

Implementing ASU 2016-14: Leveraging the New Standard to Your Advantage






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Webinar Objectives

<p>Learning Objective <i>To understand the requirements and implementation of the newly released FASB Accounting Standards Update #2016-14</i></p>	<p>Instructional Delivery Methods <i>Group Internet-based</i></p>
<p>Recommended CPE <i>1.0 CPE</i></p>	<p>Recommended Fields of Study <i>Auditing</i></p>
<p>Prerequisites <i>None required</i></p>	<p>Advance Preparation <i>None</i></p>
<p>Program Level <i>Overview</i></p>	<p>Course Registration Requirements <i>None</i></p>
<p>Refund Policy <i>No fee is required to participate in this session.</i></p>	<p>Cancellation Policy <i>In the event that the presentation is cancelled or rescheduled, participants will be contacted immediately with details.</i></p>
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Our Team

Meet Your Instructors



Trevor Williams, CPA

Nonprofit Audit Partner



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Nonprofit Audit Partner

Why Was The New Standard Implemented?

Objectives

- National Advisory Committee (NAC) and other stakeholders lobbied for better information
- Improved NFP financial statement presentations regarding:
 - Net asset classifications
 - Information regarding liquidity, financial performance, and cash flows in the FS and the notes to the FS
 - Reduce complexities, deficiencies and inconsistencies



The image shows a hand holding a pen pointing to a digital screen displaying a financial statement table. The table is a balance sheet with three columns of data. The rows are categorized into Assets, Liabilities, and Equity. The 'Total Assets' row is highlighted with a blue background. The 'Total Liabilities & Equity' row is also highlighted with a blue background.

Cash	5,044,100	2,855,857	3,268,919
Accounts Receivable	267,487	217,407	334,634
Other Current Assets	83,062	115,183	81,647
Total Current Assets	5,394,649	3,188,447	3,685,199
Fixed Assets - Gross	194,872	271,009	782,300
Less: Accumulation	400,373	530,730	388,616
Fixed Assets - Net	78,500	140,279	393,684
Other Assets	144,950	303,135	316,329
Intangible Asset	261,458	44,839	134,303
Total Assets	6,380,557	3,666,699	4,527,156
Accounts Payable	552,381	438,458	180,188
Other Current Liabilities	288,810	403,218	334,970
Total Current Liabilities	841,191	841,676	515,158
Total Liabilities	841,191	841,676	515,158
Net Assets	5,539,366	2,825,023	3,991,998
Reserves	6,940,704	541	
Accumulated Deficits	(6,211,332)	(4,367,771)	(5,741,052)
Reserves	(65,451)	(187,548)	(488,488)
Total Equity	(6,211,332)	(4,367,771)	(5,741,052)
Total Liabilities & Equity	5,539,366	2,825,023	3,991,998

ASU 2016-14

Finalized August 18, 2016

ASU 2016-14 Not-For-Profit Entities (TOPIC 958):

**Presentation of Financial Statements
of Not-For-Profit Entities**

Applies to NFPs including nongovernmental entities such as charities, foundations, college and universities, health care providers, cultural institutions, religious organizations, trade associations, and other NFPs

Polling Question #1

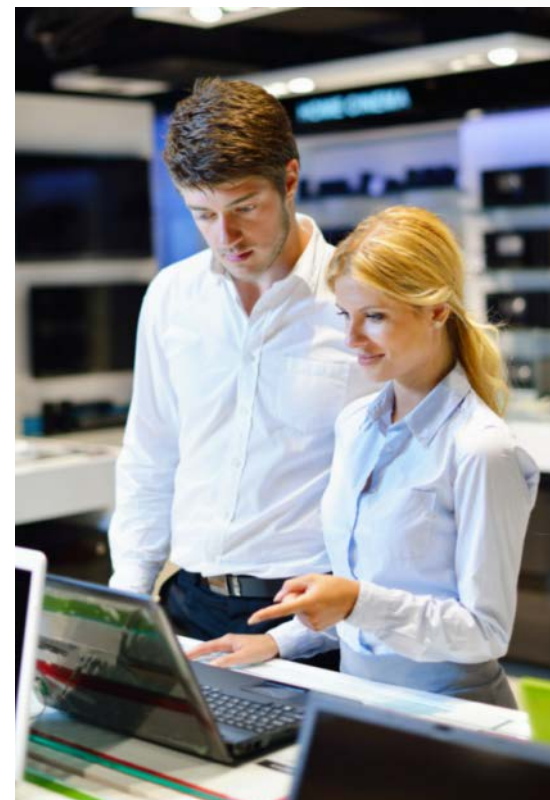
These regulations will begin to go into effect for nonprofits with calendar year ends on December 31, 2018. Has your organization implemented them yet?

- a. Yes*
- b. No, but we are planning to implement prior to December 31, 2018*
- c. No, and we don't yet have plans to implement them*

ASU 2016-14

Phase 1 – Key Areas of the Provisions

- **Net asset classifications**
 - Classes of net assets
 - Disclosure of board designated assets
 - Underwater endowments
 - Place-in-service option for expirations of capital restrictions
- **Expenses**
 - By nature and by function
 - Netting of external/direct internal investment expenses against investment returns & disclosures
 - Enhanced disclosures about cost allocations
- **Liquidity, both qualitative and quantitative**
- **Operating measures**
- **Statement of Cash Flows - direct vs. indirect**



Timeline

When is the ASU Effective?

- Annual financial statements - fiscal years **BEGINNING AFTER December 15, 2017**
- Interim periods within fiscal years **BEGINNING AFTER December 15, 2018** (Application to interim FS is permitted but not required in initial year of application.)
- Should be applied on a **RETROSPECTIVE** basis
 - Apply ALL provisions in year of adoption
 - Disclose nature of reclassifications or restatements and their effects, if any
 - Comparative years- apply all provisions but may elect not to include:
 - Disclosures regarding liquidity
 - Expenses by nature and function
- May **EARLY** adopt - Must apply regular transition provisions

Provisions

Key Areas

Net Asset Classes

Unrestricted Net Assets	<u>Without Donor Restrictions</u>
Temporarily/Permanently Restricted Net Assets	<u>With Donor Restrictions</u>

Statements of Financial Position & Activities

Update for Two Classes of Net Assets



WITHOUT Donor Restrictions

- Undesignated
- Board-designated
 - MUST DISCLOSE amount, purpose, and type of board designation

WITH Donor Restrictions

- Disclose nature amount of donor and timing restrictions at end of the period and how the restrictions affect the use of resources
- Includes endowments invested in perpetuity and Underwater Endowments

Underwater Endowments

Required Disclosures

- NFP's policy, and any actions taken during the period
- Aggregate fair value of endowed funds
- Aggregate original gift amounts (or level required by donor or law) to be maintained
- Aggregate amount by which funds are underwater, included in net assets **WITH** donor restrictions



FASB Example

Statement of Financial Position

Not-for-Profit Entity A
 Statements of Financial Position
 June 30, ~~20X149X4~~ and ~~20X049X0~~
 (in thousands)

	<u>20X149X4</u>	<u>20X049X0</u>
Assets:		
Cash and cash equivalents	\$ 4,575 75	\$ 4,960 460
Accounts and interest receivable	2,130	1,670
Inventories and prepaid expenses	610	1,000
Contributions receivable	3,025	2,700
Short-term investments	1,400	1,000
Assets restricted to investment in land, buildings, and equipment	5,210	4,560
Land, buildings, and equipment	61,700	63,590
Long-term investments	218,070	203,500
Total assets	\$ <u>296,720</u> 292,220	\$ <u>282,980</u> 278,480
Liabilities and net assets:		
Accounts payable	\$ 2,570	\$ 1,050
Refundable advance		650
Grants payable	875	1,300
Notes payable		1,140
Annuity trust obligations	1,685	1,700
Long-term debt	5,500	6,500
Total liabilities	10,630	12,340
Net assets:		
Without donor restrictions (Note DD) Unrestricted	<u>92,600</u> 415,228	<u>84,570</u> 403,670
With donor restrictions Temporarily restricted (Note B)	<u>193,490</u> 24,342	<u>186,070</u> 25,470
Permanently restricted (Note C)	<u>142,020</u>	<u>137,000</u>
Total net assets	286,090 281,590	270,640 266,140
Total liabilities and net assets	\$ <u>296,720</u> 292,220	\$ <u>282,980</u> 278,480

FASB Example

Statement of Activities and Change in Net Assets

Not-for-Profit Entity A
Statement of Activities
Year Ended June 30, 20X1
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Contributions	\$ 8,640	\$ 8,390	\$ 17,030
Fees	5,200		5,200
Investment return, net	6,650	18,300	24,950
Gain on sale of equipment	200		200
Other	150		150
Net assets released from restrictions (Note D):			
Satisfaction of program restrictions	8,990	(8,990)	
Satisfaction of equipment acquisition restrictions	1,500	(1,500)	
Expiration of time restrictions	1,250	(1,250)	
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	7,500	(7,500)	
Total net assets released from restrictions	19,240	(19,240)	-
Total revenues, gains, and other support	40,080	7,450	47,530
Expenses and losses:			
Program A	13,296		13,296
Program B	8,649		8,649
Program C	5,837		5,837
Management and general	2,038		2,038
Fundraising	2,150		2,150
Total expenses (Note F)	31,970		31,970
Fire loss on building	80		80
Actuarial loss on annuity trust obligations		30	30
Total expenses and losses	32,050	30	32,080
Change in net assets	8,030	7,420	15,450
Net assets at beginning of year	84,570	188,070	270,640
Net assets at end of year	\$ 92,600	\$ 193,490	\$ 286,090

FASB Example

With Donor Restriction – Note Disclosure

Subject to expenditure for specified purpose:	
Program A activities:	
Purchase of equipment	\$ 3,080
Research	950
Educational seminars and publications	240
Program B activities:	
Disaster relief	745
Educational seminars and publications	280
Program C activities: general	
Buildings and equipment	2,150
Annuity trust agreements for research	2,815
	<u>10,450</u>
Subject to the passage of time:	
For periods after June 30, 20X1	<u>3,140</u>
Subject to NFP spending policy and appropriation:	
Investment in perpetuity (including amounts above original gift amount of \$122,337), which, once appropriated, is expendable to support:	
Program A activities	33,300
Program B activities	15,820
Program C activities	16,480
Any activities of the organization	109,100
	<u>174,700</u>
Subject to appropriation and expenditure when a specified event occurs:	
Endowment requiring income to be added to original gift until fund's value is \$2,500	2,120
Paid-up life insurance policy that will provide proceeds upon death of insured for an endowment to support general activities	80
	<u>2,200</u>
Not subject to appropriation or expenditure:	
Land required to be used as a recreation area	3,000
Total net assets with donor restrictions	<u>\$ 193,490</u>

FASB Example

Endowment Net Assets – Note Disclosure

200Y Endowment Net Asset Composition by Type of Fund as of June 30, 200Y				Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 200Y			
	Without Donor Restrictions	With Donor Restrictions	Total		Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 7,084	\$ -	\$ 7,084	Endowment net assets, beginning of year	\$ 6,947	\$ 142,053	\$ 149,000
Donor-restricted endowment funds:				Investment return, net	10	372	382
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	97,759	97,759	Contributions	-	2,000	2,000
Accumulated investment gains	-	35,201	35,201	Appropriation of endowment assets for expenditure	(373)	(7,077)	(7,450)
Term endowment	-	4,388	4,388	Other changes:			
Total funds	\$ 7,084	\$ 137,348	\$ 144,432	Transfers to create board-designated endowment funds	500	-	500
				Endowment net assets, end of year	\$ 7,084	\$ 137,348	\$ 144,432

Polling Question #2

Which of the Key Phase I changes is most important to your organization?

- a. Allowing free choice between direct method and indirect method in presenting operating cash flows*
- b. Improving presentation and disclosures for net asset classes*
- c. Enhancing information about the liquidity and availability of financial resources and improving reporting of investment return*
- d. Providing better information about expenses and expense allocation*
- e. All of the above*

Classification of Expenses

Including Investment Returns

- **By natural classification and functional classification**
 - Face of the Statement of Activities, a separate statement, OR in notes to Financial Statements
- **Disclose methods used to allocate costs among program and support functions**
- **Report Investment Return net of external and direct internal investment expense**
 - Disclosure of the net expenses are NOT required
 - No longer required to disclose components of investment return

Liquidity

Qualitative vs. Quantitative

- **Qualitative:** Note disclosures regarding NFP's liquidity and availability of resources within one year of the date of the Statement of Financial Position
- **Quantitative:** Note disclosure OR face of the Statement of Financial Position
 - The availability of the NFP's financial assets at the date of the Statement of Financial Position to meet cash needs for general expenditures within one year of the FS date
 - (Financial assets: tangible liquid assets that do not have restrictions by donors or the board)

Quantitative & Qualitative

FASB Example

Financial assets, at year-end	\$ 234,410
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	(11,940)
Subject to appropriation and satisfaction of donor restrictions	(174,700)
Investments held in annuity trust	(4,500)
Board designations:	
Quasi-endowment fund, primarily for long-term investing	(36,600)
Amounts set aside for liquidity reserve	(1,300)
	<hr/>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,370</u>

Not-for-Profit Entity A is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Not-for-Profit Entity A must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of Not-for-Profit Entity A's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, Not-for-Profit Entity A invests cash in excess of daily requirements in short-term investments. Occasionally, the board designates a portion of any operating surplus to its liquidity reserve, which was \$1,300 as of June 30, 20X1. There is a fund established by the governing board that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, Not-for-Profit Entity A also could draw upon \$10,000 of available lines of credit (as further discussed in Note XX) or its quasi-endowment fund.

Statement of Cash Flow

Direct vs. Indirect

- Indirect Method versus Direct Method – **NFP decision**
- Direct Method – Do not have to present indirect reconciliation



Reporting Expiration of Capital Restrictions

- Gifts of cash or other assets to be used to acquire or construct a long-lived asset
- NFPs are required to use placed-in-service approach in absence of donor implied restrictions (eliminates option to release the donor imposed restriction over the estimated useful life of the acquired asset)



To Do List

1. Identify a champion to oversee the implementation of ASU 2016-14. Senior management should be involved.
2. Review the FASB PDF version of the ASU 2016-14.
3. Provide training to all staff via in-house trainings, external seminars, webinars, etc.
4. Review systems in place and update internal controls, as necessary
5. Start thinking about liquidity and what that means to your organization quantitatively and qualitatively
6. Review existing notes of the FS and identify all notes to be updated for the new ASU

To Do List

Continued

May begin to include many of the changes in the ASU

Cannot include the following (without formal adoption of the ASU):

- Present the two classes of net assets (Without Restrictions and with Restrictions)
- Underwater endowment accounting
- Eliminated disclosures of investment return components and netted expenses
- Eliminated requirement to provide indirect reconciliation under the direct method of cash flows

Polling Question #3

What do you think will be the greatest hurdle to your organization's implementation of the new standard?

- a. Changing the net asset classifications*
- b. Creating the liquidity footnote with qualitative and quantitative disclosures*
- c. Functional expense statement with additional disclosures on allocation of costs*

Phase 2

FASB Project Continues...

- Operating measure - all other elements not addressed in Phase 1
 - Whether to require intermediate measure
 - Whether and how to define such measure
- Statement of cash flow - realignment if certain line item
- Segment reporting For NFP health care entities

Anticipated completion date?



Questions?

We'd like to hear from you!

Get In Touch



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