



Navigating the New Not-for-Profit Reporting Model



Today's Presenters



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Overview



FASB Not-for-Profit Financial Reporting Standard – Key Objectives

This is an update,
not an overhaul of
the current model



Improve net asset
classification
scheme



Improve
information in
financial statements
and notes about:
financial
performance, cash
flows, and liquidity



Better enable NFPs to tell “their financial story”

Issued August 18, 2016, ASU No. 2016-14



Effective Date and Transition

- Effective for fiscal years beginning after December 15, 2017 (calendar year 2018 or fiscal year 2018-19)
- Transition
 - Apply all provisions in year of adoption
 - If presenting comparative years – can opt not to present the following for prior year:
 - Analysis of expenses by nature and function*, and/or
 - Disclosures around liquidity and availability of resources

**unless already required to do so under current GAAP*



ASU 2016-14 Changes

- Net asset classes reduced from three to two
- New liquidity and availability disclosures required
- All NFPs must
 - report expenses by nature and function in one place
 - describe the methods used to allocate among functional categories
- Present investment returns net of any fees replaces other alternatives
- Additional disclosures for underwater endowments
- NFPs who choose the direct method of cash flows no longer have to perform a reconciliation with the indirect method.



Net Assets



Net Assets

**Current
GAAP**

Unrestricted

Temp.
Restricted

Perm.
Restricted

**Revised
GAAP**

Without Donor
Restrictions*

With Donor Restrictions*

+

Disclosures

Amount, Purpose,
and Type of Board
Designations**

Nature and Amount
of Donor Restrictions

* NFPs may choose to disaggregate further

** New disclosure requirement



Net Asset Classification Requirements

- Two classes
 - With donor restrictions
 - Previous temporarily and permanently restricted combined
 - Without donor restrictions
 - Includes board-designated



Net Asset Classification Requirements (continued)

- Eliminates the option to imply a time restriction on long-lived assets, in favor of releasing the restriction when the asset is placed in service
- Disclosure requirements
 - Composition of net assets with donor/grantor restriction
 - Emphasis on how/when resources (net assets) can be used
 - Specified purpose(s)
 - Specified time(s)
 - Perpetual (endowment, i.e., “funds of perpetual duration”)
 - Quantitative and qualitative information about board designations



Implementation – Net Assets

- Determine whether you will need to adjust your tracking mechanism (g/l, spreadsheet, etc.) to accommodate the new terminology and presentation
- Determine whether in-service long-lived assets have implied time restrictions that will need to be released upon adoption of the ASU
- Determine the appropriate presentation among net assets:
 - without donor restrictions
 - with donor restrictions that will be satisfied over time and/or expenditure
 - maintained in perpetuity
- Decide what to present on the face of the financials vs in the notes



Implementation – Board Designations

- Assemble information about the amounts and purposes of board designations of net assets without donor restrictions
 - For presentation in notes and/or on the face of the SOFP
- Determine proper presentation of any board-designated endowment funds in the related endowment note
- Draft language to include in the liquidity and availability note
 - Self-imposed limitations on board-designated funds
 - Conditions under which such funds would be made available to meet expenditure needs



Liquidity and Availability Disclosures



Liquidity and Availability of Resources

NFPs are Required to Provide



Qualitative

Information on how an NFP manages its liquid available resources and its liquidity risk (in the notes)



Quantitative

Information that communicates the availability of an NFP's financial assets at the balance sheet date to meet cash needs for general expenditures within one year (one the face and/or in the notes)



Implementation

- Identify all financial assets and any limitations on availability for expenditure in the next 12 months
- Determine the format to present the required quantitative disclosure of liquidity information
 - Display gross amounts of financial assets, then adjustments to arrive at available for expenditure amounts, or
 - Display only the net amounts available for expenditure
- Availability is affected by nature of the asset, external limitations imposed by donors, contractual agreements, and board designations



Implementation (continued)

- Determine whether presenting a classified statement of financial position (SOFP) could enhance or simplify the quantitative disclosure requirements (considering other effects elsewhere in the FS and notes)
- Develop a formal policy for managing your organization's liquidity needs
 - Will be disclosed in the qualitative portion of the note disclosure
 - Formal approval by your Finance Committee is encouraged
- Draft the note disclosure describing how your organization manages its liquid assets and liquidity needs. This includes:
 - conditions under which certain board-designated net assets may be undesignated
 - access to the lines of credit or other financing sources
 - any other information useful in understanding your organization's liquidity



Functional Expenses



Requirements for Reporting Expenses

- All NFPs must present an analysis of expenses by function and nature in one location. Options include:
 - Present a separate statement of functional expenses
 - Present a table in the notes
 - Incorporate into the statement of activities
- Include a description of the method(s) used to allocate costs among program and support functions.
- The ASU includes improved and expanded guidance about management and general expenses.



Investment Return



Net Investment Return

- Presented on a net basis, with all external and direct internal investment management and custodial expenses netted against the return
- No longer required to report investment income components and related expenses separately
- Internal expenses include the direct conduct or direct supervision of the strategic and tactical activities involved in generating investment return
 - Salaries, benefits, travel, and other costs, including allocable internal costs relating to oversight of external management firms
 - Excludes costs not associated with generating investment return



Programmatic Investments Excluded

- The investment guidance in ASU 2016-14 is not applicable to programmatic investments.
 - Programmatic Investing: Making loans or other investments directed at carrying out an NFP's purpose for existence
 - **Example:** loans made to lower-income individuals to promote home ownership



Implementation – Investment Expenses

- Report external and direct internal investment expenses as a component of net investment return
- Exclude those expenses from the presentation of expenses by nature and function
- Establish procedures to accumulate any external and direct internal investment expenses to be netted against investment return



Underwater Endowments



Underwater Endowments

- Now defined in Master Glossary
 - Donor-restricted endowment fund for which the fair value of the fund at the reporting date is less than either the original gift amount or the amount required to be maintained by the donor or by law that extends donor restrictions
- The entire balance of the endowment fund is reported in the “with donor restrictions” class of net assets.



Underwater Endowments

- New disclosure requirements:
 - Interpretation of your organization's ability to spend from underwater endowment funds
 - Organizational policy, and any actions taken during the period, concerning appropriation from underwater endowment funds
 - For each period presented – each of the following, in the aggregate, for all underwater endowment funds:
 1. The fair value of the underwater endowment funds
 2. The original endowment gift amounts (or level required to be maintained by donor stipulations or by law that extends donor restrictions)
 3. The amount by which the original gift amounts exceeds the fair value



Implementation – Endowments

- Change your endowment note to conform to the new presentation of two net assets categories
- For underwater endowments, determine:
 - The fair value of underwater funds
 - The original gift amount or level required by donor stipulations or law that extends donor restrictions
 - The aggregate amount of the deficiencies of each underwater fund
- **Note:** Underwater portion of endowments now presented entirely in funds with donor restrictions.



Statement of Cash Flows



Statement of Cash Flows

- NFPs may use either the direct or indirect method.
 - Indirect method presents a reconciliation of change in net assets
 - Direct method reports actual cash receipts and disbursements
- If the direct method is used, NFPs are no longer required to show the reconciliation of the change in net assets to cash flows from operating activities.
- Other proposed changes were deferred to Phase 2.



Questions and Discussions

- Thank you!



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