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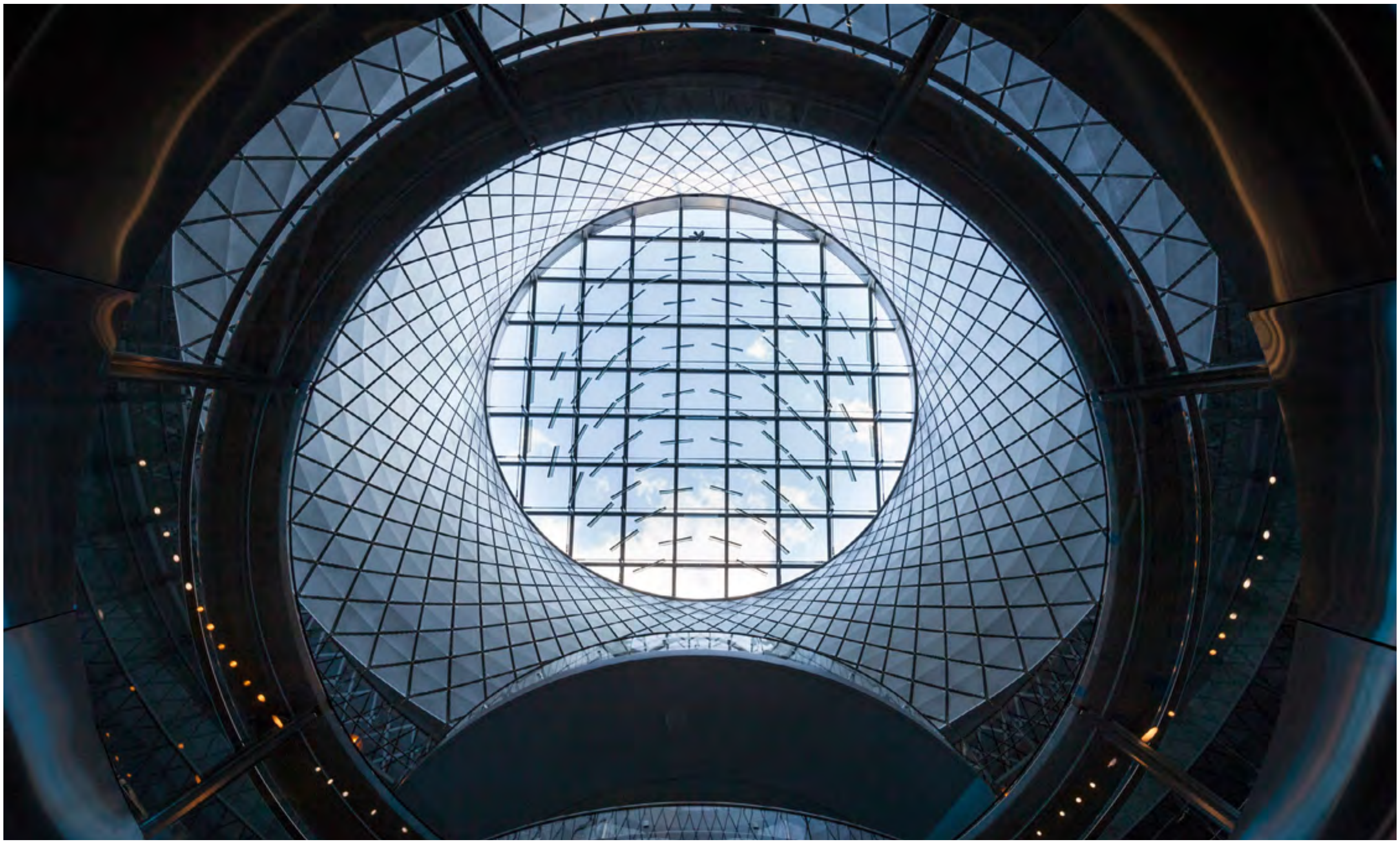

In This Issue

FASB Overhauls Guidance on Presentation of Financial Statements for Not-for-Profit Entities

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On August 18, 2016, the FASB issued ASU 2016-14,[1] which significantly changes the presentation requirements for financial statements of not-for-profit entities (NFPs). The amendments are intended to improve the guidance on net asset classification as well as the information presented in the financial statements and financial statement notes regarding liquidity, financial performance, and cash flows for NFPs. Specifically, the ASU addresses (1) the complexity and understandability of net asset classifications, (2) the lack of consistency in the type of information provided about expenses, and (3) inconsistencies in the reporting of (a) operating information in the statement of activities and (b) operating cash flows in the statement of cash flows.

The ASU amends the guidance in ASC 958[2] as well as certain requirements in ASC 954.

[1] FASB Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities.*

[2] For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

Editor's Note

Many of the ASU's requirements differ significantly from those in existing U.S. GAAP. For example, the ASU requires NFPs to disclose new information that, in some cases, may be difficult to obtain. Accordingly, NFPs are encouraged to consider whether they will need to make systems changes, or changes to their internal control over financial reporting, to comply with the new guidance.

Main Provisions of the ASU

Net Assets

Under existing U.S. GAAP, three classes of net assets — unrestricted, temporarily restricted, and permanently restricted — are presented in the statement of financial position. However, in addition to total net assets, the ASU requires NFPs to present in the statement of financial position at the end of the period only two classes of net assets — net assets with donor restrictions and net assets without donor restrictions. See Appendix A for an example of how an NFP would adjust the presentation of net assets in its statement of financial position to reflect these two classes instead of the three classes required under current guidance.

Editor's Note

The FASB decided that the complexity of distinguishing between permanent and temporary restrictions is unwarranted and that better information can be obtained from enhanced disclosures about the nature, amounts, and effects of the various types of donor-imposed restrictions, including information about the purposes for which the resources can be used and the time frame of their use.

Statement of Activities

The ASU requires an NFP's presentation, in the statement of activities, of the change in each of the two new classes of net assets to be similar to its presentation under current guidance of the change in each of the three net asset classes. See Appendix B for a sample presentation of an NFP's statement of activities that shows the two new subtotals required under the ASU.

Further, when reporting expenses, NFPs must disclose information about the nature and function of the expenses in accordance with their functional classification, such as major classes of program services and supporting activities.

Statement of Cash Flows

Under the ASU, an NFP that chooses to use the direct method of cash flow reporting is no longer required to present or disclose the indirect method reconciliation. NFPs will continue to have the option to present their statement of cash flows by using either the direct method or indirect method.

Reporting of Net Investment Returns and Reporting Expirations of Restrictions

NFPs are no longer required to disclose the netted expenses when reporting investment returns. The ASU also limits the type of expenses that are appropriate to include in a report of net investment returns.

Editor's Note

Since under the ASU NFPs no longer have to disclose netted expenses, the difficulties and costs associated with identifying embedded fees in investment expenses are eliminated.

Further, in reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset, entities must now use the placed-in-service approach when there are no explicit donor stipulations. The ASU thus eliminates the option under current guidance that allows entities to release the donor-imposed restriction over the estimated useful life of the acquired asset.

Disclosures

The ASU enhances the disclosure requirements for NFPs. As a result, such entities must present the following:

- "Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the period."
- "Composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources."
- "Qualitative information that communicates how an NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date."
- "Quantitative information, either on the face of the balance sheet or in the notes, and additional qualitative information in the notes as necessary, 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 of the balance sheet date."
- "Amounts of expenses by both their natural classification and their functional classification."
- "Method(s) used to allocate costs among program and support functions."
- "Underwater endowment funds, which include required disclosures of (1) an NFP's policy, and any actions taken during the period, concerning appropriation from underwater endowment funds, (2) the aggregate fair value of such funds, (3) the aggregate of the original gift amounts (or level required by donor or law) to be maintained, and (4) the aggregate amount by which funds are underwater (deficiencies), which are to be classified as part of net assets with donor restrictions."

Effective Date and Transition

The ASU's amendments are effective for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted.

Entities will apply the ASU's guidance retrospectively, but its application to interim financial statements is not required in the initial year of adoption. If presenting comparative financial statements, an NFP can elect to omit the following information for any periods presented before the period of adoption:

- "Analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required). NFPs that previously were required to present a statement of functional expenses do not have the option to omit this analysis; however, they may present the comparative period information in any of the formats permitted in this Update, consistent with the presentation in the period of adoption."
- "Disclosures about liquidity and availability of resources."

Editor's Note

The ASU's amendments represent the most significant change to NFP accounting guidance since 1993, when the FASB issued Statements 116[3] and 117[4] (both now codified in ASC 958).

[3] FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*.

[4] FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*.

Appendix A — Statement of Financial Position Showing Revised Net Asset Classes

The example below, which is reproduced from the ASU, illustrates how an NFP would adjust the presentation of net assets in its statement of financial position to reflect two classes rather than the three classes required under current guidance.

"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 trust obligations	1,685	1,700
Long-term debt	5,500	6,500
Total liabilities	10,630	12,340
Net assets:		
Without donor restrictions (Note DD)~~Unrestricted~~	92,600 ~~115,228~~	84,570 ~~103,670~~
With donor restrictions~~Temporarily restricted~~ (Note B)	193,490 ~~24,342~~	186,070 ~~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.

Appendix B — Statement of Activities Showing Two New Subtotals

The example below, which is reproduced from the ASU, illustrates how an NFP's statement of activities would be presented to reflect two additional subtotals for activities associated with changes in net assets without donor restrictions.

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.

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