

Not-for-Profit Financial Reporting Changes

*ASU No. 2016-14, Not-for-Profit Entities (Topic 958):
Presentation of Financial Statements of Not-for-Profit Entities*



Overview

In November 2011, the Financial Accounting Standards Board (FASB) added a project to its agenda focusing on the financial reporting of not-for-profit (NFP) entities. The project has resulted in the issuance of Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update strives to improve how a NFP organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flows and liquidity.

Katz, Sapper & Miller's Not-for-Profit Services Group has summarized the full 270-page standard into this brief guide which outlines the primary changes to the financial statements of not-for-profit organizations.



Net Asset Classes

- Replaces the current three net asset classes with the following two:
 - Net assets with donor restrictions
 - Net assets without donor restrictions
- Removes hardline distinction between temporary and permanent restrictions
- Enhances disclosure requirements:
 - Amounts and purposes of board-designated net assets
 - How restrictions affect the use of resources



Underwater Endowments

- Presents deficits relative to original gift amounts of donor-restricted within the donor-imposed restrictions class of net assets
- Enhances disclosure requirements:
 - Governing board's policy related to appropriations from such funds
 - Any action taken during the period related to such funds
 - Original gift amount or level otherwise required to be maintained by the donor or law
 - Amount of the underwater endowments in the aggregate



Expiration of Restrictions - Long-lived Assets

- Requires use of the "placed-in-service approach" for determination of when restrictions expire
- No longer allows the recognition of the expiration of restrictions over the asset's useful life



Statement of Cash Flows

- May continue to elect either the direct or indirect method
- When using the direct method, no longer requires the reconciliation of changes in net assets to cash flows from operating activities

Liquidity and Availability of Resources

- Requires disclosure of qualitative information about how liquid resources are managed
- Requires disclosure of quantitative information related to availability of financial assets to meet cash needs for general expenditures within one year, including impact of the following on financial assets:
 - Nature of the financial assets
 - External limits by donors, grantors, laws and contracts
 - Internal limits by the governing board

Investment Return

- Requires external and direct internal investment expenses to be net against investment returns
- Removes requirement to disclose amount of investment expenses net against investment returns
- Clarifies what activities constitute direct internal investing activities:
 - Salaries and related expenses of staff responsible for the development and execution of investment strategy
 - Allocable costs associated with internal investment management and supervising, selecting, and monitoring of external investment management firms
- Permits separate, appropriately labeled line items on the statement of activities for net investment return managed differently or derived from different sources
- Eliminates the requirement to present investment return components for changes in endowment net assets

Reporting of Expenses

- Requires all NFPs to report expenses by nature
- Retains requirement to report expenses by function
- Requires expense analysis by nature and function to be presented in one location, in either:
 - The statement of activities
 - A separate statement of expenses (similar to the statement of functional expenses)
 - A schedule in the notes
- Enhances disclosures related to methods used to allocate costs among functions
- Updates descriptions of management and general activities

Effective Date and Transition

- Annual financial statements issued for fiscal years beginning after Dec. 15, 2017
- Early application is permitted
- Requires adoption on retrospective basis for all years presented, except for:
 - Analysis of expenses by nature and function
 - Disclosures related to liquidity and availability of resources



Questions?

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