

Nonprofit Implementation of FASB Financial Reporting Standards

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Learning Objectives

- Discuss changes to the financial statements reporting model
- Identify the impact of newly issued standards on your organization
- Explore tools and resources available to begin the implementation of the financial statements reporting model

NFP Financial Statements

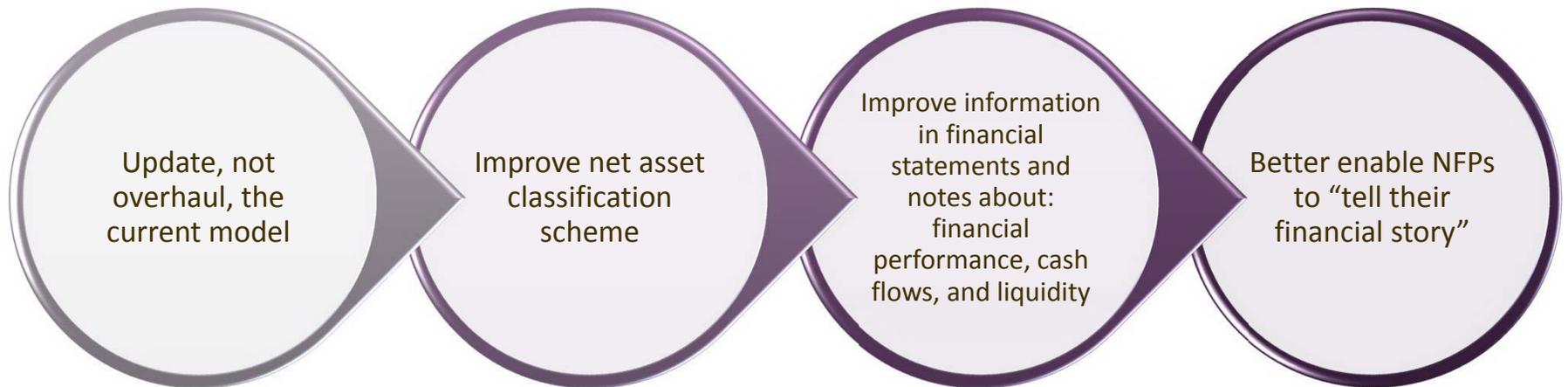
ASU 2016-14

General Implementation – Initial Thoughts

- The presentation of financial statements for not-for-profit (NFP) entities is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early application is permitted.
 - Has your organization decided to early adopt the new provisions or plan to adopt at the above noted effective date?
 - Has your organization drafted a footnote for a change in accounting principle?
 - Have proper individuals attended training to understand the new changes in financial reporting?
 - Has your organization discussed with its auditors the impact of the new changes related to audit timing and planning?
 - Has your organization identified the team members who will lead the implementation of the new financial reporting requirements?

NFP Financial Statements ASU—Key Objectives

(recommended by FASB’s NFP Advisory Committee (NAC))



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

Fiscal years beginning after 12-15-17

<p style="text-align: center;">Phase I</p> <p style="text-align: center;">ASU 2016-14 Issued August 2016 (fiscal year 2018-19)</p>	<p style="text-align: center;">Phase II</p>
<p>Net Asset Classes:</p> <ul style="list-style-type: none"> • Classification scheme • Disclosure of board designated net assets • Underwater endowments • Expirations of capital restrictions 	<p>Operating Measures--all other elements of the proposal, including:</p> <ul style="list-style-type: none"> • Whether to require intermediate measure(s) • Whether and how to define such measure(s), and what items should or should not be included in the measure(s) • Alternative disaggregation approaches suggested by stakeholders
<p>Expenses/Investment Return:</p> <ul style="list-style-type: none"> • Expenses by nature; analysis of expenses by function and nature • Netting of investment expenses against investment return • Disclosure of netted investment expenses • Enhanced disclosures about cost allocations 	<p>Statement of Cash Flows:</p> <ul style="list-style-type: none"> • Realignment of certain items
<p>Operating Measures:</p> <ul style="list-style-type: none"> • Modest improvements to disclosures for those that use an operating measure, especially about board appropriations, designations, and similar transfers 	
<p>Liquidity/Availability:</p> <ul style="list-style-type: none"> • Quantitative disclosures about availability • Qualitative disclosures about liquidity • Consideration of alternatives suggested by stakeholders (e.g., classified balance sheet) 	
<p>Statement of Cash Flows:</p> <ul style="list-style-type: none"> • Methods of presenting operating cash flows (direct/indirect) 	

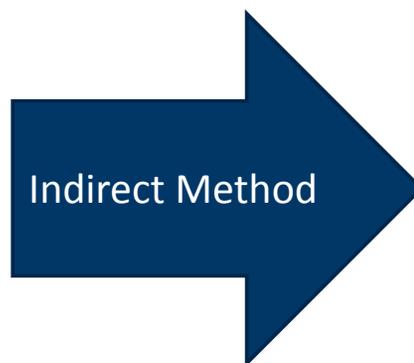
ASU 2016-14: Cash Flow Statement

Continue to allow choice between the Direct Method and the Indirect Method in presenting operating cash flows



Operating Cash Flows

	2016	2015
Cash received from donors for operations	\$ 1,756,001	\$ 1,390,824
Cash received from program fees and other	700,622	645,201
Cash payments to employees	(1,257,765)	(1,319,769)
Cash payments to vendors and others	(1,046,017)	(983,776)
Cash paid for interest	(47,878)	(32,922)
Net Cash From Operating Activities	104,963	(300,442)

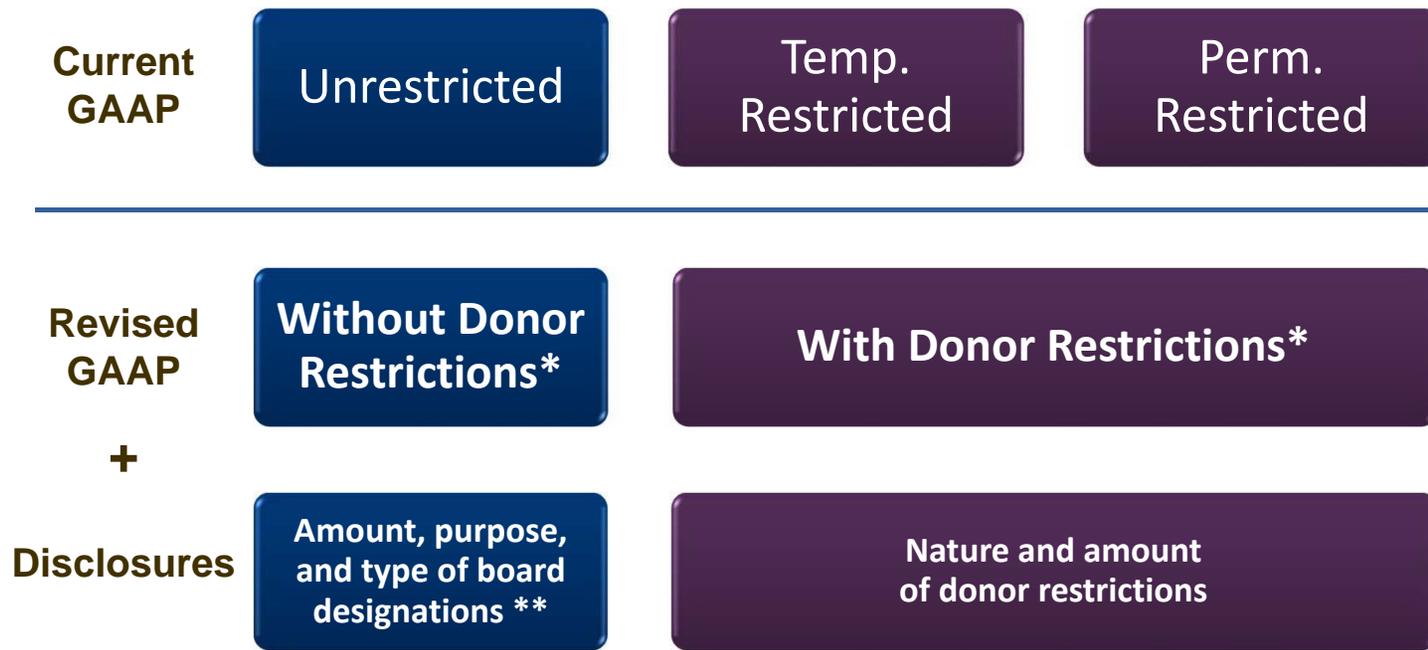


	2016	2015
Change in net assets	\$ (97,821)	\$ (540,070)
Adjustments to reconcile change in net assets to net cash from operating activities-		
Depreciation and amortization	269,584	254,559
Contributions restricted for property purchases	(60,582)	
(Gains) losses on investments	(22,060)	2,574
Changes in operating assets and liabilities:		
Grants and pledges receivable	(125,862)	27,305
Prepaid expenses and other assets	26,615	(2,300)
Accounts payable and accrued expenses	59,108	(44,825)
Deferred revenue	55,981	2,315
Net Cash From Operating Activities	104,963	(300,442)

Group Discussion

- Which method for presenting operating cash flows—direct or indirect (or both)—is more useful for the key users of your organization’s financial statements?
- Has your organization considered changing the method they currently use for their cash flow statement?

Net Assets



* NFPs may choose to disaggregate further

** New disclosure requirement

Implementation – Statement of Financial Position

	Current GAAP	Reclassi- fications	New GAAP
Assets:			
Cash and cash equivalents	16,003		16,003
Receivables and other	23,095		23,095
Investments	145,794		145,794
Property & equipment	120,581		120,581
Total assets	305,473	-	305,473
Liabilities:			
Accounts payable	1,915		1,915
Accrued expenses	8,566		8,566
Long-term debt	7,668		7,668
Total liabilities	18,149	-	18,149
Net assets:			
Unrestricted	23,237	(23,237)	-
Temporarily restricted	119,097	(119,097)	-
Permanently restricted	144,990	(144,990)	-
Without donor restrictions		125,056	125,056
With donor restrictions		162,268	162,268
Total net assets	287,324	-	287,324
Total liabilities and net assets	305,473	-	305,473

Implementation – Statement of Financial Position (continued)

Net assets:	
Without donor restrictions	125,056
With donor restrictions	<u>162,268</u>
Total net assets	<u>287,324</u>



Net assets:	
Without donor restrictions -	
Undesignated	24,931
Operating reserve	25,000
Designated by the Board for capital projects	<u>75,125</u>
	125,056
With donor restrictions -	
Time restricted for future periods	2,783
Purpose restricted	11,066
Endowment fund	<u>148,419</u>
	162,268
Total net assets	<u>287,324</u>

Net Assets Released from Donor Restrictions - Disclosure Example

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors as follows for the year ended June 30, 20XX:

Purpose restrictions accomplished:

Program A expenses	\$ 15,800
Program B expenses	4,600
Program C expenses	<u>1,590</u>
	21,990

Program A equipment acquired and placed in service	1,500
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Time restrictions expired:

Passage of specified time	850
Death of annuity beneficiary	<u>400</u>
	1,250

Release of appropriated endowment returns without purpose restrictions	<u>7,500</u>
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Total restrictions released	<u><u>\$ 32,240</u></u>
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Net Assets without Donor Restrictions – Disclosure Example

NFP A's governing board has designated net as purposes as of June 30, 20XX:

Quasi-endowment	\$ 34,658
Liquidity reserve	<u>1,300</u>
Total	<u><u>\$ 35,958</u></u>

“Underwater” Endowments

Revised net asset classification

- To be reflected in net assets with donor restrictions rather than in net assets without donor restrictions

Enhanced disclosures

- In addition to aggregate amounts by which funds are underwater (current GAAP), also disclose aggregate of original gift amounts (or level required by donor or law) for such funds, fair value, and any governing board policy, or actions taken, concerning appropriation from such funds

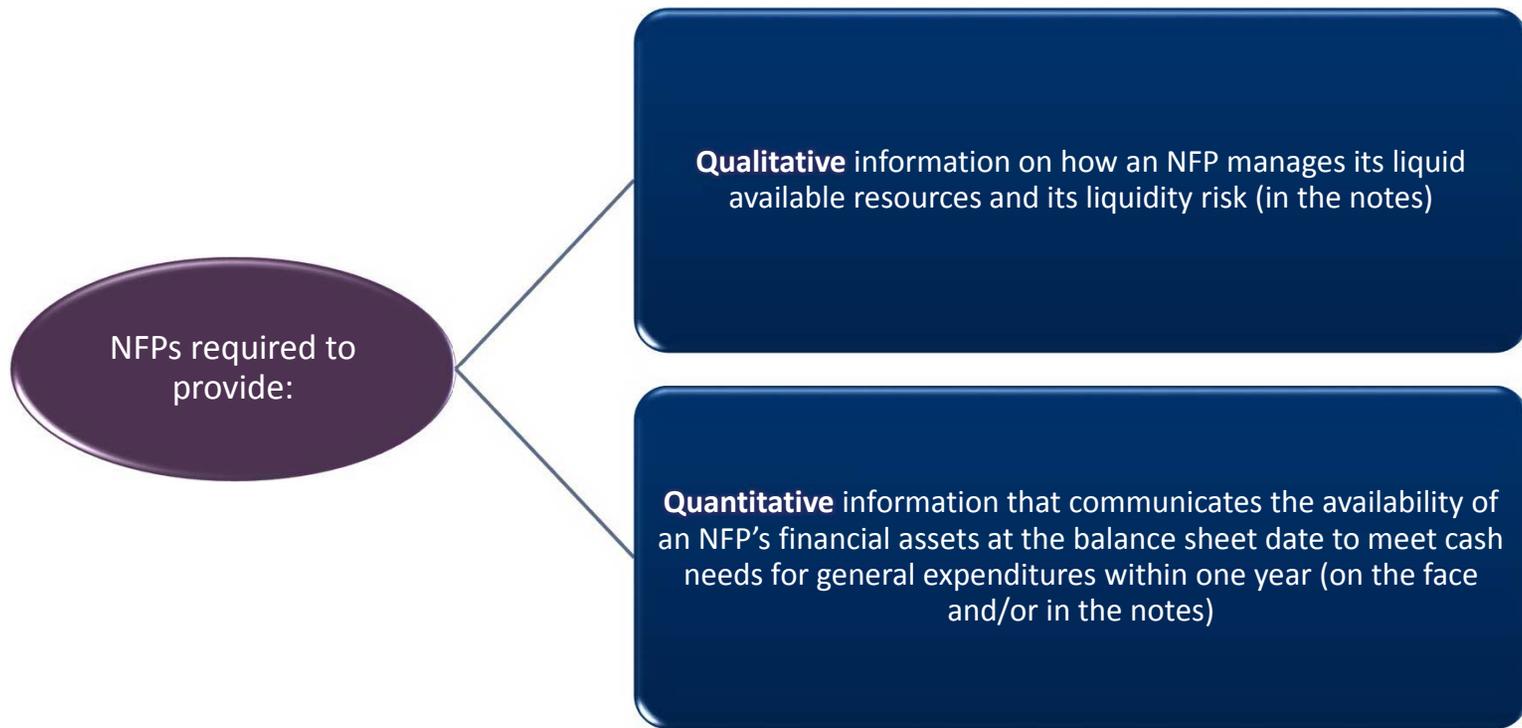
Group Discussion

- Would some disaggregation on the face of the balance sheet help in telling your organization's financial story? If so, what breakout within net assets with restrictions, net assets without restrictions, or both, would be most meaningful?
- Would some disaggregation, via columns or rows, on the face of the statement of activities similarly help?

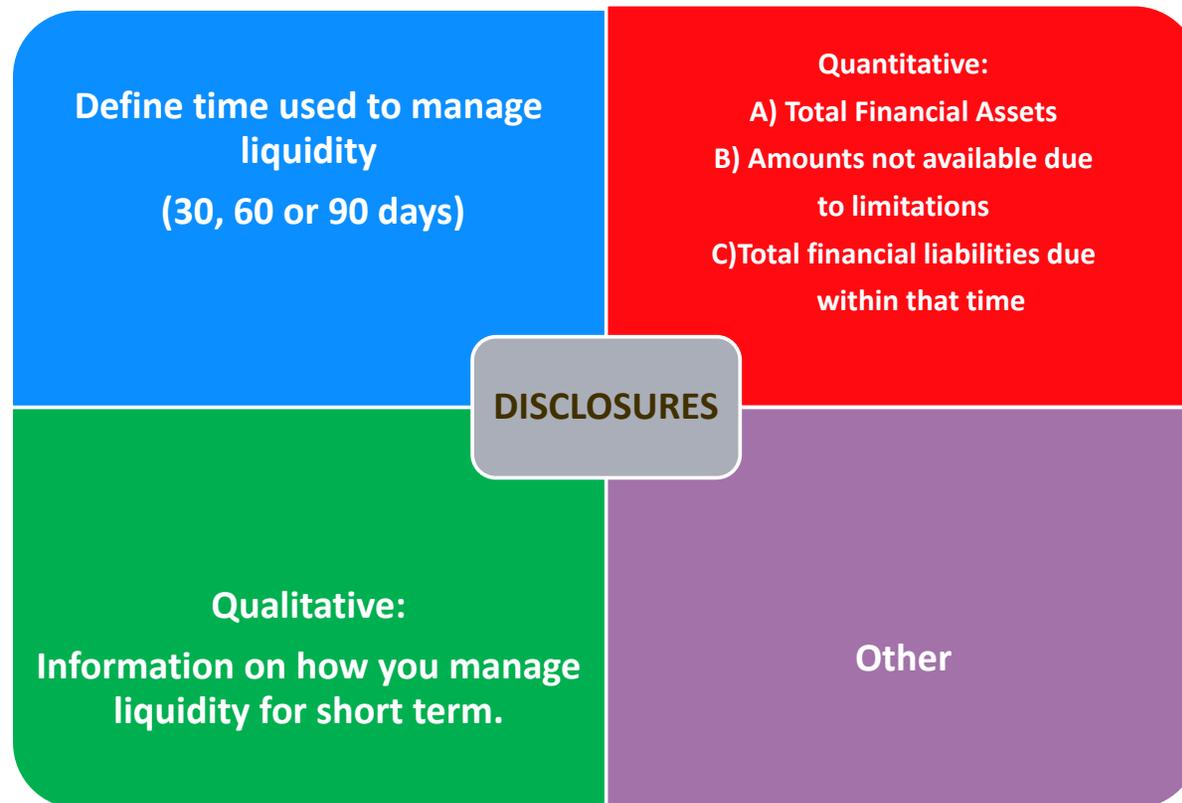
Example of Reclassification of Opening Balances

	Current GAAP	Reclassifications			New GAAP
		Implied time restriction	Underwater portion of endowment	Other	
Assets:					
Cash and cash equivalents	16,003				16,003
Receivables and other	23,095				23,095
Investments	145,794				145,794
Property & equipment	120,581				120,581
Total assets	305,473	-	-	-	305,473
Liabilities:					
Accounts payable	1,915				1,915
Accrued expenses	8,566				8,566
Long-term debt	7,668				7,668
Total liabilities	18,149	-	-	-	18,149
Net assets:					
Unrestricted	23,237		1,084	(24,321)	-
Temporarily restricted	119,097	(100,735)		(18,362)	-
Permanently restricted	144,990			(144,990)	-
Without donor restrictions		100,735		24,321	125,056
With donor restrictions			(1,084)	163,352	162,268
Total net assets	287,324	-	-	-	287,324
Total liabilities and net assets	305,473	-	-	-	305,473

Liquidity and Availability of Resources



Liquidity



Quantitative Disclosure for Financial Assets Availability Example

The following chart represents XYZ's financial assets available to meet cash needs for general expenditures within 1 year of June 30, XX. Due to the nature of the restrictions from contributions received from donors, XYZ has omitted all restricted contributions.

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**	(144,500)
Investments held in annuity trust	(4,500)
Amounts held by bond trustees	(30,200)
Board designations:	
Quasi-endowment fund, primarily for long-term investing**	(36,600)
Amounts set aside for liquidity reserve	(1,300)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,370</u>

*Total assets, less nonfinancial assets (e.g., PP&E, inventory, prepaids)
**Excludes amounts that have been appropriated for next 12 months that do not have purpose restrictions

Liquidity

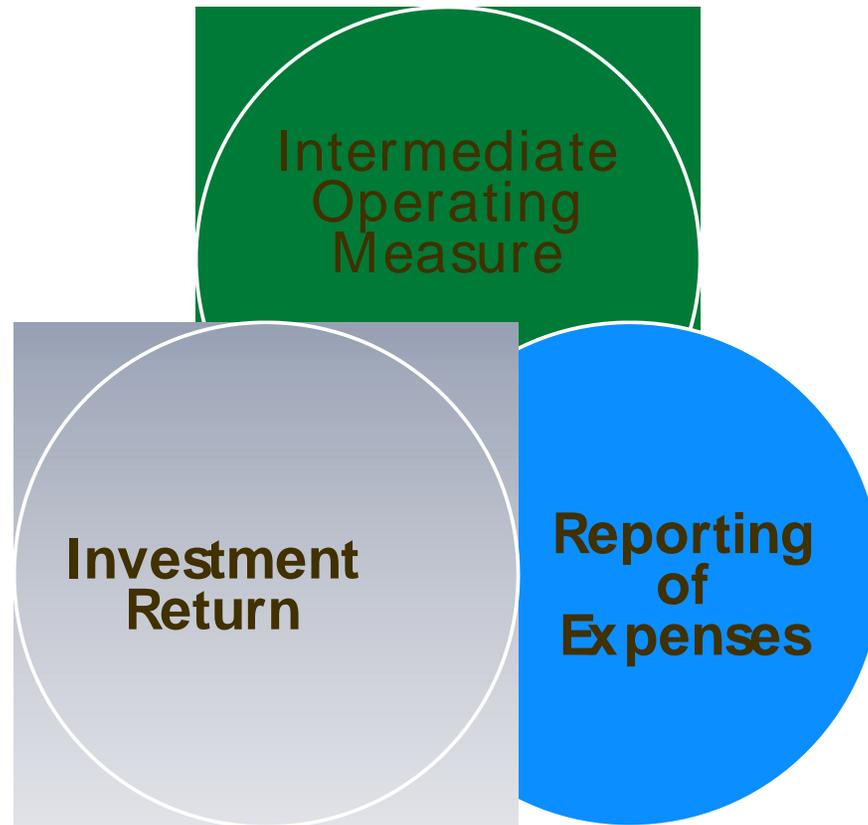
We suggest.....

- 1) If policy not already in place, adopt policy addressing liquidity.**
- 2) Review current policy to determine if any changes need to be made prior to implementation of required disclosure.**
- 3) Periodically review to ensure addresses current economic factors.**

Group Discussion

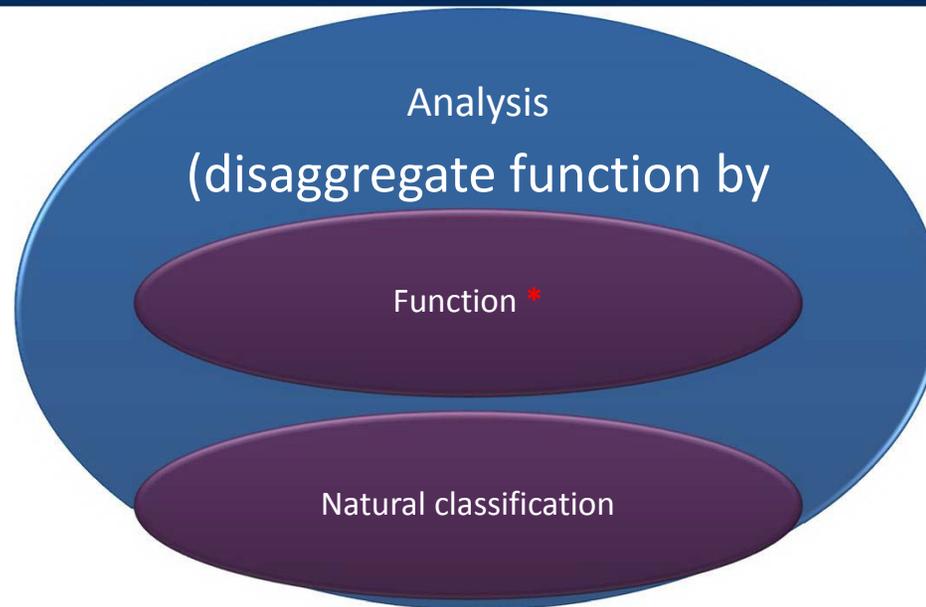
- Has your organization formally addressed how you manage liquidity?
- How do you view *general expenditures* for purposes of the quantitative disclosure of available resources, and related qualitative disclosures? (Does it include, for example, expenditures for ongoing programs/ activities that are restricted-funded?)

Financial Performance



Expense Reporting

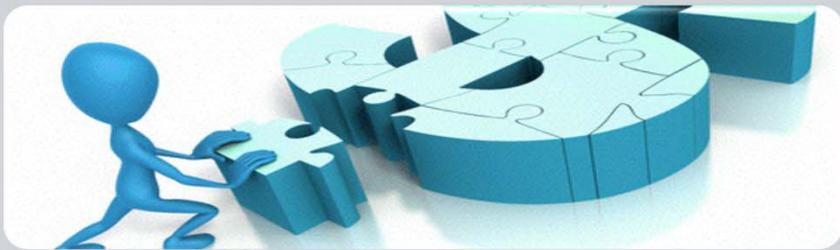
Report expenses, either on the face of financial statements or in the notes, by both:



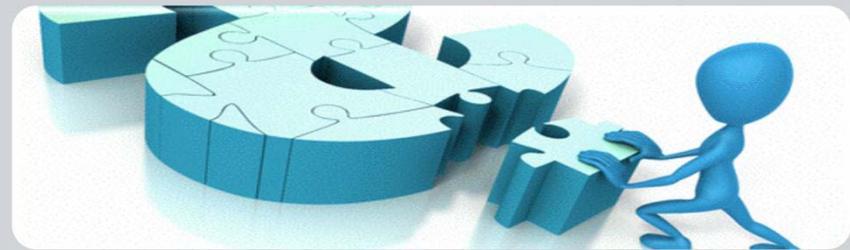
* currently required in GAAP

** choice of location; Board may explore segment reporting instead for HC in Phase 2

Expense Reporting (continued)



NFPs required to provide qualitative disclosures about methods used to allocate costs among program and support functions



ASU also provides enhanced guidance on allocations from M&G expenses

- Key concept: *direct conduct* or *direct supervision*

Presentation in the notes or in a separate statement

	Program Services			Supporting Activities			Total Expenses
	Program A	Program B	Program Subtotal	Management & General	Fund-raising	Supporting Subtotal	
Salaries, benefits, and taxes	\$ 7,400	\$ 5,625	\$ 13,025	\$ 1,130	\$ 960	\$ 2,090	\$ 15,115
Grants to other organizations	2,075	2,675	4,750				4,750
Supplies and travel	890	1,512	2,402	213	540	753	3,155
Services and professional fees	160	2,090	2,250	200	390	590	2,840
Office and occupancy	1,160	1,050	2,210	218	100	318	2,528
Depreciation	1,440	1,370	2,810	250	140	390	3,200
Interest	171	164	335	27	20	47	382
Total expenses	\$ 13,296	\$ 14,486	\$ 27,782	\$ 2,038	\$ 2,150	\$ 4,188	\$ 31,970

Example 2 – Analysis of Expenses

- Presentation on face of the statement of activities

Expenses:	
Grant activities -	
Grants	12,125
Salaries, benefits and taxes	1,808
Occupancy costs	970
Depreciation	845
Supplies	1,255
Other	56
	<hr/>
	17,059
Management and general -	
Salaries, benefits and taxes	452
Occupancy costs	243
Depreciation	211
Supplies	314
Other	14
	<hr/>
	1,234
	<hr/>
Total expenses	18,293

Reporting of Investment Return

How to present?

- **Net presentation** of investment expenses against investment return on the face of the statement of activities
 - Netting limited to external and **direct** internal expenses
 - May report net return in **multiple**, appropriately labeled lines (e.g., from different portfolios, in different net asset classes, or in operating versus nonoperating)

What to disclose?

- Disclosure of investment expenses **no longer required**
 - If reported, carefully label and don't include in expense analysis
- No longer require disclosure of investment return **components**

Group Discussion

Do you already prepare statement of functional expenses?

Based on the users of your financial statements, which option do anticipate adopting?
(Statement of activities, statement of functional expense or footnote)

Discuss the requirement to net direct INTERNAL investment expenses. What could this include? How will you track?

Overall, do you anticipate this change will enhance your financial statement users' understanding of your organization? Why or why not?

Financial Performance – Intermediate Operating Measure

- Required to present intermediate measure of current operations.
 - Currently optional
- Defined by two key dimensions:
 - Mission
 - Availability

Operating Measure: Improved Disclosures

Reinforcing current GAAP requirement about transparency of components of any operating measures presented:

- *NFPs utilizing an operating measure that reflects governing board designations, appropriations, and similar actions (internal transfers) must report these types of internal transfers appropriately disaggregated and described by type (either on the face of the statement of activities or in the notes)*

Mission

- Gifts may be from carrying out current period activities, but may not be available for current period.
- Present all mission-related revenues prior to reductions for amounts designated by the governing board for use in future periods (vs net).
- Investing and financing activities generally would NOT meet definition.

Availability

Internal
Limits

- Board

External
Limits

- Donor

Examples

- Gift of long-lived assets
- Board designated resources
- Investments

Intermediate Operating Measure

- Will be allowed to present subtotals
- Still allowed one or two statement approach
- Requirement to show change in unrestricted net assets no longer required.

Operating Measure – Disclosure Example

NOTE 1: Measure of Operations

NFP A's operating revenues in excess of expenses and transfers includes all operating revenues and expenses that are an integral part of its programs and supporting activities, net assets released from donor restrictions to support operating expenditures, and transfers from board-designated and other non-operating funds to support current operating activities. The measure of operations includes support for operating activities from both donor-restricted net assets and net assets without donor restrictions designated for long-term investment (the donor-restricted and quasi-endowment) according to NFP A's spending policy, which is detailed in Note X. The measure of operations excludes endowment support for non-operating activities, investment return in excess (less than) amounts made available for current support, gains and losses on extinguishment of debt, and changes in fair value of the interest rate swap. Included in the line item transfer of funds, net is investment return appropriated from quasi-endowment to operations of \$1,025, contributions designated by the Board of Trustees for capital projects from operations of \$3,000, and contributions and bequests designated by the Board of Trustees for quasi-endowment from operations of \$5,000.

Group Discussion

What challenges do you anticipate with the implementation of this requirement?

Overall, do you anticipate this change will enhance your financial statement users' understanding of your organization? Why or why not?

Effective Date, Early Adoption, and Transition

Effective Date: For fiscal years beginning after 12/15/2017 (e.g., CY 2018, FY 2018-19)

- Interim financials the following year

Early Adoption: Permitted, but must apply the regular transition provisions.

Transition:

- For year of adoption: apply all provisions.
- For comparative years presented: apply all provisions, except can choose not to present:
 - 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*

Important Notes

NFPs are *already permitted* to incorporate many of the changes in the ASU

The only changes that cannot be done without formally adopting the ASU are:

Presenting one class of restricted net assets
(consolidating temporarily and permanently restricted)

Underwater endowment accounting

Eliminated disclosures of investment return components
and netted expenses

Eliminated requirement to provide indirect reconciliation
if using direct method for operating cash flows

Year of implementation

- The new guidance shall be applied on a retrospective basis. However, if presenting comparative financial statements, a NFP would have the option to omit the following information for any periods presented before the year of adoption: i) analysis of expenses by both functional and natural classification, ii) disclosures about liquidity and availability of resources.
- In the year of adoption, a NFP shall disclose the nature of any reclassifications or restatements and their effects, if any, on changes in the net asset classes for each year presented.

Group Discussion

- Does your organization present comparative financial statements? If so, while analyzing the changes, remember that retrospective application is required, except for the omissions noted on previous slide.
- Has your organization considered restatements and reclassifications?
- If the above answer is yes, has a footnote already been drafted noting the nature and effects on changes in the net asset classes for years presented?

Available Resources

Financial Reporting Resources

- ASU 2016-14 Nonprofit Reporting Checklist
 - CliftonLarsonAllen’s [Presentation of Financial Statements for Not-for-Profit Entities Checklist](#) is a clear, easy-to-follow checklist that prompts you to answer questions, create a timeline, and provide special instructions for you and others. The document can be copied and shared across your organization.
- Location:
<http://www.claconnect.com/resources/articles/download-fasb-asu-201614-nonprofit-financial-reporting-checklist>

Financial Reporting Resources (continued)

- Presentation: [Changes in Nonprofit Financial Statements](#)
 - includes a detailed explanation of changes to the nonprofit reporting model and its implications for your organization.
- Location: <http://www.claconnect.com/-/media/files/presentations/changes-in-nonprofit-financial-statements--pdf.pdf?la=en>

Financial Reporting Resources (continued)

- Webinar Recording: [Changes in Nonprofit Financial Statements](#)

Cathy Clarke, CLA's chief assurance officer, explores the impact of ASU 2016-14 on your financial statements as well as other new and pending FASB standards.

- Location of file:
https://cla.adobeconnect.com/_a1126648253/p4975pfn5vk/?launcher=false&fcsContent=true&pbMode=normal

Questions?

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