,746
Common stocks - domestic equities	317,606	317,606
Total investments reported on the fair value hierarchy at fair value	513,264	\$ 513,264
Money market funds	144,531	
Total investments	\$ 657,795	

The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets. There have been no significant changes in the valuation techniques during the year ended December 31, 2018.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy.

Tibet House, Inc.
Notes to Financial Statements
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Note 3: Property and Equipment

Property and equipment at December 31, 2018 and 2017 consists of:

	<u>2018</u>	<u>2017</u>
Land	\$ 466,719	\$ 466,719
Building and improvements	5,814,869	5,728,180
Furniture and equipment	<u>324,545</u>	<u>282,195</u>
	6,606,133	6,477,094
Less accumulated depreciation and amortization	<u>(2,499,081)</u>	<u>(2,296,821)</u>
	<u>\$ 4,107,052</u>	<u>\$ 4,180,273</u>

Note 4: Net Assets

Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31 are restricted for the following purposes or periods:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purpose		
Publication	<u>\$ 29,281</u>	<u>\$ 12,795</u>

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2018</u>	<u>2017</u>
Satisfaction or purpose restrictions		
Internet and communications upgrade	\$ -	\$ 16,107
Publication	<u>6,014</u>	<u>27,205</u>
	<u>\$ 6,014</u>	<u>\$ 43,312</u>

Note 5: Mortgage Payable

Tibet House, Inc. has a mortgage in which the principal is currently payable in 120 equal monthly installments of \$1,062 through May 2022, which include interest at 5.25 percent per annum. The mortgage balance as of December 31, 2018 and 2017 is \$36,229 and \$47,212, respectively. The mortgage is collateralized by property in upstate New York.

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Required payments are as follows:

	Principal	Interest	Total
2019	\$ 10,937	\$ 1,809	\$ 12,746
2020	11,526	1,221	12,747
2021	12,146	601	12,747
2022	1,620	60	1,680
Total	\$ 36,229	\$ 3,691	\$ 39,920

Interest expense was \$2,217 and \$2,777 in 2018 and 2017, respectively.

Note 6: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018, comprise the following:

Financial assets	
Cash and cash equivalents	\$ 1,310,501
Investments	606,175
Contributions receivable	161,243
Total financial assets	2,077,919
Donor-imposed restrictions	
Restricted funds	(29,281)
Financial assets available to meet cash needs for general expenditures within one year	\$ 2,048,638

Tibet House, Inc. manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. Tibet House, Inc. has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. During the years ended December 31, 2018 and 2017, the level of liquidity and reserves was managed within the policy requirements.

Tibet House, Inc.
Notes to Financial Statements
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Note 7: Gain Contingency

There was an online art auction which took place during the year ended December 31, 2011 whereby Tibet House, Inc. was to receive a percentage of sales. Management of Tibet House, Inc. believes it did not receive its entitlement. Management has taken various steps to receive payment, but in the interim the person that held the funds died. A claim has been made against the estate. At this point, it is not possible to determine the amount of funds to be received, if any.

Note 8: Future Changes in Accounting Principles

Revenue Recognition

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. Based on issuance of ASU 2020-05, the standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. Tibet House, Inc. intends to begin the process of evaluating the impact the amendment will have on the financial statements.

Grants and Contributions

ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, clarifies existing guidance on determining whether a transaction with a resource provider, *e.g.*, the receipt of funds under a government grant or contract, is a contribution or an exchange transaction. The guidance requires all organizations to evaluate whether the resource provider is receiving commensurate value in a transfer of assets transaction, and whether contributions are conditional or unconditional. If commensurate value is received by the resource provider, the transaction would be accounted for as an exchange transaction by applying Topic 606, *Revenue from Contracts with Customers*, or other topics. The standard clarifies that a resource provider is not synonymous with the general public. Indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider. If commensurate value is not received by the resource provider, *i.e.*, the transaction is nonexchange, the recipient organization would record the transaction as a contribution under Topic 958 and determine whether the contribution is conditional or unconditional.

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FASB expects that the new standard could result in more grants and contracts being accounted for as contributions (often conditional contributions) than under current GAAP. Because of this, it believes the clarifying guidance about whether a contribution is conditional or unconditional, which affects the timing of revenue recognition, is important. Both the recipient and resource provider would equally apply the guidance. For public entities, the standard will be effective for annual reporting periods beginning on or after June 15, 2018. For all other entities, the standard will be effective for reporting periods beginning on or after December 15, 2018.