

The New NFP Financial Reporting Standard

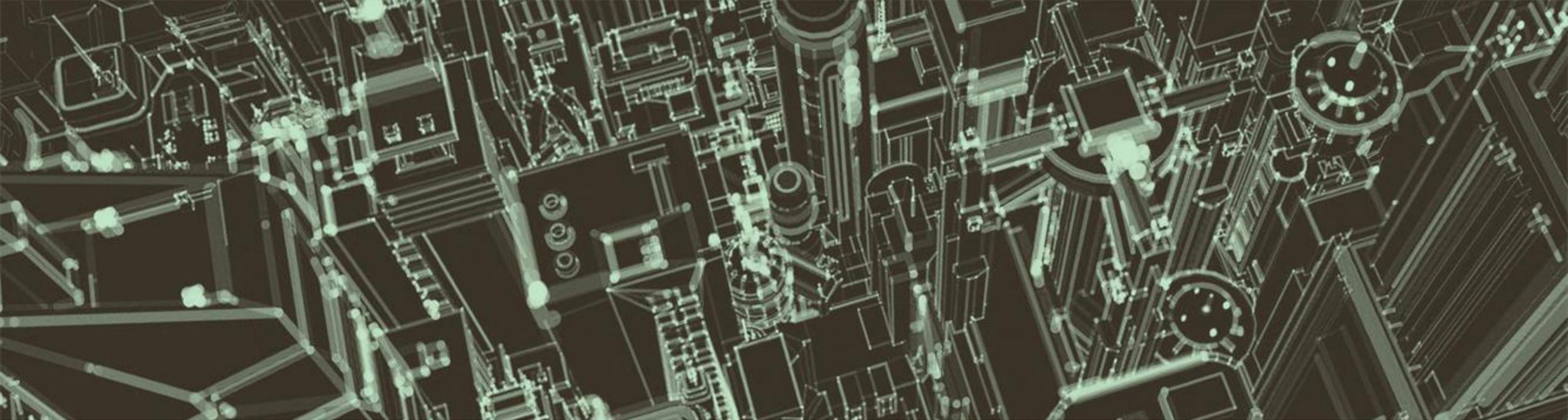
What you need to know



The New Not-for-Profit Standard ASU 2016-14

- Overview
- Key Changes
 - Net Asset Classes
 - Investment Return
 - Statement of Cash Flows
 - Expense Reporting
 - Liquidity and Availability
- Phase II – What's next?





Overview – ASU 2016-14

What is Accounting Standards Update 2016-14?

What you need to know about ASU 2016-14

What is ASU 2016-14?

- ASU 2016-14 was issued by the Accounting Standards Board (FASB) on August 18, 2016.
- ASU 2016-14 presents a new not-for-profit reporting model to serve as an update to the current reporting standards, issued in 1993.
- ASU 2016-14 aims to improve information in financial statements and notes, allowing NFP organizations to better tell their story.

What you need to know about ASU 2016-14

When is ASU 2016-14 effective?

- Effective for annual financial statements issued for fiscal years beginning after December 15, 2017
 - Calendar year ended December 31, 2018
 - Fiscal years ending in 2019
- Early adoption is allowed but all provisions must be applied.

Form 990 Implications

Will anything change on form 990?

- Internal Revenue service has not yet updated the form 990, Return of Organization Exempt from Income Tax
- AICPA's Exempt Organizations Taxation Technical Resource Panel sent a letter to the Internal Revenue Service requesting updates

Form **990** Return of Organization Exempt from Income Tax
Department of the Treasury
Internal Revenue Service

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code
▶ Do not enter social security numbers on this form
▶ Information about Form 990 and its instructions is at [www.irs.gov/form990](#)

A For the 2014 calendar year, or tax year beginning

B Check if applicable:
 Address change
 Name change
 Initial return
 Final return/terminated
 Amended return
 Application pending

C Name of organization
Doing business as
Number and street (or P.O. box if mail is not delivered to street address)
City or town, state or province, country, and ZIP or foreign postal code

F Name and address of principal officer:

I Tax-exempt status: 501(c)(3) 501(c) () (insert no.)

J Website: ▶

K Form of organization: Corporation Trust Association Other ▶

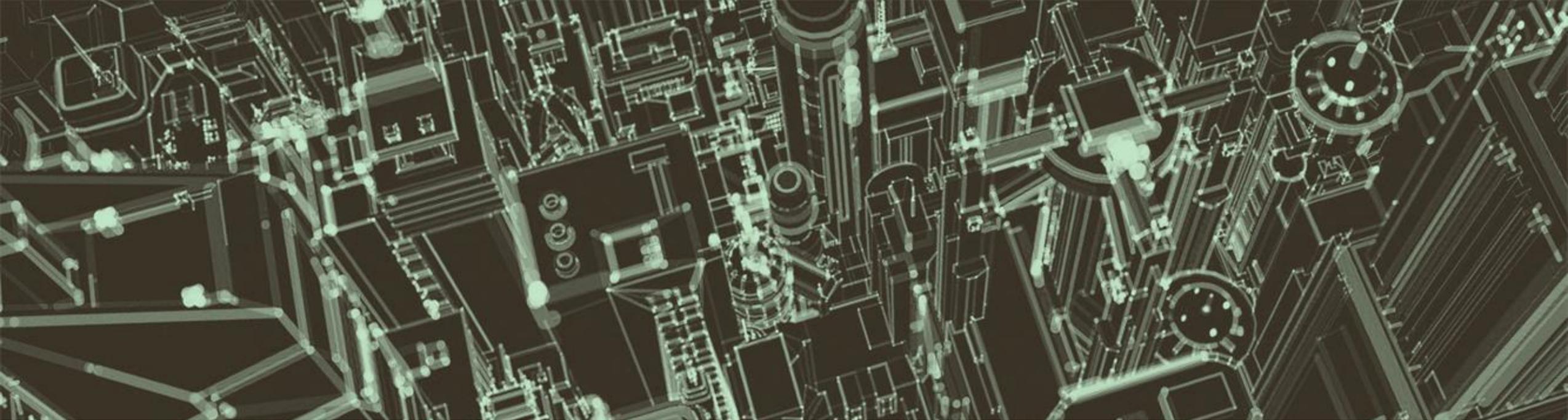
Part I Summary
1 Briefly describe the organization's mission or most significant activities:

Purpose of ASU 2016-14

- **Three** initial subgroups formed to address:
 - Reporting on financial performance through the statement of activities and statement of cash flows
 - Other means of financial communications for telling an NFP's story beyond the financial statements
 - Reporting on financial health, including liquidity through the statement of financial position, notes, or both



- **Four** additional subgroups added to address:
 - Improve current net asset classification scheme
 - Improve statements of activities and cash flows to more clearly communicate financial performance
 - Develop a framework for directors and management to provide commentary and analysis about financial health, operations, and liquidity
 - Streamline footnote disclosures and improve relevance and understandability



Key Changes – ASU 2016-14

How will the key changes effect your organization?



ASU
2016-14

Net Asset
Classes

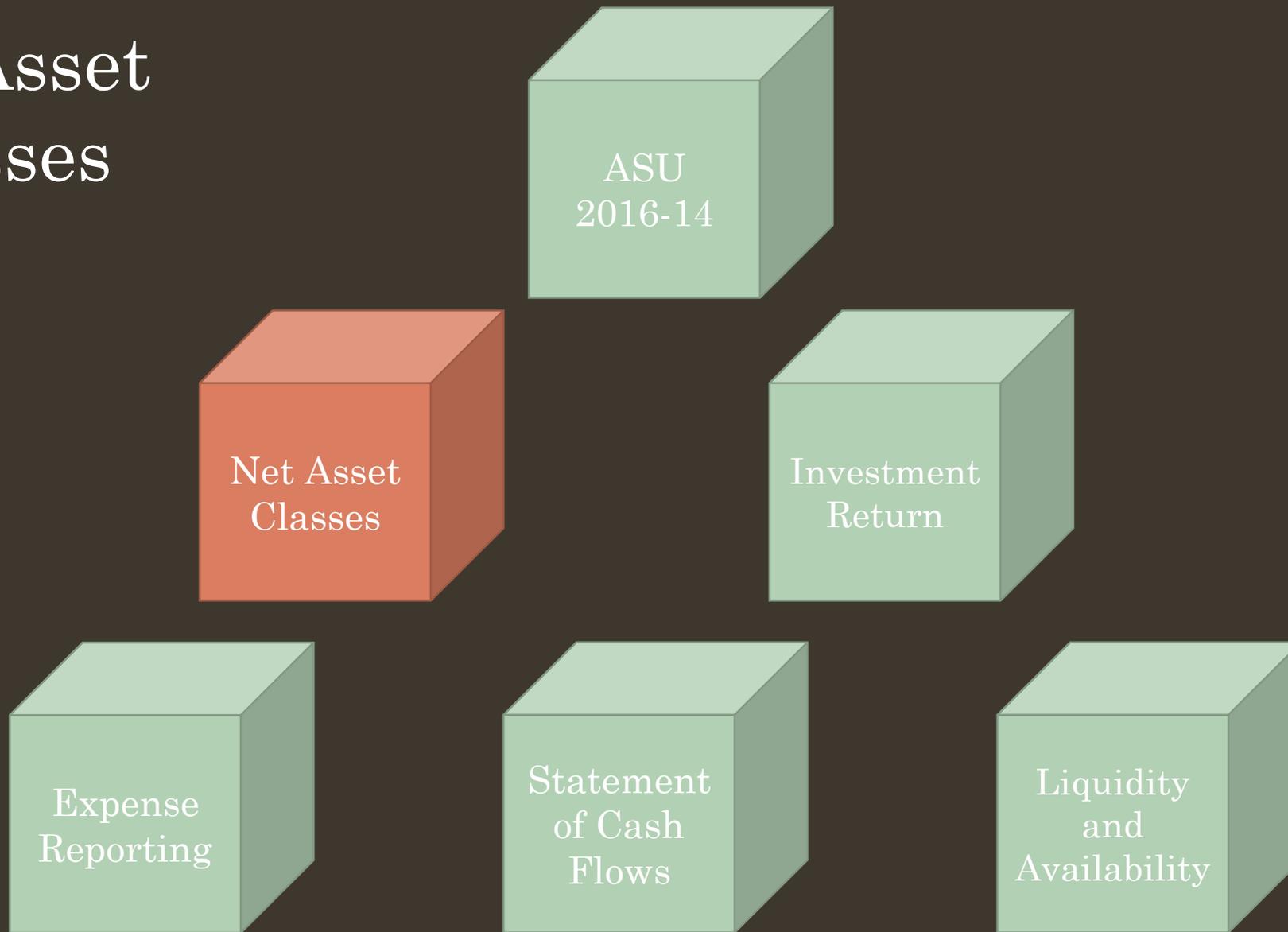
Investment
Return

Expense
Reporting

Statement
of Cash
Flows

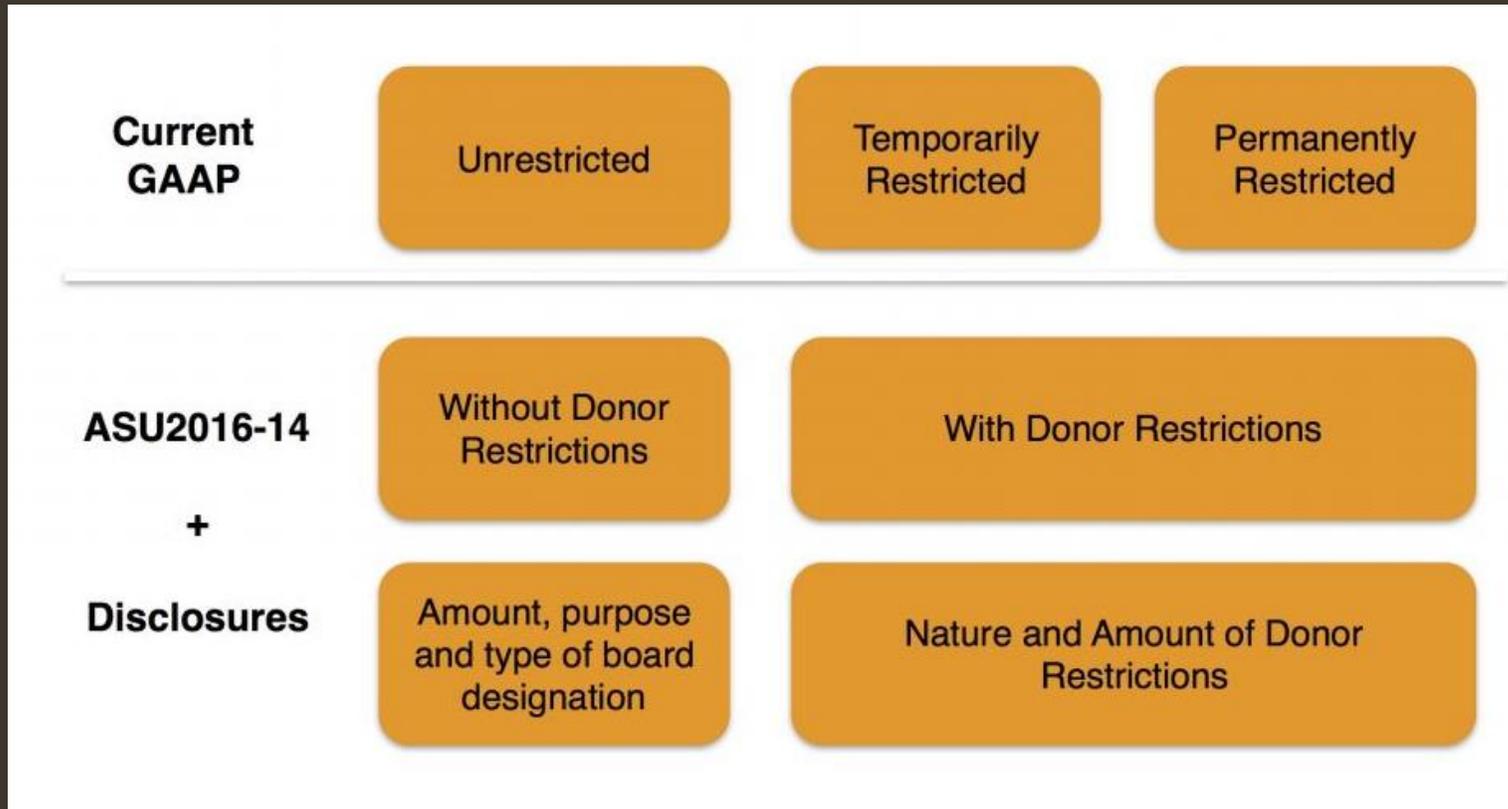
Liquidity
and
Availability

Net Asset Classes



Net Asset Classes

Currently NFP's are required to disclose three categories of net asset restrictions—unrestricted, temporarily restricted, and permanently restricted.



Why the change?

- **Improve Financial reporting in several ways**
 - ✓ **Combination of temporary and permanent restrictions will reduce complexity**
 - ✓ **Changes in laws have made lines between the two restricted classes unclear**
 - ✓ **Footnote disclosure can more effectively provide details and relevant information**
 - ✓ **Provide clarity for creditors, donors, grantors in regard to restricted assets**

Changes in Statement of Activities

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue				
Public support				
Cash contributions	\$ 300,000	\$ 50,000	\$ -	\$ 350,000
Special events, net	500,000	-	-	500,000
Total public support	800,000	50,000	-	850,000
Revenue				
Rental revenue	20,000			20,000
Gain (loss) on endowment	-	(5,000)		(5,000)
Total revenue	20,000	(5,000)	-	15,000
Net assets released from restrictions	15,000	(15,000)	-	-
Total public support and revenue	835,000	30,000	-	865,000
Expenses				
Program services	500,000	-	-	500,000
Supporting services				
Management and general	150,000	-	-	150,000
Development and community support	75,000	-	-	75,000
Total supporting services	225,000	-	-	225,000
Total expenses	725,000	-	-	725,000
Change in net assets	110,000	30,000	-	140,000
Net assets at beginning of year	1,000,000	100,000	200,000	1,300,000
Net assets at end of year	<u>\$1,110,000</u>	<u>\$ 130,000</u>	<u>\$ 200,000</u>	<u>\$1,440,000</u>

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue			
Public support			
Cash contributions	\$ 300,000	\$ 50,000	\$ 350,000
Special events, net	500,000	-	500,000
Total public support	800,000	50,000	850,000
Revenue			
Rental revenue	20,000		20,000
Gain (loss) on endowment	-	(5,000)	(5,000)
Total revenue	20,000	(5,000)	15,000
Net assets released from restrictions	15,000	(15,000)	-
Total public support and revenue	835,000	30,000	865,000
Expenses			
Program services	500,000	-	500,000
Supporting services			
Management and general	150,000	-	150,000
Development and community support	75,000	-	75,000
Total supporting services	225,000	-	225,000
Total expenses	725,000	-	725,000
Change in net assets	110,000	30,000	140,000
Net assets at beginning of year	1,000,000	300,000	1,300,000
Net assets at end of year	<u>\$1,110,000</u>	<u>\$ 330,000</u>	<u>\$1,440,000</u>

Changes in Statement of Activities

Nonprofit ABC
Statement of Activities
Year ended June 30, 20X1

Net assets without donor restrictions	
Total revenues and gains	20,000
Net assets released from restrictions	15,000
Total expenses and losses	<u>(30,000)</u>
Increase in net assets without donor restrictions	<u>5,000</u>
Net assets with donor restrictions	
Contributions	9,000
Investment return, net	18,000
Actuarial loss on annuity trust obligations	(1,000)
Net assets release from restrictions	<u>(15,000)</u>
Increase in net assets with donor restrictions	<u>11,000</u>
Increase in net assets	16,000
Net assets at beginning of year	200,000
Net assets at end of year	<u><u>216,000</u></u>

**What is this number
made up of?
Additional disclosure
required.**

Net Asset Disclosure Requirements

- **Board Designated Funds**
 - Amounts and purposes of governing board designations
 - Appropriations and similar actions that result in self-imposed limits on the use of resources
 - Internal limits imposed by actions of the governing board
- **Donor Restricted Funds**
 - Net Assets earmarked for:
 - Future programs
 - Investment
 - Contingencies
 - Purchase or construction of fixed assets
 - Purchase of other assets

In Practice Net Asset Note Disclosure

Subject to expenditure for specified purpose:

Program A activities:	
Purchase of equipment	\$ 3,060
Research	950
Educational seminars and publications	240
Program B activities:	
Disaster relief	745
Educational seminars and publications	280
Program C activities: general	210
Buildings and equipment	2,150
Annuity trust agreements for research	2,815
	<u>10,450</u>

Subject to the passage of time:

For periods after June 30, 20X1	<u>3,140</u>
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Subject to NFP spending policy and appropriation:

Investment in perpetuity (including amounts above original gift amount of \$122,337), which, once appropriated, is expendable to support:	
Program A activities	33,300
Program B activities	15,820
Program C activities	16,480
Any activities of the organization	109,100
	<u>174,700</u>

Subject to appropriation and expenditure when a specified event occurs:

Endowment requiring income to be added to original gift until fund's value is \$2,500	2,120
Paid-up life insurance policy that will provide proceeds upon death of insured for an endowment to support general activities	80
	<u>2,200</u>

Not subject to appropriation or expenditure:

Land required to be used as a recreation area	3,000
Total net assets with donor restrictions	<u>\$ 193,490</u>



In Practice
Net Asset
Note
Disclosure

Note X, Board Designations

NFP Entity A is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, NFP Entity A must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure in one year. Occasionally, the **board designates a portion of any operating surplus** to its liquidity reserve, which **was \$15,000 as of June 30, 20X1**. This is a fund established by the governing board that **may be drawn upon in the event of financial distress or an immediate liquidity need** resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities.

Underwater Endowments

- **Old GAAP:**

- Underwater endowments are offset against unrestricted net assets.

- **New GAAP:**

- Underwater endowments are offset against assets with donor restrictions.

Enhanced disclosure requirements

- NFP's endowment policy and any changes made to it during the period
- Aggregate fair value of the endowed fund
- Aggregate amount of original gifts
- Aggregate amount by which funds are underwater

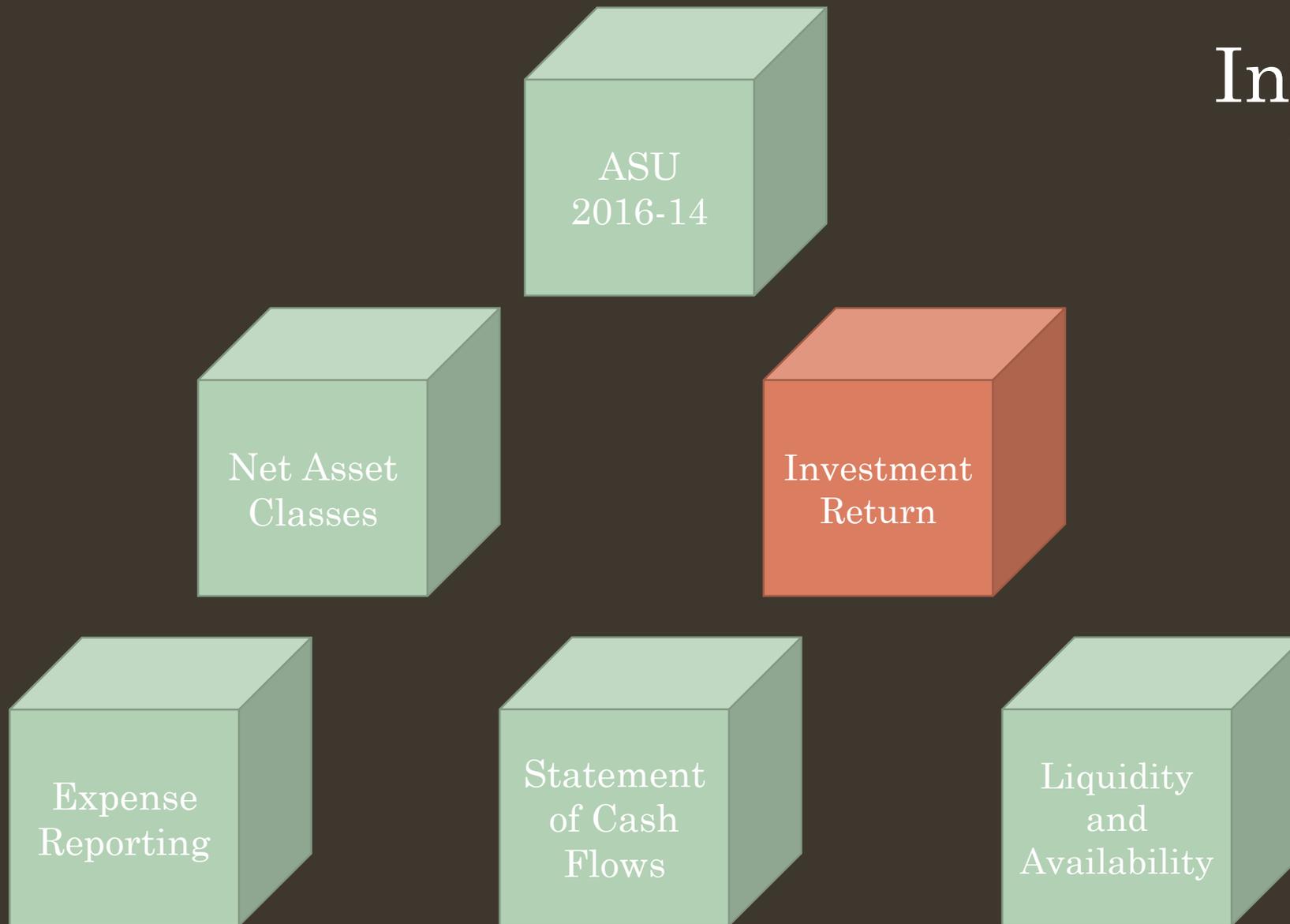
Net Asset Classifications Management Considerations

- **Are Current classifications appropriate?**
 - Review current classifications
 - Review current board designations
- **Does the Organization have underwater endowments?**
 - Identify the underwater funds
 - Reaffirm spending policies for underwater endowments
- **What is the best financial statement presentation for the organization?**
 - Determine format and level of detail on face of statement
 - Consider terminology changes
- **How will the Organization address new disclosures?**
 - Determine level of detail to be included in footnotes
 - Determine if any internal system /process changes will be required

Net Asset Classifications Board Discussions

- **Explain the new net asset categories**
 - Review terminology changes
 - Illustrate how the changes will affect statement presentation
 - Describe any impact on underwater endowments on net asset balances
- **Reaffirm and assess prior board designations and spending policies**
- **Discuss additional costs associated with changes**
 - Additional audit fees
 - System and or process changes

Investment Return





Investment Return

Currently NFP's are required to disclose components of investment return including investment income, gains and losses, and any netted expenses

Investment Return Requirements

- **Current Requirements**

- 2 options for presenting investment expenses on the statement of activities:
 - Netted against investment return
 - Presented as a component of expenses
- All NFPs are required to disclose the components of investment return including investment income, gains and losses, and any netted investment expenses

- **New Requirements**

- Required to report all external and direct internal investment expenses netted against investment return on the statement of activities
 - External – Amounts paid to third parties to generate investment returns
 - Direct Internal – direct conduct or supervision of strategic and tactical activities to generate investment returns
- Eliminated requirement to disclose:
 - Composition of investment return
 - Amount of investment expenses

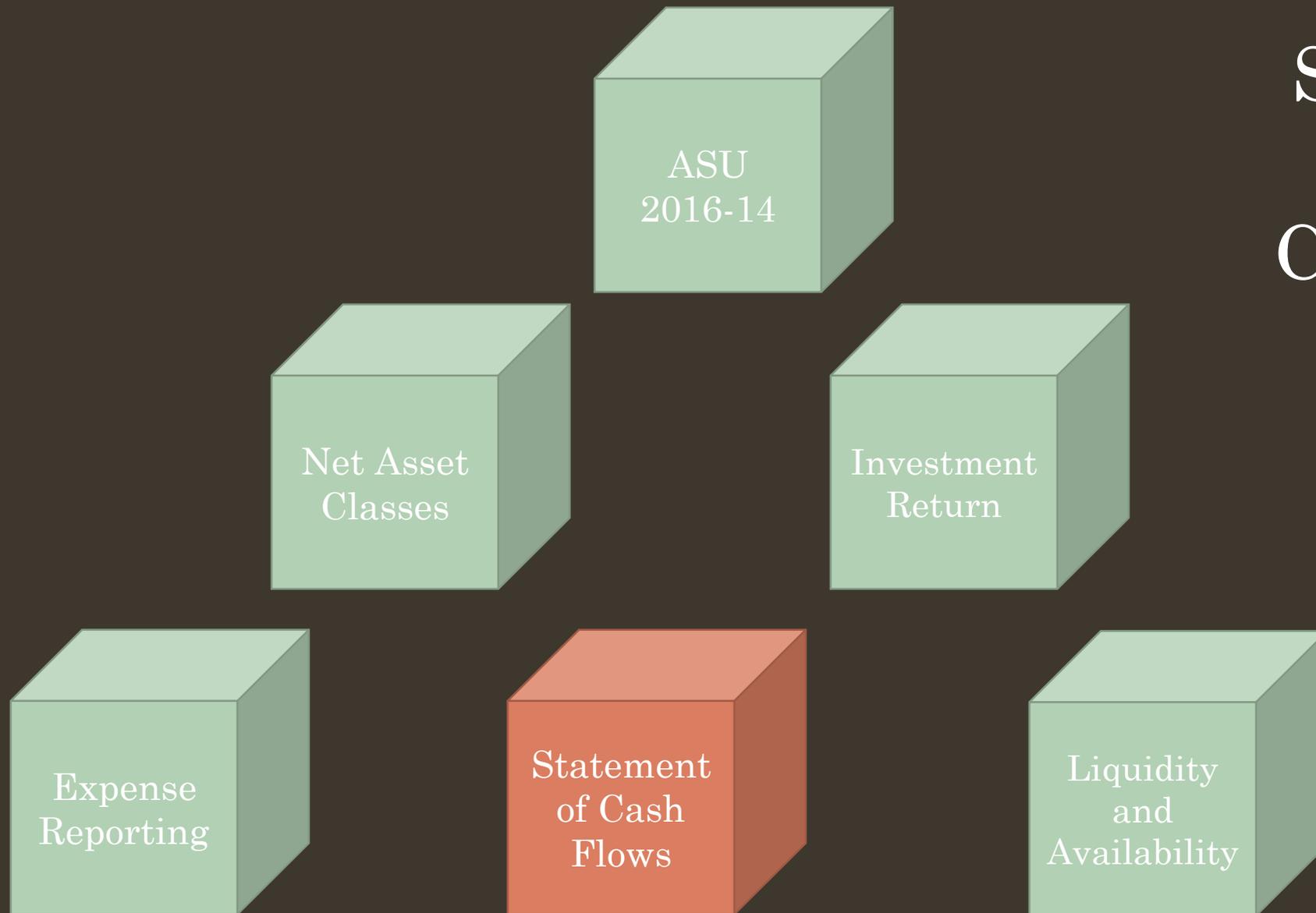
Investment Returns Management Considerations

- Identify costs, if any, that are being netted
- Evaluate which costs are appropriate under new guidance
- Consider how to communicate any material changes
- Decide if reports outside the financial statement should be changed for consistency

Investment Returns Board Discussions

- Explain the new requirements
- Identify differences in amounts that will be netted
- Discuss any implications of changes in balances

Statement of Cash Flows





Statement of Cash Flows

NFPs can continue to choose between the Direct Method and Indirect Method in presenting cash flows from operating activities.

Operating Cash Flows

Indirect Method vs Direct Method

Indirect Method

Cash flows from operating activities	
Change in net assets	\$ 700,000
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	15,000
Decrease in receivables	5,000
Decrease in other assets	5,000
Decrease in accounts payable and accrued expenses	(20,000)
Net realized and unrealized gain on investments	(10,000)
Total adjustments	(5,000)
Net cash provided by operating activities	695,000
Cash flows from investing activities	
Purchase of equipment	(50,000)
Net cash used by investing activities	(50,000)
Net increase in cash and cash equivalents	645,000
Cash and cash equivalents at beginning of year	100,000
Cash and cash equivalents at end of year	\$ 745,000

Direct Method

Cash flows from operating activities	
Cash received from service recipients	50,000
Cash received from contributors	100,000
Cash collected on promises to give	5,000
Interest and dividends received	2,000
Miscellaneous Receipts	500
Cash paid to employees	(50,000)
Cash paid to suppliers	(30,000)
Interest paid	(5,000)
Grants paid	(50,000)
Net cash provided by operating activities	22,500

The change allows an organization to select the presentation method that best serves the needs of the entity. Allows greater flexibility in financial reporting and a potential reduction in time and effort used to prepare the financial statements.

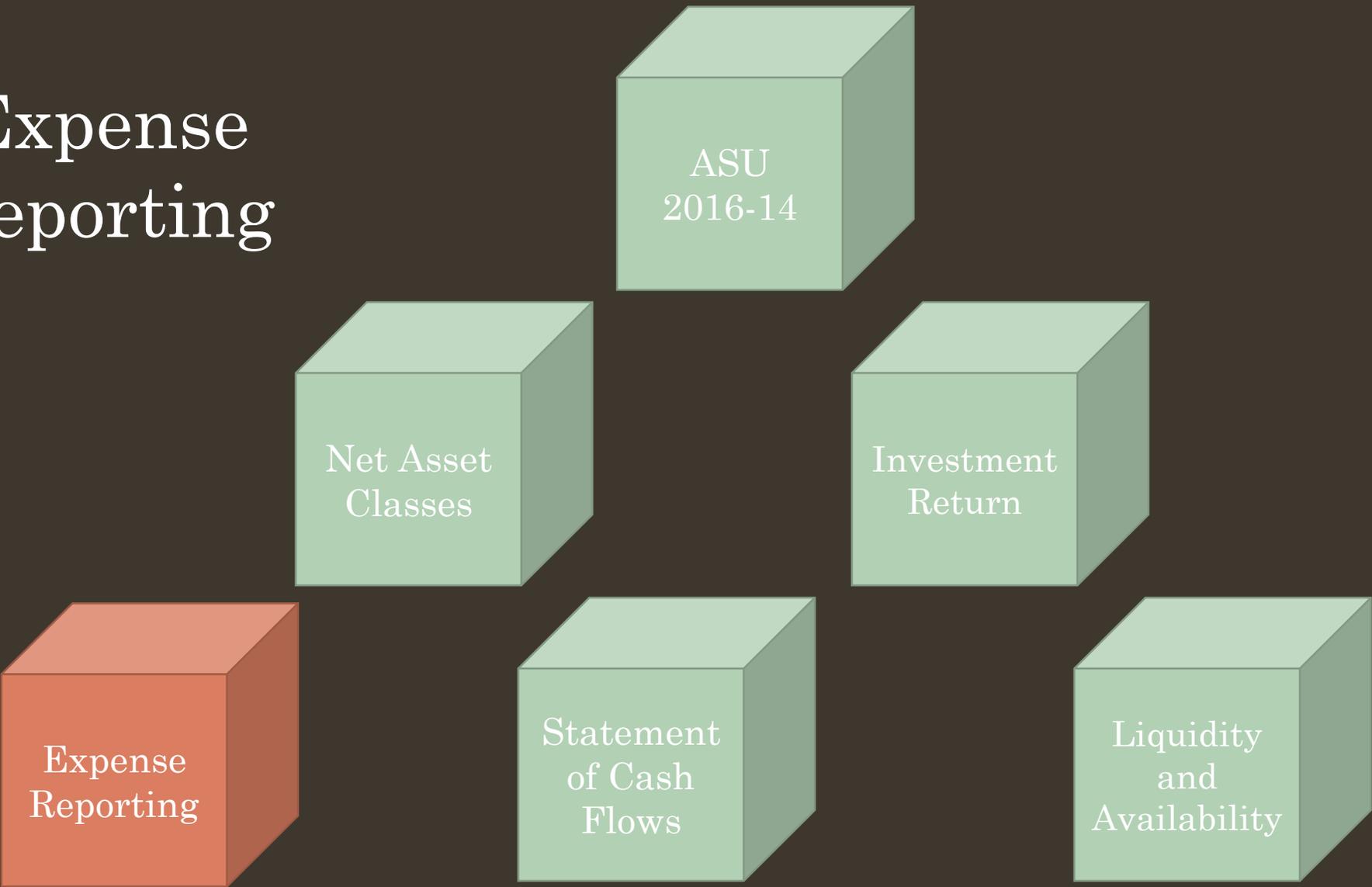
Cash Flow Statement Management Considerations

- Which presentation is best for your Organization?
- If contemplating a change, consider:
 - Recasting your most recent statement in the new format
 - Determining if any financial system changes are necessary
 - Determining if any process changes will be needed

Cash Flow Statement Board Discussions

- Review pros and cons of each method
- Prepare statements using each method
- Highlight differences in each method
- Identify any additional costs associated with the change

Expense Reporting



A word cloud of positive terms including: SUPPORT, FRIENDSHIP, RELIEF, GIVE, LIFE, MONEY, FOOD, LOVE, HUMANITARIAN, TOGETHERNESS, TEAM, VOLUNTEERING, DONATION, SERVICE, HAPPY, HOPE, ASSISTANCE, COMMUNICATION, FRIENDSHIP, LIFE, RELIEF, FRIENDSHIP, GOOD, ASSISTANCE, LIFE, HOPE, ASSISTANCE, GOOD.

NON PROFIT

A word cloud of positive terms including: WORK, HUMANITARIAN, POOR, FRIENDSHIP, LOVE, MONEY, GIVING, SUPPORT, COMMUNITY, SOCIAL, LIFE, TOGETHERNESS, HOPE, GROWTH, LIFE, HOPE, GROWTH, LIFE, UNITY, LIFE, COMMUNITY, TOGETHERNESS, HOPE, ASSISTANCE, HOPE.

Expense Reporting

All NFPs now required to present a statement of functional expense as well as provide additional footnote disclosure.

Functional Expense Reporting

- ASU 2016-14 requires **all not-for-profits** to report expenses by both **functional** and **natural** classification
 - Previously only voluntary health and welfare organizations required to report expenses by function
 - Now required to disclose an analysis of expenses and qualitative disclosures about the methods used to allocate costs
 - New guidance relating to Management and General Expenses issued

Functionalization of Expenses

Program
Services

Supporting Services

Management
and General

Fundraising
Activities

Membership
Development
Activities

The Financial Statement and Functionalization of expenses

	Program Services	Management and General	Fundraising	Total
Salaries and benefits	\$ 550,000	\$ 125,000	\$ 40,000	\$ 715,000
Grants to individuals	100,000	-	-	100,000
Professional fees	-	24,500	-	24,500
Advertising	100	100	10,000	10,200
Office expenses	8,000	8,000	2,000	18,000
Telephone	4,500	750	2,000	7,250
Postage and shipping	4,000	500	1,000	5,500
Printing and reproduction	2,000	750	3,000	5,750
Information technology	40,000	10,000	5,000	55,000
Occupancy	50,000	10,000	7,500	67,500
Licenses and permits	500	3,000	250	3,750
Insurance	7,500	2,000	1,000	10,500
Travel	1,500	750	5,000	7,250
Bank fees	-	1,000	1,500	2,500
Total expenses before depreciation	768,100	186,350	78,250	1,032,700
Depreciation	12,000	2,000	1,500	15,500
Total expenses	\$ 780,100	\$ 188,350	\$ 79,750	\$1,048,200

Fundraising Expenses

Management & General

Program Services

Part IX Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns. All other organizations must complete column (A).

Check if Schedule O contains a response or note to any line in this Part IX

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.

	(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1	Grants and other assistance to domestic organizations and domestic governments. See Part IV, line 21			
2	Grants and other assistance to domestic individuals. See Part IV, line 22			
3	Grants and other assistance to foreign organizations, foreign governments, and foreign individuals. See Part IV, lines 15 and 16			
4	Benefits paid to or for members			
5	Compensation of current officers, directors, trustees, and key employees			
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)			
7	Other salaries and wages			
8	Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions)			
9	Other employee benefits			
10	Payroll taxes			
11	Fees for services (non-employees):			
a	Management			
b	Legal			
c	Accounting			
d	Lobbying			
e	Professional fundraising services. See Part IV, line 17			
f	Investment management fees			
g	Other. (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Schedule O.)			
12	Advertising and promotion			
13	Office expenses			
14	Information technology			
15	Royalties			
16	Occupancy			
17	Travel			
18	Payments of travel or entertainment expenses for any federal, state, or local public officials			
19	Conferences, conventions, and meetings			
20	Interest			
21	Payments to affiliates			
22	Depreciation, depletion, and amortization			
23	Insurance			
24	Other expenses. Itemize expenses not covered above (List miscellaneous expenses in line 24e. If line 24e amount exceeds 10% of line 25, column (A) amount, list line 24e expenses on Schedule O.)			
a			
b			
c			
d			
e	All other expenses			
25	Total functional expenses. Add lines 1 through 24e			
26	Joint costs. Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation. Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720)			

Form 990 and Functionalization of expenses

Fundraising Expenses

Management & General

Program Services



Rivero, Gordimer & Company, P.A.

Required Disclosures - Example

Qualitative Description of the Methods Used

- **Note X. Methods used for Allocation of Expenses from Management and General Activities**

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. Those expenses include depreciation and amortization, the president's office, communications department, and information technology department. Depreciation is allocated based on square footage, the president's office is allocated based on estimates of time and effort, certain costs of the communications department are allocated based on estimates of time and effort, and the information technology department is allocated based on estimates of time and costs of specific technology utilized.

Improved Guidance Management and General Expenses

M&G - Activities that represent direct conduct or direct supervision of program or other supporting activities require allocation from management and general activities.

- Oversight
- Business management
- General recordkeeping and payroll
- Budgeting
- Financing
- Soliciting funds other than contributions
- Producing and distributing the annual report

Positions generally allocated include:

- CEO
- CFO
- IT
- Human Resources
- Grant Accountant

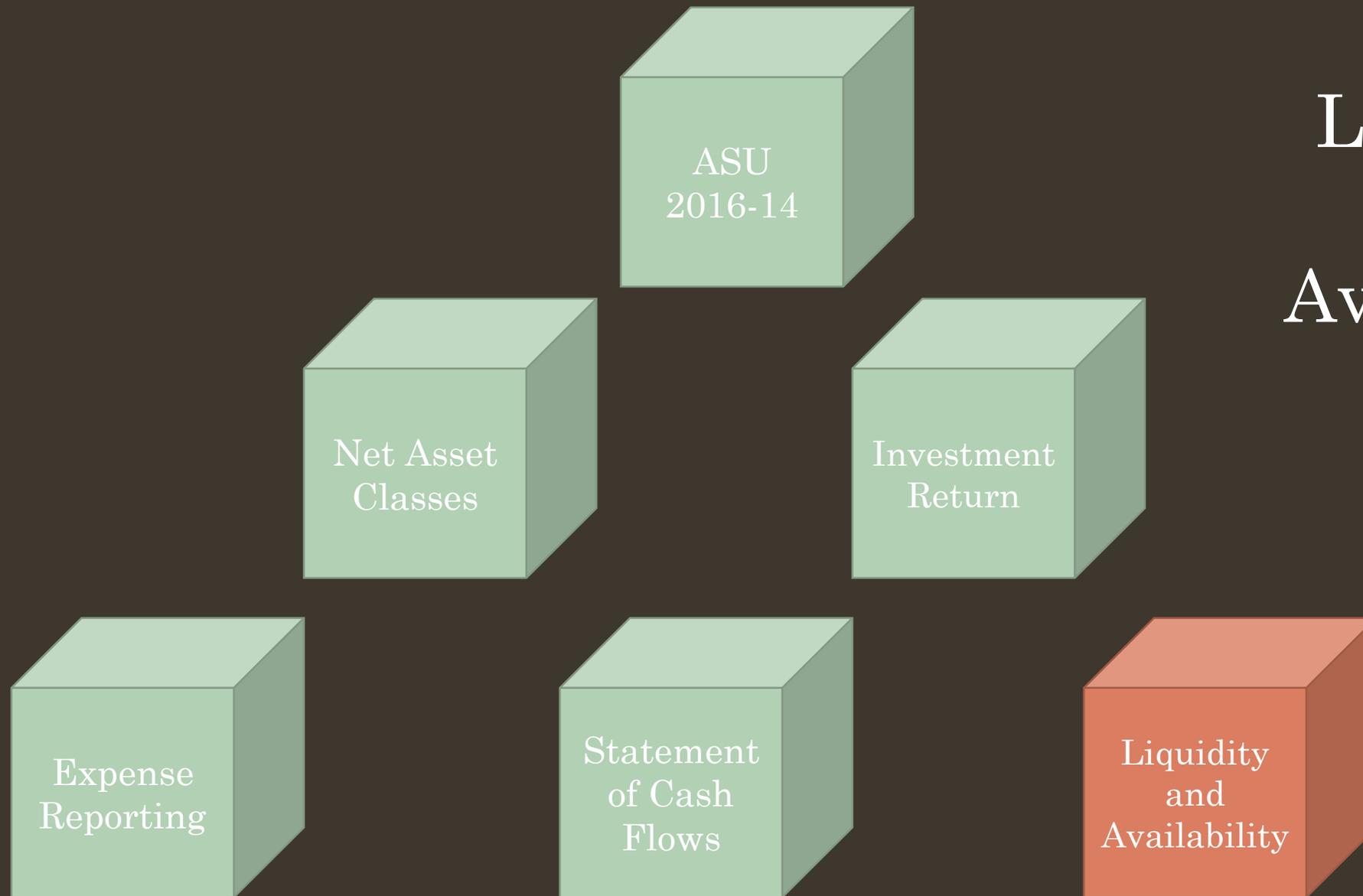
Expense Reporting Management Considerations

- What is the best format for presenting the expense analysis?
- Are functional or natural expense classifications shown on the face of the statements?
- Do current allocation methodologies need to be revisited?
- Are functional classifications accurately captured in the financial system?

Expense Reporting Board Discussions

- **Explain the need for an analysis of expenses by:**
 - **Function**
 - **Nature**
- **Discuss how this might differ from what's included in the form 990**
- **Discuss anticipated costs of preparing disclosures**

Liquidity and Availability





Liquidity and Availability of Resources

NFPs now required to provide both qualitative and quantitative information about the liquidity of the organization.

Qualitative vs. Quantitative Information

Qualitative Information

- How the NFP manages its liquid available resources and its liquidity risk.
- How the NFP will meet cash needs for general expenditures within one year of the date of the statement of financial position.

Quantitative Information

- The availability of an NFP's current financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the date of the statement of financial position.
- Availability of a financial asset may be affected by:
 - Its nature
 - External limits (donors, laws, contracts)
 - Internal limits (board designated funds)

Disclosures on Availability of Financial Assets

- Required General Disclosures
 - Unusual Circumstances
 - Ex. Special borrowing arrangements, requirements to hold cash in separate accounts
 - Donor Imposed Restrictions
 - Ex. Organization does not maintain enough cash/cash equivalents to comply with restrictions
 - Information about Significant Limits
 - Ex. Suppliers, creditors, certain loan covenants
- Required Disclosures on Restrictions
 - Description of the kind of asset whose use is limited
 - Information about the nature and amount of limitations
 - Contractual limitations on use of particular assets

Example: Qualitative Disclosure on Liquidity and Availability

Nonprofit Entity ABC	
Statement of Financial Position	
June 30, 20X1	
	20X1
ASSETS	
Cash	\$ 75,000
Contributions receivable	20,000
Prepaid expenses	5,000
Short-term investments	300,000
Total assets	\$ 400,000
LIABILITIES AND NET ASSETS	
Accounts payable and accrued expenses	\$ 80,000
Total liabilities	80,000
Net assets without donor restrictions	300,000
Net assets with donor restrictions	20,000
Total net assets	320,000
Total liabilities and net assets	\$ 400,000

NFP A has \$395,000 of financial assets available within 1 year of the balance sheet date to meet cash needs for general expenditure consisting of cash of \$75,000, contributions receivable of \$20,000 and short term investments of \$300,000. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The contributions receivable are subject to implied time restrictions but are expected to be collected in one year. NFP A has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 60 days of normal operating expenses, which are, on average, approximately \$275,000. NFP A has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. NFP A also has committed lines of credit in the amount of \$20,000 which it could draw upon in the event of an unanticipated liquidity need.

Example: Quantitative Disclosure on Liquidity and Availability

Financial assets, at year-end*	<u>\$ 235,000</u>
Less those unavailable for general expenditures within year, due to:	
Contractual or donor-imposed restrictions	
Restricted by donor with time or purpose restrictions	(12,000)
Subject to appropriation and satisfaction of donor restrictions	(145,000)
Investment held in annuity trust	(5,000)
Amounts held by bond trustees	(30,000)
Board designations	
Quasi-endowment fund, primarily for long-term investing**	(37,000)
Amounts set aside for liquidity reserve	(2,000)
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 4,000</u></u>

*Total assets, less nonfinancial assets (PP&E, inventory, prepaids)

**Excludes amounts that have been appropriated for next 12 months that do not have purpose restrictions

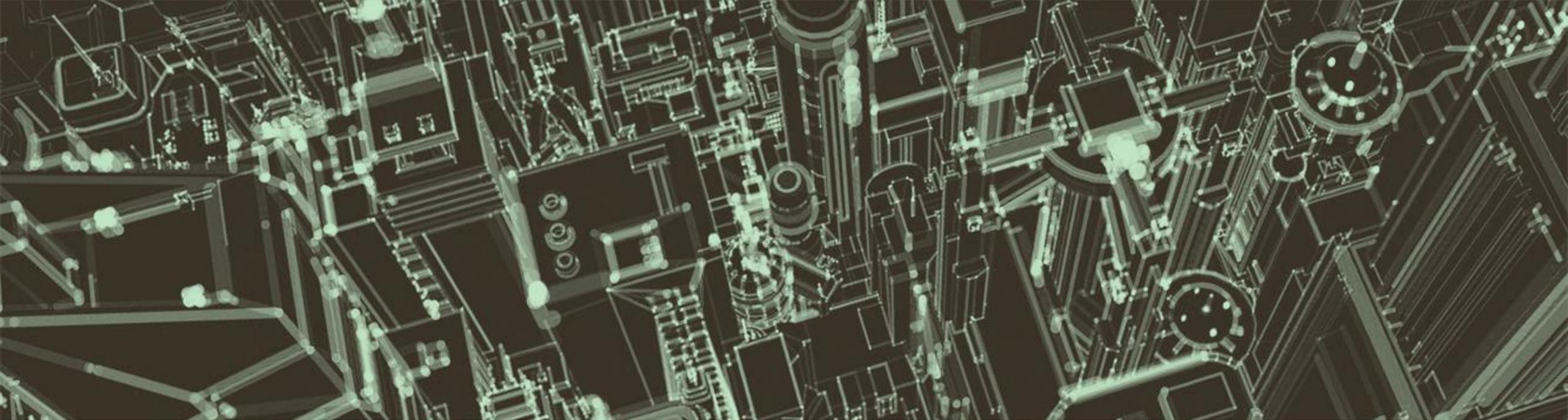
Liquidity and Availability Management Considerations

- **What message do you wish to convey?**
 - Do you have ample resources to fund activities over the next 12 months?
 - Are there significant restrictions or internal designations limiting the use of resources?
 - What additional sources of liquidity are available?
 - Should this message be conveyed in text, table, or both?
- **Identify current policies and procedures**
 - Are existing procedures formally documented?
 - Will any revisions to current policies or new policies be required?
 - Are any board designations properly documented?



Liquidity and Availability Board Discussions

- Explain the disclosure requirements
- Discuss best presentation for achieving transparency
- Review board designations
- Recommend any policy changes or additions
- Discuss anticipated costs of preparing disclosures



What's Next?

Certain issues have been deferred to Phase II



Phase II

- ✓ Whether to require more intermediate measures of operations and performance indicators
- ✓ How to define performance measures and what items should be included in analysis
- ✓ How to realign certain line items within such operating measures within operating cash flows
- ✓ Whether an alternative disaggregation and classification approach may be more decision useful
- ✓ Whether business-oriented health care NFPs should provide disaggregated information by segment

Summary

- Discuss with management how to implement the change
- Consider the time and costs associated with the changes
- Update or create new policies related to the changes
- Review and discuss the changes with the Board, including any Board designations

- Thank You Again for Attending!
- Brooke Bauerle
- Dennis Paleveda

References

- FASB ASU 2016-14
 - <https://asc.fasb.org/imageRoot/56/92564756.pdf>
- AICPA
 - [New NFP Financial Reporting Standard: Top 5 Things your Board Should Know presentation](#)