

# Presentation of Financial Statements for Not-for-Profit Entities – ASU 2016-14

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# Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)



- Project Objectives:
  - Update the current model
  - Provide more useful information to users of the Financial Statements
  - Improve the current net asset classification requirements
  - Improve the financial statement and footnote information presented about liquidity, financial performance, expenses, and cash flows
  - Enable NFPs to better display their financial position and activity

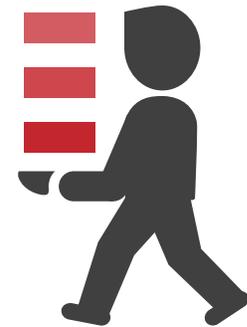
# Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)



- Effective dates:
  - Fiscal years beginning after 12/15/2017
    - For year ending 12/31/18 or 6/30/19
    - For interim periods after adoption
    - Can early adopt
- Transition to new ASU:
  - Apply all provisions of new ASU to year of adoption
  - For comparative years presented:
    - Apply all provisions except can choose not to apply:
      - Expenses by natural and functional analysis
      - Disclosures on liquidity and availability of resources

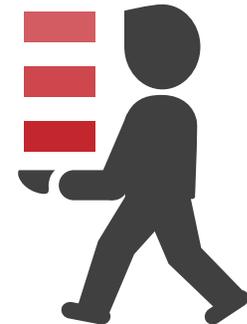
# Net Asset Classes

- Objectives:
  - To address the misconception regarding “unrestricted net assets”
  - To make information regarding how restrictions imposed by donors, laws, and governing boards impact liquidity and classes of assets more useful



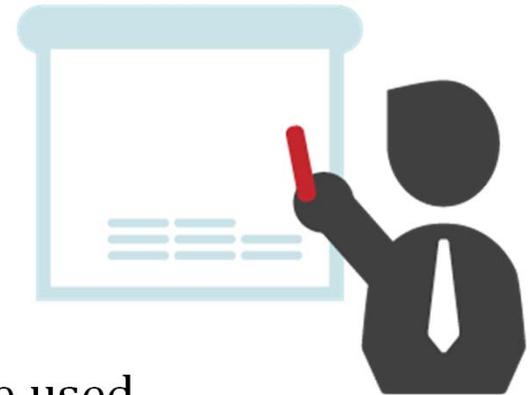
# Net Asset Classes

- Two net asset classes:
  - With Donor/grantor-imposed restrictions
    - Perpetual (used to be “permanent”) and temporary
  - Without Donor/grantor-imposed restrictions
    - Includes board designated



# Net Asset Classes

- Disclosure Requirements
  - Detail of what is included in net assets
  - Emphasis on how and when net assets can be used
    - Includes:
      - Specified purpose
      - Specified time
      - Perpetual (endowment)
- Quantitative and qualitative information about board designations
- Underwater endowments – included in “with donor restrictions”



# Statement of Financial Position—Examples

- Minimum requirement:

Net Assets:	
Without donor restrictions	XX,XXX
With donor restrictions	<u>XX,XXX</u>
Total net assets	<u>XXX,XXX</u>



- Alt. Disaggregation (allowed):

Net Assets:	
Without donor restrictions -	
Undesignated	XX,XXX
Designated by the Board for [purpose]	<u>XXX</u>
	XX,XXX
With donor restrictions	
Time restricted only, for periods after 20XX	X,XXX
Purpose restricted	<u>X,XXX</u>
Perpetual in nature	<u>XX,XXX</u>
Total net assets	<u>XXX,XXX</u>

# Statement of Activities—Examples

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues and other additions:</b>			
Contributions	XXX	XXX	X,XXX
Fees	XXX	-	XXX
Investment return, net	XXX	XXX	X,XXX
Other revenue	XXX	-	XXX
Net assets released from restrictions for operations	XXX	(XXX)	-
Total revenues and other additions	<u>X,XXX</u>	<u>X,XXX</u>	<u>XX,XXX</u>
<b>Expenses:</b>			
Educational programs	XXX	-	XXX
Research	XXX	-	XXX
Management and general expenses	XXX	-	XXX
Fundraising	XXX	-	XXX
Total expenses	<u>X,XXX</u>	<u>-</u>	<u>X,XXX</u>
Increase in net assets	<u>XXX</u>	<u>X,XXX</u>	<u>X,XXX</u>
Beginning of year	<u>XX,XXX</u>	<u>XX,XXX</u>	<u>XXX,XXX</u>
End of year	<u><u>XXX,XXX</u></u>	<u><u>XXX,XXX</u></u>	<u><u>XXX,XXX</u></u>

# Board–Designated Net Assets



- Must have policies or practices in place for this type of net asset class – even if no designated net assets
- Must disclose the nature and amount of board designated assets
- FASB ASC Master Glossary definition:
  - Net assets without donor restrictions subject to self-imposed limits by action of the governing board.
  - Board-designated net assets may be earmarked for future programs, investment, contingencies, purchase or construction of fixed assets, or other uses.
  - Some governing boards may delegate designation decisions to internal management. Such designations are considered to be included in board-designated net assets.

# Restrictions on PP&E

- For the donations of, or contributions restricted for the purchase of, PP&E:
  - Can no longer imply a time restriction if not designated by donor
  - Removes option to release donor-imposed restrictions over the estimated life of assets
  - Required to use placed-in-service approach
    - Report expirations of restrictions used to acquire or construct PP&E
    - Reclassify amounts from net assets with donor restrictions to without donor restrictions at beginning of period adopted



# Underwater Endowments



- Required Disclosures:
  - The organization's policy for spending from underwater endowments
  - Whether any actions taken during the fiscal period
  - For each period a statement of financial position is presented, organizations must present (in the aggregate) for all underwater endowments:
    1. Fair value of the endowments
    2. Original gift amount or level required to be maintained by donor requirements or by law
    3. Amount of the deficiency (1 less 2)

# Underwater Endowments - Example



## Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires NFP B to retain as a fund of perpetual duration. Deficiencies of this nature exist in 3 donor-restricted endowment funds, which together have an original gift value of \$3,500, a current fair value of \$3,300, and a deficiency of \$200 as of June 30, 200Y. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

# Liquidity & Availability

- Required Disclosures:
  - Qualitative Information:
    - Should explain how liquid resources available within 1 year of the date of the statement of financial position are managed
  - Quantitative information:
    - The total **financial assets** available to meet cash needs within 1 year (from statement of financial position date) for general expenditures
- Definition:
  - Financial asset: Cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right to do either of the following:
    - a. Receive cash or another financial instrument from a second entity
    - a. Exchange other financial instruments on potentially favorable terms with the second entity.



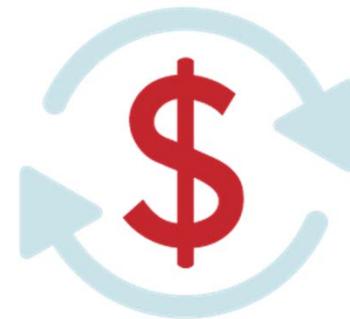
# Liquidity & Availability–Example

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	<u>(1,300)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 5,370</u></u>



# Liquidity & Availability–Impact

- Organizations with a strained financial condition or limited liquid and available assets
- Organizations that do not present a classified statement of financial position



# Expense Reporting



- New Requirements:
  - Present analysis of expenses by function and nature in one location
    - Options include:
      - In the footnotes
      - In a separate statement
      - In the statement of activities
  - Describe the method used to allocation costs
  - New guidance on management and general expenses

# Expense Reporting



FASB ASC Master Glossary:

- **Program Services**—The activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfill the purposes or mission for which the not-for-profit entity (NFP) exists. Those services are the major purpose for and the major output of the NFP and often relate to several major programs.
- **Supporting Activities**—Supporting activities are all activities of a not-for-profit entity (NFP) other than program services. Generally, they include the following:
  - Management general activities
  - Fundraising activities
  - Membership development activities

# Expense Reporting



## Management and General Activities–

- Activities that represent direct conduct or direct supervision of program or other supporting activities require allocation from management and general activities.
- Certain costs benefit more than one function and, therefore, shall be allocated.
- Examples:
  - IT
  - CEO/Executive director
  - CFO
  - Grant accounting & reporting

# Expense Reporting - Example



	Program Activities			Supporting Activities			Total Expenses	
	A	B	C	Programs Subtotal	Management and General	Fund-Raising		Supporting Subtotal
Salaries and benefits	\$ 7,400	\$ 3,900	\$ 1,725	\$ 13,025	\$ 1,130	\$ 960	\$ 2,090	\$ 15,115
Grants to other organizations	2,075	750	1,925	4,750				4,750
Supplies and travel	890	1,013	499	2,402	213	540	753	3,155
Services and professional fees	160	1,490	600	2,250	200	390	590	2,840
Office and occupancy	1,160	600	450	2,210	218	100	318	2,528
Depreciation	1,440	800	570	2,810	250	140	390	3,200
Interest	171	96	68	335	27	20	47	362
<b>Total expenses</b>	<b>\$ 13,296</b>	<b>\$ 8,649</b>	<b>\$ 5,837</b>	<b>\$ 27,782</b>	<b>\$ 2,038</b>	<b>\$ 2,150</b>	<b>\$ 4,188</b>	<b>\$ 31,970</b>

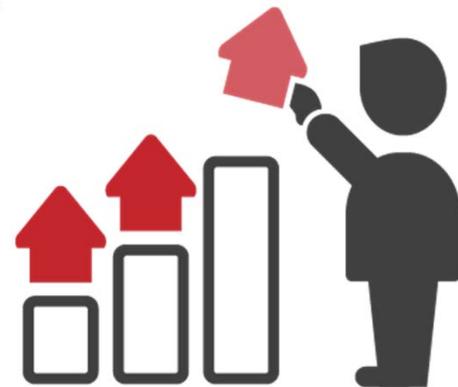
# Investment Return



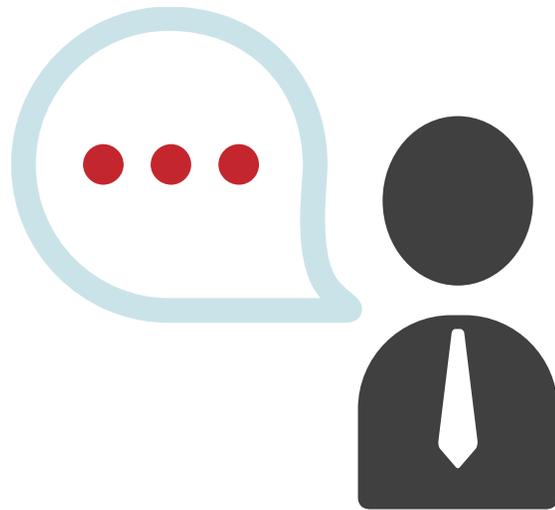
- Must show net presentation of investment return and expenses
  - Includes external and direct internal expenses
    - Direct internal expenses are those expenses that are involved in the direct conduct or supervision to generate investment return.
    - Examples – Employee costs for personnel responsible for developing and executing investment strategy. Costs related to internal investment management in including supervising, selecting and monitoring investment management firms used by the organization.
    - Does NOT include costs related to managing/calculating unitization or other endowment-related aspects.
- Eliminates requirement to disclose gross investment income and expenses in footnotes (Allowed to keep presentation of gross, but not required)

# Statement of Cash Flows

- Continue to use direct or indirect method
  - However, if use direct method, no reconciliation to indirect method is required (it is optional)
- Other proposed changes included in Phase 2:
  - Reclassifications between types of activity
  - Better alignment of statement of cash flows and statement of activities



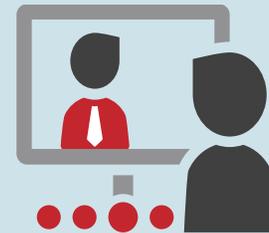
# Questions and Answers



Liz Dollar, Partner

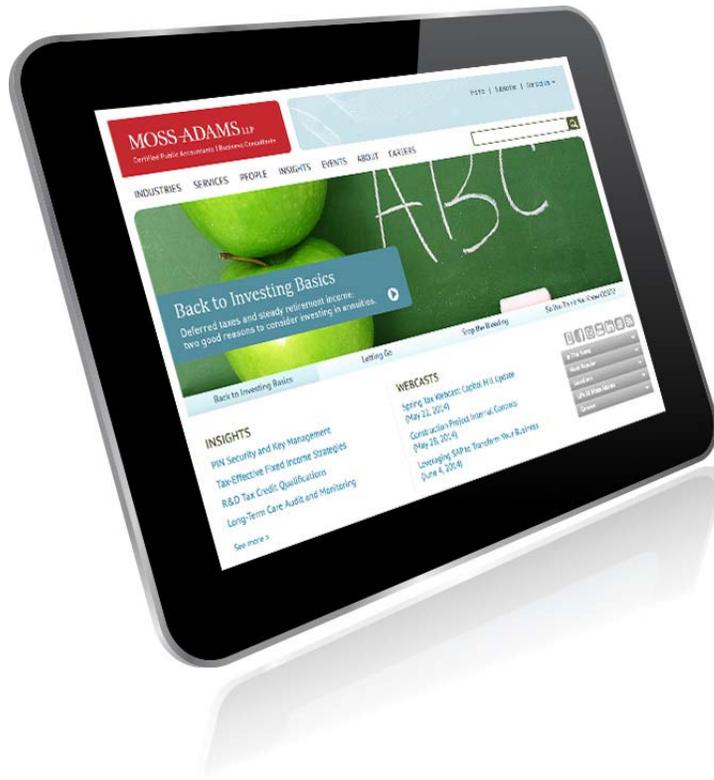
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