Implementing the new Presentation of Financial Statements for Not-For-Profit Entities

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Agenda

Topic	Minutes
Nonprofit Financial Statements – Reporting Model ASU 2016-14	50
Steps to consider	5
Questions	5

Objectives

By the end of this course, you will be able to:

- Understand upcoming changes to the NFP reporting model and how it will effect the financial statements

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Nonprofit Financial Statements – Reporting Model ASU 2016-14

ASU 2016-14 – Effective Date and Transition

- **Effective date**: For fiscal years beginning after 12/15/2017 (e.g., CY 2018 or FY2019)
  - 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:
    a) Analysis of expenses by natural and functional classification
    b) Disclosures around liquidity and availability of resources

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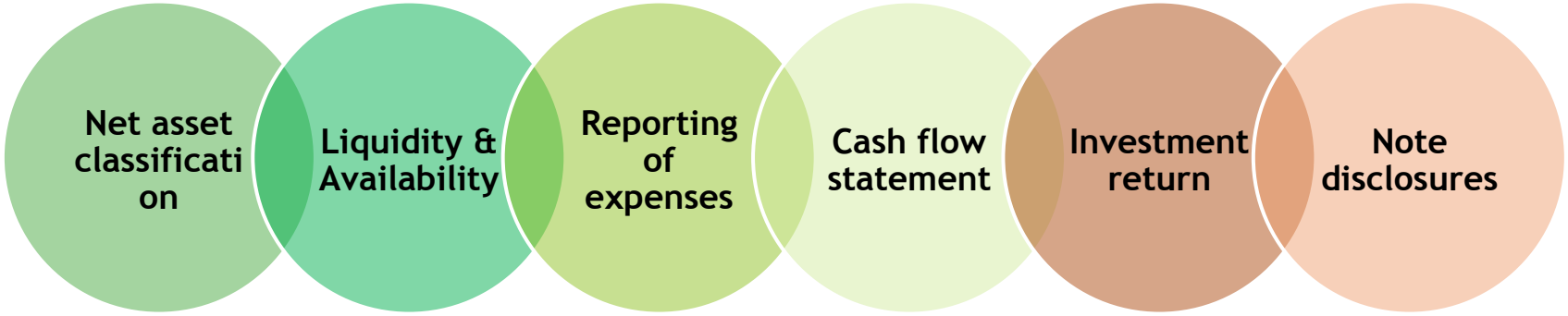
Key Provisions of ASU 2016-14



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ASU 2016-14 – Net Asset Classification

Current GAAP	Revised GAAP
Net Assets:	**Net Assets:**
• Unrestricted • Temporarily Restricted • Permanently Restricted	• Without Donor Restrictions • With Donor Restrictions
	Disclosure:
	• Amount, purpose and type of board designations • Nature and amount of donor restrictions
"Underwater" Endowments	**Net Assets:**
• Reduce unrestricted net assets	• Reflect in net assets with donor restrictions
	Disclosure:
	• Aggregate of original gift amounts, fair value • Board policy

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Statement of Financial Position

Simple

NET ASSETS		
Without donor restrictions	1,599,000	914,000
With donor restrictions	1,045,000	1,192,000
Total net assets	2,644,000	2,106,000

Disaggregated

NET ASSETS		
Without donor restrictions:		
Undesignated	999,000	324,000
Designated by the Board for endowment	600,000	590,000
	1,599,000	914,000
With donor restrictions		
Time restricted	170,000	197,000
Purpose restricted	150,000	295,000
Endowment	725,000	700,000
	1,045,000	1,192,000
Total net assets	2,644,000	2,106,000

FASB definition of board-designated net assets includes when board delegates decisions to management – would be in Board Policy

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ASU 2016-14 – Donations of Long-Lived Assets

Current GAAP	Revised GAAP
Net Assets:	**Net Assets:**

• Gifts of cash restricted for acquisition or construction of long-lived assets:
  • Implied time restriction, or
  • Placed-in-service approach
	• All NFPs will be required to use placed-in service approach
	• Time restriction only if explicit by donor

Note: Healthcare NFPs are already required to use placed-in service approach	

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ASU 2016-14 – Cash Flow Statement

- Statement of cash flows
  - Continue to permit direct or indirect method
  - Indirect reconciliation no longer required for NFP when using direct method

Net Asset Disclosures

- With donor restrictions balances disclosed by:
  - Specific purpose
  - Passage of time
  - Spending policy and appropriation
  - Appropriation and expenditure when a specific event occurs
  - Not subject to appropriation or expenditures
- Amounts and purposes of Board designations of net assets without donor restrictions shall be provided

Net Asset Disclosure Example

Note 1. Net Assets

Net assets with donor restrictions consist of the following as of June 30, 2018 and 2017:

	2018	2017
Subject to expenditure for specific purpose:		
Instruction	$ 1,200,000	$ 950,000
Building and equipment	3,000,000	2,500,000
Scholarships	1,500,000	1,450,000
Research	750,000	630,000
	6,250,000	5,530,000
Subject to the Foundation's spending policy and appropriation:		
Investments in perpetuity, including original gift amount of $15,000,000 as of June 30, 2018 and $15,005,157 as of June 30, 2017, and the investment income from which is expendable to support:		
Scholarships	25,000,000	24,800,000
Instruction, research, academic support and student services	2,000,000	1,750,000
Property and equipment acquisition and maintenance	3,000,000	2,750,000
General institutional support	5,000,000	4,750,000
	35,000,000	34,050,000
Subject to appropriation and expenditure when a specific event occurs: charitable trusts for which the Foundation is beneficiary	75,000	70,000
Not subject to appropriation or expenditure: beneficial interest in Trusts	1,200,000	720,000
Total net assets with donor restrictions	$ 42,325,000	$39,510,000

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Net Asset Disclosure Example

The Foundation's governing board has designated net assets without donor restrictions for the following purposes as of June 30, 2018 and 2017:

	2018	2017
Quasi endowment:	$ 25,200,000	$22,000,000
Liquidity reserve	1,300,000	
	$26,500,000	$22,000,000

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 years ended June 30, 2018 and 2017:

	2018	2017
Purpose restrictions accomplished:		
Instruction	$ [illegible]	$ [illegible]
Buildings and equipment	[illegible]	[illegible]
Scholarships	106,000	73,000
	105,000	103,000
Time restrictions expired:		
Annuity payments	100,000	50,000
Beneficial interest in trusts	65,000	50,000
	165,000	100,000
Release of appropriated endowment:		
Faculty salaries	750,000	725,000
Instruction, research, academic support and student services	100,000	75,000
Property and equipment acquisition and maintenance	60,000	60,000
General institutional support	60,000	60,000
	970,000	915,000
	$ 1,260,000	$ 1,135,000

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Net Assets – What You Can Do Now

- Familiarize yourself with the illustrative example
- Review your current net asset footnote
- Code your fund balance general ledger accounts to one of the five categories and then subcategorize to donor restriction type (i.e. scholarship, instruction)
- Review your institutional policies and board minutes to obtain all board designated net assets
- Review net assets released and categorize according to new structure

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ASU 2016-14 – Expense Reporting

- Expenses by nature and an analysis of expenses by function and nature
  - Excludes investment expenses, which are netted with investment return
  - Presented on face of statement of activities, separate statement, or notes to financial statements
- Enhanced disclosures about how cost allocations are made between programs and support

ASU 2016-14 – Expense Reporting

- Example of analysis of expenses by function and natural classification

	Program A	Program B	Program Services	Management and General	Fundraising	Total
Grants	1,524,000	93,000	1,617,000	105,000	-	1,722,000
Salaries and benefits	1,243,000	42,000	1,285,000	16,000	531,000	1,832,000
Education and awareness	676,000	30,000	706,000	54,000	245,000	1,005,000
Occupancy	178,000	25,000	203,000	30,000	72,000	305,000
Professional services	35,000	85,000	120,000	48,000	45,000	213,000
Printing	104,000	33,000	137,000	1,000	74,000	212,000
Information technologies	10,000	5,000	15,000	4,000	35,000	54,000
Travel	46,000	33,000	79,000	1,000	11,000	91,000
Depreciation	33,000	11,000	44,000	6,000	13,000	63,000
Other	47,000	33,000	80,000	18,000	113,000	211,000
	3,896,000	390,000	4,286,000	283,000	1,139,000	5,708,000

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ASU 2016-14 – Expense Reporting

- Cost allocation disclosure – an example

  Certain expenses are attributable to more than one program or supporting function. These expenses are allocated consistently on the following bases:
  - Depreciation, interest and occupancy costs are allocated based on square-footage used by each function.
  - Salaries and benefits are allocated based on estimates of time and effort

- See FASB ASC 958-720-55-176 and 958-205-55-21 for other examples

ASU 2016-14 – Expense Reporting

- New concept –
  - *Direct conduct* or *direct supervision* of a function should be allocated out of management and general
- Examples:
  - Information technology
  - Direct supervision of program by senior manager
  - Direct conduct of fundraising by CEO

ASU 2016-14 - Expense Reporting

Definition of management and general expenses:

Current includes:

- Oversight
- Business management
- General recordkeeping
- Budgeting
- Financing
- Soliciting funds other than contributions and membership dues
- Disseminating information about use of funds
- Announcements concerning appointments
- Annual report costs

New ASU adds, specifically:

- Payroll
- Administering government, foundation and similar contracts including billing, collection and reporting
- Employee benefits management and oversight

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Expense Reporting – What You Can Do Now

- Determine how you want to present this information
- Determine your natural classification categories
- If you have the option to code your general ledger accounts by two category types function & natural) get started!
- This was a very time consuming process so don’t put this off

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ASU 2016-14 – Liquidity and Availability of Resources

Qualitative

In notes

- How NFP manages its liquid available resources
- How NFP manages liquidity risks

Quantitative

In notes and/or on the face

- Information about the availability of financial assets at balance sheet date to meet cash needs for general expenditures with one year
- Availability may be affected by nature, external or internal limits

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ASU 2016-14 – Liquidity and Availability of Resources

- Example disclosure for qualitative information:
  - The organization has a policy to maintain available cash and short-term investments to meet 90 days of normal operating expenses, which are, on average, approximately $1,250,000. Cash in excess of daily requirements is invested in various short-term investments with maturities designed to meet obligations as they come due. In addition the organization, as more fully described in note 11, has committed lines of credit of $100,000.

ASU 201-14 – Liquidity Disclosure, Quantitative

Financial assets, at June 30, 2018 *	$523,000
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restrictions by donor with time or purpose restrictions	(52,000)
Donor-restricted endowments **	(185,000)
Investments held in annuity trust	(8,000)
Deposits with banks securing letters of credit	100,000
Board designations:	
Quasi-endowment fund, primarily for long-term investing **	(125,000)
Amounts set aside for liquidity reserve	(10,000)
Financial assets available to meet cash needs for general expenditures within one year	$243,000

* 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

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ASU 2016-14 – Liquidity and Availability of Resources

- See FASB ASC 958-210-55-5 through 958-210-55-8 for examples
- AICPA NFP Expert Panel is planning on several examples in the Not-for-Profit Entities Audit & Accounting Guide update, including when there is:
  - Sufficient resources to cover donor restrictions
  - Insufficient resources to cover donor restrictions
- Examples are available online to AICPA NFP Section members

What You Can Do Now

- Review your current policies for managing liquidity and risk. Are there any gaps?
- Revisit all existing designations
- Understand how your current financial situation will display in the disclosure
- Ensure institutional stakeholders understand this calculation and how your institution will be viewed based on this disclosure.

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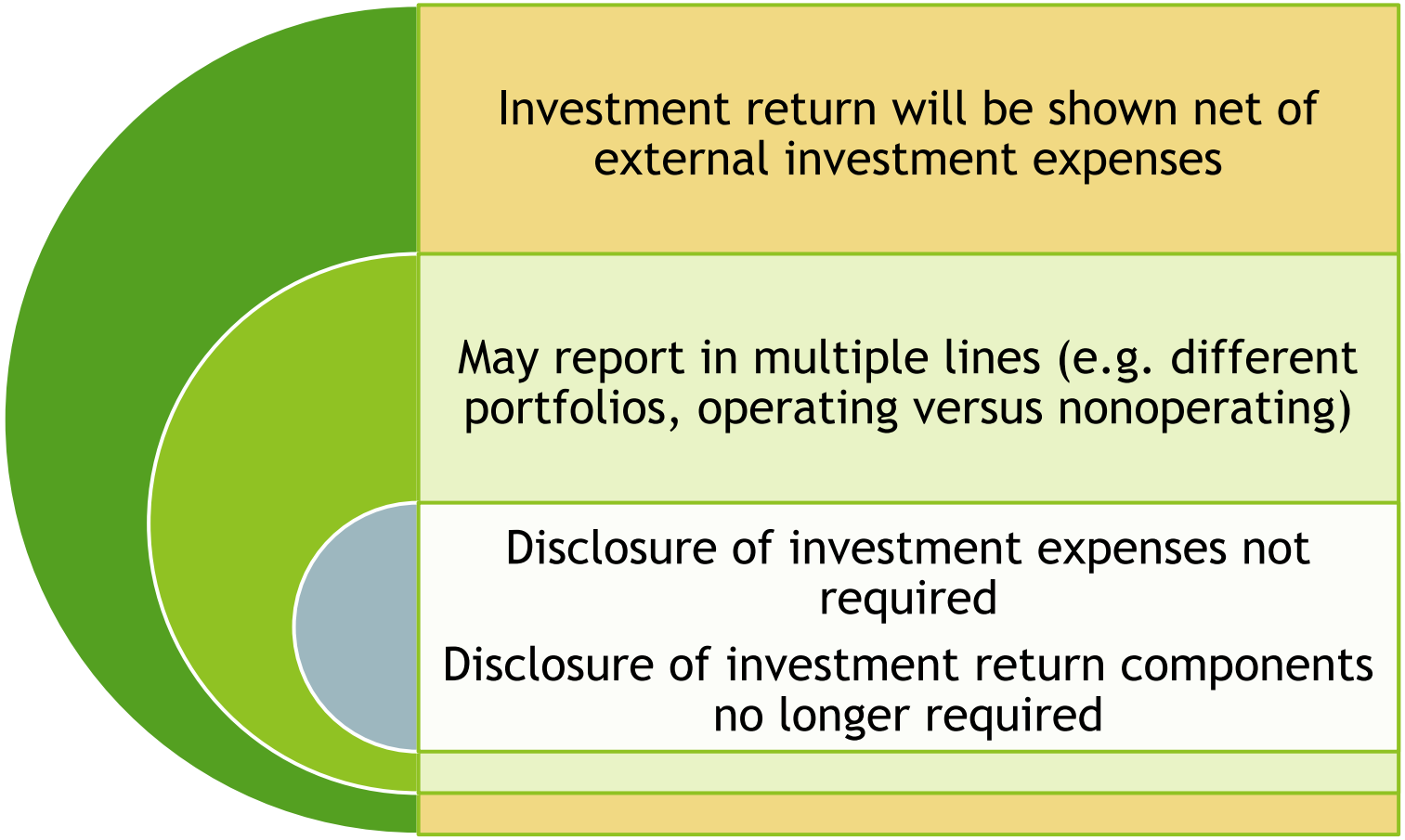
ASU 2016-14 – Presentation of Investment Return



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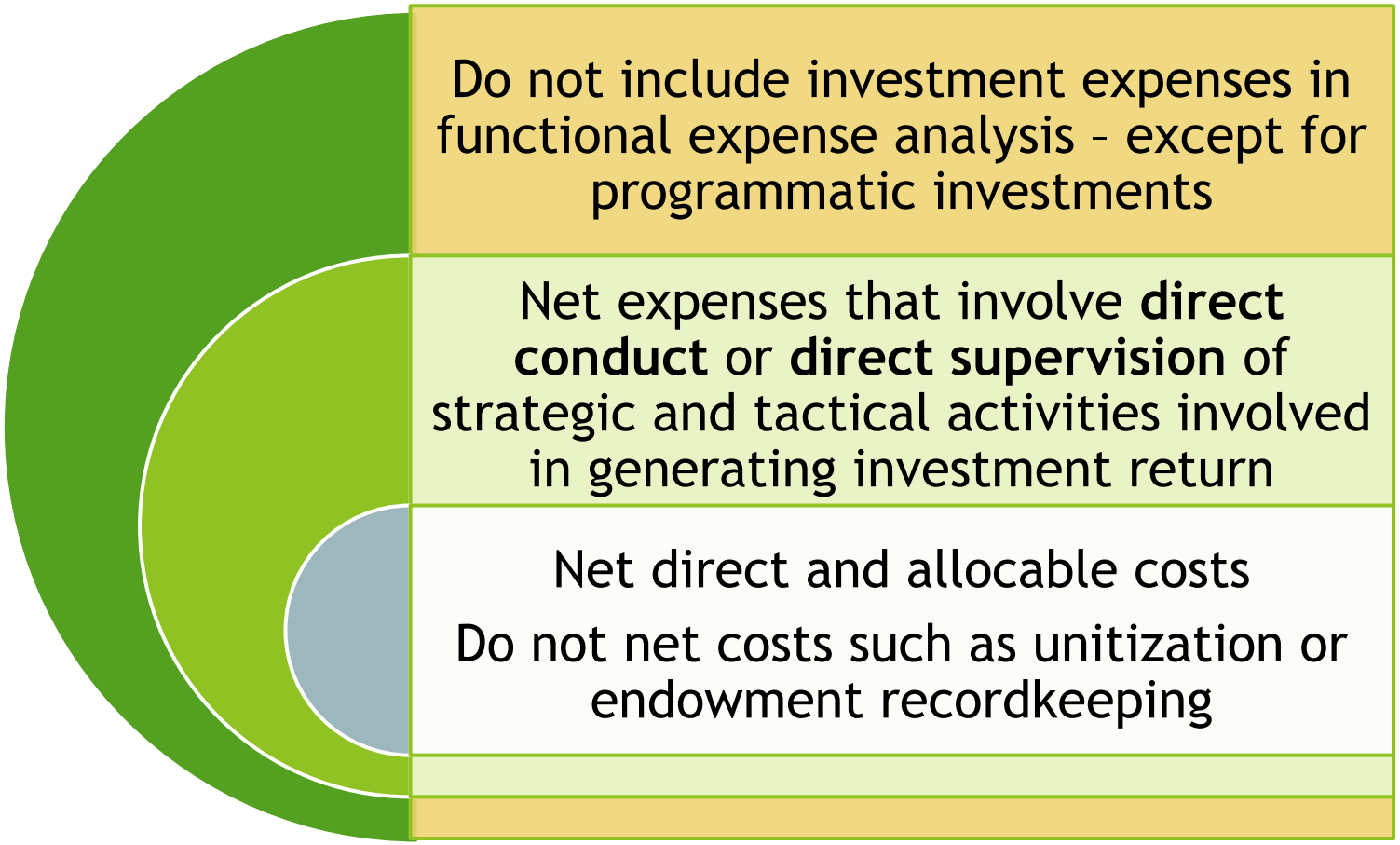
ASU 2016-14 – Investment Expenses



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ASU 2016-14 - Operating Measure

- Improved disclosure
- For those nonprofits that utilize an operating measure and show **governing board designations, appropriations, and similar actions** (internal transfers) in the measure
  - Must report these type of internal transfers appropriately disaggregated and described by type,
  - either on the face of the financial statements or in the notes

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Operating Cash Flows

- Indirect reconciliation no longer required for direct method
- Direct Method or Indirect Method permitted

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ASU 2016-14 – Steps to Consider Now

- Prepare pro-forma with new layout
- Draft new/expanded disclosure requirements
- Determine needed board policies for:
  - Maintenance of liquid resources
  - Evaluating availability

ASU 2016-14 – Steps to Consider Now

- Most significant new disclosures to consider:
  - Liquidity
  - Availability
  - Expenses

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