NEW FASB GUIDANCE ON FINANCIAL STATEMENTS FOR NOT-FOR-PROFIT ORGANIZATIONS

FASB Accounting Standards Update No. 2016-14

February 16, 2017

PRESENTER

Jon Anderson, Endowment Accounting Specialist

- Background in University and Public Accounting
- Experience with the auditing and preparation of NFP financial statements
- Charged with updating Fundriver to be in compliance with ASU 2016-14

HOUSEKEEPING ITEMS

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- ✓ Webinar will be approx. 45 to 50 minutes—this includes about 10 minutes for Q&A at the end.
- ✓Opportunity to ask questions at the end of the session using the "QUESTIONS" feature of GoToWebinar (attendees will be in "listen only mode" but can type in questions)
- ✓Recorded version of webinar will be available within 24 hours.
- ✓No CPE credits available for today's session

DON'T QUESTION ME

I know what I'm doing.

WHAT WILL BE COVERED TODAY?

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- Key provisions of ASU 2016-14
- How the standard impacts endowment reporting
- Fundriver's action plan to address changes brought forth by ASU 2016-14

ACCOUNTING STANDARDS UPDATE NO. 2016-14, PRESENTATION OF FINANCIAL STATEMENTS FOR NOT-FOR-PROFIT ENTITIES

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- Issued by the Financial Accounting Standards Board (FASB) on August 18, 2016.
- This update represents the first major changes to financial statement reporting requirements for Not-for-Profit organizations since the issuance of *FASB Statement No. 117, Financial Statements of Not-for-Profit Organizations* in 1993.
- ASU 2016-14 is an update, not a complete overhaul.
- Product of FASB's Not-for-Profit Financial Statements Project.
- Phase I is completed. Phase II will be rolled out at a later date.

FASB Chair Russell Golden:
"The new guidance simplifies and improves the face of the financial statements and enhances the disclosures in the notes—which will enable not-for-profits to better communicate their financial performance and condition to their stakeholders while also reducing certain costs and complexities in preparing their financial statements."

MAJOR AREAS IMPACTED BY ASU 2016-14

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- NET ASSET CLASSES
- LIQUIDITY and AVAILABLE RESOURCES
- EXPENSES
- INVESTMENT RETURN
- STATEMENT OF CASH FLOWS

NET ASSETS

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Current Requirement	Unrestricted	Temporarily Restricted	Permanently Restricted
Revision per 2016-14	Without Donor Restrictions	With Donor Restrictions	

Not-for-Profit Entity A
Statements of Financial Position
June 30, 20X1~~19X1~~ and 20X0~~19X0~~
(in thousands)

		20X1~~19X1~~		20X0~~19X0~~
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	**$**	**296,720 ~~292,220~~**	**$**	**282,980 ~~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 obligations		1,685		1,700
Long-term debt		5,500		6,500
Total liabilities		**10,630**		**12,340**
Net assets:				
Without donor restrictions (Note DDD)~~Unrestricted~~		92,677 ~~115,228~~		73,619 ~~103,670~~
With donor restrictions~~Temporarily restricted~~ (Note B)		193,413 ~~24,342~~		197,021 ~~25,470~~
~~Permanently restricted (Note C)~~		~~142,020~~		~~137,000~~
Total net assets		286,090 ~~281,590~~		270,640 ~~266,140~~
Total liabilities and net assets	**$**	**296,720 ~~292,220~~**	**$**	**282,980 ~~278,480~~**

Note: See paragraph 958-205-55-21 for the notes to financial statements.

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

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains, and other support:			
Contributions	$ 8,640	$ 8,390	$ 17,030
Fees	5,200		5,200
Investment Rreturn, 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

Note: See paragraph 958-205-55-21 for the notes to financial statements.

This slide and previous slide are from ASU No. 2016-14

NET ASSET DISCLOSURES

The ASU requires:

- disclosures on the amount, purpose and type of board designations of net assets without donor restrictions.
- disclosures on the composition of net assets with donor restrictions at the end of the reporting period and how those restrictions affect the use of resources.

NFPs are still required to disclose the various types of net assets with donor-imposed restrictions.

~~**Endowment Net Asset Composition by Type of Fund**~~

~~**as of June 30, 200Y**~~

	~~**Unrestricted**~~	~~**Temporarily Restricted**~~	~~**Permanently Restricted**~~	~~**Total**~~
~~Donor-restricted endowment funds~~	~~$ (200)~~ [11]	~~$ 39,589~~	~~$ 97,959~~	~~$ 137,348~~
~~Board-designated endowment funds~~	~~7,084~~	~~-~~	~~-~~	~~7,084~~
~~Total funds~~	~~$ 6,884~~	~~$ 39,589~~	~~$ 97,959~~	~~$ 144,432~~

~~11 $(200) = (125) + (75)~~

[For ease of readability, the new illustration is not underlined.]

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	$ 7,084	$ 137,348	$ 144,432

UNDERWATER ENDOWMENT FUNDS

Investment returns: Endowment returns on donor-restricted endowments will be reported within net assets with donor restrictions.

Enhanced disclosure requirements:

- Board's interpretation of UPMIFA law and its ability to spend from underwater funds.
- NFP's policy concerning the appropriation of underwater funds.
- Aggregate fair value, aggregate original gift amounts to be maintained & the aggregate amount by which funds are underwater.

PLACED-IN-SERVICE APPROACH

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This standard requires that, "in the absence of explicit donor stipulations, the placed-in-service approach" be used "for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period". (excerpt from ASU 2016-14)

The standard eliminates the Useful Life Approach, which allows NFPs to release donor-imposed restrictions over the estimated life of the assets.

LIQUIDITY & AVAILABILITY OF RESOURCES

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- Qualitative Disclosure: A description that aids in assessing the liquidity of the NFPs resources. Also, the footnote must tell how "an NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date." (quote from ASU 2016-14)
- Quantitative information: This presentation must show the availability of an NFPs assets to cover general expenses within a year of the balance sheet date.
- The quantitative information should be presented either on the face of the financial statements, the footnotes, or both.
- The ASU provides NFPs with a fair amount of flexibility concerning the qualitative disclosure.

EXPENSES

- All NFPs must present the classification of expenses by both nature and function.
- Requires an analysis of expenses by function and nature. Must be done in one location in the financial statements.
- The method used to allocate expenses among programs and support functions must be described in the footnotes.
- Voluntary, health and welfare organizations that solicit contributions are already required to report expenses in this manner.

INVESTMENT RETURN

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- Returns must be presented net of related investment expenses. This includes both external and direct internal investment expenses.
- Will allow users of financial statements to compare investment returns regardless of whether NFPs manager their investments internally or externally.
- Eliminates the requirement to disclose the netted expenses and the investment return components.
- To be considered related investment expenses have to contribute to generating investment returns.

STATEMENT OF CASH FLOWS

- NFPs can continue to choose between the direct method or indirect method of reporting cash flows.
- The standard removes the requirement to provide a reconciliation to the indirect method if an organization opts for the direct method of reporting.
- Draft version of standard required NFPs to use the direct method. This was dropped based upon concerns raised by NFPs.

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	$ 7,084	$ 137,348	$144,432

958-205-55-42 Paragraph superseded by Accounting Standards Update No. 2016-14.~~In this Example the changes in unrestricted net assets included $125 of depreciation on investments and $75 of appropriations for expenditure for donor-restricted endowment funds in which there was a deficiency as of June 30, 200Y, with respect to the amount required to be retained in perpetuity.~~

958-205-55-43 Paragraph superseded by Accounting Standards Update No. 2016-14.~~Investment returns classified as changes in permanently restricted net assets in the illustrative table in paragraph 958-205-55-41 represent only those amounts required to be retained permanently as a result of explicit donor stipulations. To the extent that actual investment income attributable to funds with such stipulations was less than $286, NFP A would reclassify to permanently restricted net assets a portion of the temporarily restricted net assets associated with those funds and, to the extent there are insufficient temporarily restricted net assets, then unrestricted net assets. That reclassification would be displayed~~

EFFECTIVE DATE

- The changes brought forth by ASU 2016-14 will be effective for financial statements issued for fiscal years after December 15, 2017 and for interim periods for fiscal years beginning after December 15, 2018. Early adoption is allowed.

- NFPs will be required to do a retroactive presentation in the year that these rules become effective (or in the year of adoption if done so early).

ADOPTION OF ASU 2016-14

NFPs are permitted to incorporate many of the changes brought forth by the standard. However, there are a few changes that cannot be done until an organization formally adopts ASU 2016-14:

- The consolidation of temporarily and permanently restricted net assets into one net asset class: net assets with donor restrictions.
- Underwater endowment reporting.
- The elimination of disclosures for investment return components and netted expenses.
- The elimination of the requirement to provide an indirect method reconciliation if using the direct method for cash flow reporting.

IMPACT ON ENDOWMENT REPORTING

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Summary of standard updates that impact endowment reporting:

- Two net asset classes
- Net asset disclosures
- Underwater reporting
- Investment return

FUNDRIVER AND ASU 2016-14

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- Research to understand new standard
- Client survey on standard
- Informational webinar
- Updates to user interface
- New Knowledgebase articles
- Work with clients to transition to new standard

CONTACT INFORMATION

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Q&A TIME

Type your questions in using the QUESTIONS feature of GoTo Webinar.

Click SEND when done typing.