



FASB Not-for-Profit Reporting Project ASU 2016-14

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Required Information for Participants

- **Learning Objective:** To understand the requirements and implementation of the newly released FASB Accounting Standards Update No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities
- **Instructional Delivery Method:** Group Internet-based
- **Recommended CPE:** 1.0 CPE
- **Recommended Fields of Study:** Accounting and Audit
- **Prerequisites:** None required
- **Advanced Preparation:** None
- **Program Level:** Overview
- **Program Description:** An overview of the FASB Accounting Standards Update No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The course will discuss the timeline and changes necessary to financial statements for compliance.
- **Course Registration Requirements:** None
- **Refund Policy:** No fee is required to participate in this session
- **Cancellation Policy:** In the event the presentation is cancelled or rescheduled, participants will be contacted immediately with details
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- Attendees seeking CPE for this presentation must complete and submit a short evaluation survey that will pop up on their screens after the webinar ends
- Three words will be shared during the webinar; the survey will ask you for those words
- Attendees cannot claim CPE unless we receive a completed evaluation survey
- Technical questions about the survey can be addressed to Alina Stone at astone@grfcpa.com



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- A recording of the presentation will be available shortly after the conclusion of the webinar

Why?

Objectives:

- National Advisory Committee (NAC) and other stakeholders politicked for better information
- Improve 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



Comment period ended in August 2015 with
Re-deliberation on 10/28/15:
Two Workstreams: Phase 1 versus Phase 2

Phase 1:

1. Net asset classifications
 - Classes of net assets
 - Disclosure of board designated net assets
 - Underwater endowments
 - Place-in-service option for expirations of capital restrictions
2. Expenses
 - By nature and by function
 - Netting of external and direct internal investment expenses against investment returns & disclosures
 - Enhanced disclosures about cost allocations
3. Liquidity
4. Operating measures
5. Statement of Cash Flows-direct versus indirect



Phase 2:

1. Operating measures: all other elements from the original discussions, including
 - Whether to require intermediate measures
 - Whether and how to define such measures and what items should or should not be included in the measure
 - Alternative disaggregation approaches
2. Statement of cash flows: realignment of certain line items



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



When will the ASU be 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



- 1. Net asset classes**
- 2. Classification of expenses including investment returns**
- 3. Liquidity, both quantitative and qualitative**
- 4. Statement of Cash Flows**
- 5. Reporting Expiration of Capital Restrictions**



1. Net Asset Classes

- Unrestricted Net Assets

**Without
Donor
Restrictions**

- Temporarily Restricted Net Assets
- Permanently Restricted Net Assets

**With Donor
Restrictions**



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 and 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**



➤ **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)

Assets:	<u>20X149X4</u>	<u>20X049X0</u>
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>296,720.292,220</u>	\$ <u>282,980.278,480</u>
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	92,600.415,228	84,570.403,670
With donor restrictions Temporarily restricted (Note B)	193,490.24,342	186,070.25,470
Permanently restricted (Note C)	142,020	137,000
Total net assets	<u>286,090.281,590</u>	<u>270,640.266,140</u>
Total liabilities and net assets	\$ <u>296,720.292,220</u>	\$ <u>282,980.278,480</u>

Note – See paragraph 958-205-55-21 for notes to the Financial Statements

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	186,070	270,640
Net assets at end of year	\$ 92,600	\$ 193,490	\$ 286,090

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

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 7,084	\$ -	\$ 7,084
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	97,759	97,759
Accumulated investment gains	-	35,201	35,201
Term endowment	-	4,388	4,388
Total funds	<u>\$ 7,084</u>	<u>\$ 137,348</u>	<u>\$ 144,432</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 200Y

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 6,947	\$ 142,053	\$ 149,000
Investment return, net	10	372	382
Contributions	-	2,000	2,000
Appropriation of endowment assets for expenditure	(373)	(7,077)	(7,450)
Other changes:			
Transfers to create board-designated endowment funds	500	-	500
Endowment net assets, end of year	<u>\$ 7,084</u>	<u>\$ 137,348</u>	<u>\$ 144,432</u>



2. 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



3. LIQUIDITY

- **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.



4. Statement of Cash Flow

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



5. 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:

HOWEVER

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



- **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?

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