

Implementing New FASB Not-For-Profit Financial Statement Reporting Standards of ASU 2016-14

Major Changes in Net Asset Classification, Liquidity and Expense Function Reporting, and User Clarity

WEDNESDAY, NOVEMBER 16, 2016, 1:00-2:50 pm Eastern

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Implementing New FASB Not-For-Profit Financial Statement Reporting Standards of ASU 2016-14

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Renee Ordeneaux, CPA **Partner, Armanino LLP**

- 25+ years of experience in public accounting
- Previously served as the CFO of a nonprofit organization
- In the nonprofit sector, her accounting expertise extends beyond audit to income tax matters pertaining to unrelated business income and non-recurring business transactions
- American Institute of Certified Public Accountants (AICPA)
- California Society of Certified Public Accountants (CalCPA)
- Information Systems Audit and Control Association (ISACA)
- Graduate of the University of Texas at Austin and UCLA



Stacie Kowalczyk, CPA **Audit Senior Manager, Armanino LLP**

- More than 13 years of audit and accounting experience
- Focus on serving nonprofit entities including community based social service organizations, religious organizations and private colleges and universities.
- Armanino Higher Education Practice Lead
- American Institute of Certified Public Accountants (AICPA)
- California Society of Certified Public Accountants (CalCPA)
- BS and MBA, Arizona State University

Learning Objectives

During today's webinar, participants will:

- Discuss the changes between the 1993 Statement of Financial Accounting Standards and the new ASU
- Examine how the changes will affect donors, grantors, creditors and other users of nonprofits' financial statements
- Identify implementation deadlines and the benefits/pitfalls of early adoption



Presentation Overview

- Net Assets
- Disclosures for Net Assets Without Donor Restrictions
- Endowment Disclosures
- Functional Expenses
- Cash Flow (Direct vs. Indirect)
- Presentation Options
- Restrictions on Long-Lived Assets
- Liquidity



Overview of 2016-14

- Presentation of Financial Statements of Not-for-Profit Entities, issued August 2016 after exposure draft and re-deliberations
- Effective for effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018 → Calendar year 2018 and FY 2018-2019
- Major changes:
 - Three classes of net assets down to two
 - Enhanced disclosure regarding donor restrictions and board designations
 - Specific disclosure about underwater endowments
 - New disclosures regarding liquidity and availability of assets for operations
 - Functional presentation required by all nonprofit organizations
 - Various minor accounting changes

Net Assets

Net Asset Classification

Current GAAP for External Reporting

- Unrestricted
- Temporarily Restricted
- Permanently Restricted

New GAAP for External Reporting

- Those Net Assets with Donor Restrictions
- Those Net Assets Without Donor Restrictions

Donor-Imposed Restriction

A donor stipulation (donors include other types of contributors, including makers of certain grants) that specifies a use for a contributed asset that is more specific than broad limits resulting from the following:

- A. The nature of the nonprofit
- B. The environment in which it operates
- C. The purposes specified in its articles of incorporation or bylaws or comparable documents for an unincorporated association.

Recommended Approach

- Keep face of financial statements plain and simple
- Two net asset classifications are required
 - Additional disaggregation on the face of the financial statements is not precluded by the standards – select a degree of detail appropriate to your organization’s complexity and financial reporting needs
 - Additional disclosures will be needed in footnotes

Implementation Timeline (month/year)

- Early adoption is permitted (on a full standard basis), but some changes could be made under current standards

Net Assets (cont.)

Action Items/Reminders:

- Full retrospective application to the earliest period presented
- Don't change your internal chart of accounts – retain for fiduciary responsibility
- Underwater external donor restricted endowments are now part of those net assets with donor restrictions
 - Could cause a prior period restatement upon adoption of the standard
- Investment changes on external donor restricted endowments are reported in those net assets with donor restrictions
- Internal Board-designated endowments are reported are part of those net assets without restrictions
- Disclosures of specific restrictions on when resources can be used and for what purposes become even more important with the new reporting model

Net Assets (cont.)

Implementation Examples

- Statement of Financial Position
- Statement of Activities Presentation



Example 1: Minimal Net Assets

ABC Nonprofit
Statements of Financial Position
June 30, 20X1 and 20X0

	20X1	20X0
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,620,000	\$ 7,525,000
Contributions receivable, net	2,500,000	2,200,000
Prepaid expenses	135,000	124,000
Long-term investment appropriated for current use	500,000	450,000
Short-term investments	1,500,000	1,200,000
Total current assets	11,255,000	11,499,000
Noncurrent assets		
Contributions receivable, net of current portion	2,951,000	-
Property and equipment, net	47,040,000	48,067,000
Long-term investments	15,000,000	16,000,000
Certificates of deposit restricted for debt service	200,000	200,000
Total noncurrent assets	65,191,000	64,267,000
Total assets	76,446,000	75,766,000
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 535,000	\$ 450,000
Accrued payroll, taxes and benefits	1,250,000	1,200,000
Other accrued expenses	500,000	475,000
Other current liabilities	55,000	50,000
Note payable	600,000	600,000
Total current liabilities	2,940,000	2,775,000
Noncurrent liabilities		
Note payable, net of current portion	16,000,000	16,600,000
Total liabilities	18,940,000	19,375,000
Net assets		
Without donor restrictions	45,206,000	44,891,000
With donor restrictions	12,300,000	11,500,000
Total net assets	57,506,000	56,391,000
Total liabilities and net assets	\$ 76,446,000	\$ 75,766,000

Example 2: Multiple Categories of Net Assets

ABC Nonprofit
Statements of Financial Position
June 30, 20X1 and 20X0

	20X1	20X0
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,620,000	\$ 7,525,000
Contributions receivable, net	2,500,000	2,200,000
Prepaid expenses	135,000	124,000
Long-term investment appropriated for current use	500,000	450,000
Short-term investments	<u>1,500,000</u>	<u>1,200,000</u>
Total current assets	<u>11,255,000</u>	<u>11,499,000</u>
Noncurrent assets		
Contributions receivable, net of current portion	2,951,000	-
Property and equipment, net	47,040,000	48,067,000
Long-term investments	15,000,000	16,000,000
Certificates of deposit restricted for debt service	<u>200,000</u>	<u>200,000</u>
Total noncurrent assets	<u>65,191,000</u>	<u>64,267,000</u>
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Note payable	<u>600,000</u>	<u>600,000</u>
Total current liabilities	<u>2,940,000</u>	<u>2,775,000</u>
Noncurrent liabilities		
Note payable, net of current portion	<u>16,000,000</u>	<u>16,600,000</u>
Total liabilities	<u>18,940,000</u>	<u>19,375,000</u>
Net assets		
Without donor restrictions		
Board designated endowment	4,000,000	3,500,000
Capital replacement reserves	1,100,000	900,000
Undesignated	<u>40,106,000</u>	<u>40,491,000</u>
Total net assets without donor restrictions	45,206,000	44,891,000
With donor restrictions		
Restricted for a specified purpose	3,000,000	3,400,000
Restricted to passage of time	2,200,000	3,500,000
Subject to NFP appropriation and spending policy	6,000,000	3,500,000
Held in perpetuity	<u>1,100,000</u>	<u>1,100,000</u>
Total net assets with donor restrictions	<u>12,300,000</u>	<u>11,500,000</u>
Total liabilities and net assets	<u>\$ 76,446,000</u>	<u>\$ 75,766,000</u>

Unclassified SoFP with Minimal Net Assets

ABC Nonprofit
Statements of Financial Position
June 30, 20X1 and 20X0

	20X1	20X0
ASSETS		
Assets		
Cash and cash equivalents	\$ 6,620,000	\$ 7,525,000
Contributions receivable, net	5,451,000	2,200,000
Prepaid expenses	135,000	124,000
Investments	17,000,000	17,650,000
Property and equipment, net	47,040,000	48,067,000
Certificates of deposit restricted for debt service	200,000	200,000
Total assets	76,446,000	75,766,000
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 535,000	\$ 450,000
Accrued payroll, taxes and benefits	1,250,000	1,200,000
Other accrued expenses	500,000	475,000
Other current liabilities	55,000	50,000
Note payable	16,600,000	17,200,000
Total liabilities	18,940,000	19,375,000
Net assets		
Without donor restrictions	45,206,000	44,891,000
With donor restrictions	12,300,000	11,500,000
Total net assets	57,506,000	56,391,000
Total liabilities and net assets	\$ 76,446,000	\$ 75,766,000

Multicolumn Statement of Activities

ABC Nonprofit
Statement of Activities
For the Year Ended June 30, 20X1

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
Program revenues	\$ 11,400,000	\$ -	\$ 11,400,000
Government grant revenue	5,000,000	-	5,000,000
Contributions	1,800,000	2,200,000	4,000,000
Student support services	245,000	-	245,000
Net realized and unrealized gains on investments	450,000	280,000	730,000
Interest and dividend income	160,000	-	160,000
Other income	80,000	-	80,000
Net assets released from restrictions	1,680,000	(1,680,000)	-
Total revenues, gains, and other support	20,815,000	800,000	21,615,000
Expenses			
Program services	15,300,000	-	15,300,000
General and administrative	4,600,000	-	4,600,000
Fundraising	600,000	-	600,000
Total expenses	20,500,000	-	20,500,000
Change in net assets	315,000	800,000	1,115,000
Net assets at beginning of year	44,891,000	11,500,000	56,391,000
Net assets at end of year	\$ 45,206,000	\$ 12,300,000	\$ 57,506,000

Single Column Statement of Activities

ABC Nonprofit	
Statement of Activities	
For the Year Ended June 30, 20X1	
Changes in net assets without donor restrictions:	
Revenues, gains, and other support	
Program revenues	\$ 11,400,000
Government grant revenue	5,000,000
Contributions	1,800,000
Student support services	245,000
Investment return, net	610,000
Interest and dividend income	-
Other income	80,000
Net assets released from restrictions	1,680,000
Total revenues, gains, and other support	20,815,000
Expenses	
Program services	15,300,000
General and administrative	4,600,000
Fundraising	600,000
Total expenses	20,500,000
Increase in net assets without donor restrictions	315,000
Changes in net assets with donor restrictions:	
Contributions	2,200,000
Investment return, net	280,000
Net assets released from restrictions	(1,680,000)
Increase in net assets with donor restrictions	800,000
Increase in total net assets	1,115,000
Net assets at beginning of year	56,391,000
Net assets at end of year	\$ 57,506,000

Multiple Statement Presentation

ABC Nonprofit Statement of Revenues, Expenses and Other Changes in Net Assets without Donor Restrictions For the Year Ended June 30, 20X1			ABC Nonprofit Statement of Changes in Net Assets For the Year Ended June 30, 20X1		
Revenues and gains without donor restrictions			Net assets without donor restrictions		
Program revenues	\$	11,400,000	Total revenues and gains	\$	19,135,000
Government grant revenue		5,000,000	Net assets released from restriction		1,680,000
Contributions		1,800,000	Total expenses and losses		(20,500,000)
Student support services		245,000	Increase in net assets without donor restrictions		315,000
Investment return, net		610,000	Net assets with donor restrictions		
Other income		80,000	Contributions		2,200,000
Total revenues, gains, and other support without donor restrictions		19,135,000	Investment return, net		280,000
Net assets released from restrictions			Net assets released from restrictions		(1,680,000)
Purpose restrictions accomplished		1,100,000	Increase in net assets with donor restrictions		800,000
Time restrictions expired		250,000	Increase in net assets		1,115,000
Endowment earnings appropriated for expenditure		330,000	Net assets at beginning of year		56,391,000
Total net assets released from restrictions		1,680,000	Net assets at end of year	\$	57,506,000
Total revenue, gains and other support without donor restrictions		20,815,000			
Expenses and losses					
Program services		15,300,000			
General and administrative		4,600,000			
Fundraising		600,000			
Total expenses		20,500,000			
Increase in net assets without donor restrictions	\$	315,000			

Disclosures for Net Assets Without Donor Restrictions

Net Assets Without Donor Restrictions

Current GAAP

- No current required disclosures under GAAP to describe amounts and purposes of board designated net assets.
- Current GAAP however does not expressly prohibit such disclosures

New GAAP

- Requirement to disclose amounts and purposes of board-designated net assets either on the face of the financial statements or in the notes to the financial statements
 - Separate internal designations for internal restrictions other than board designated endowment
- Disclosures will improve reporting and ensure creditors, grants and donors have relevant information

Net Assets Without Donor Restrictions, cont

Recommended Action

Option #1

Footnote disclosure to present information

- Keeps face of financial statements as simple as possible

Option #2

Limit categories on the face of the financial statement to those broad categories most important to your financial statement users

Net Assets Without Donor Restrictions, cont.

Action Items/Reminders

- Identify whether your Organization has internal designations on net assets – if not no substantive action needed
- Use this as an opportunity to consider whether establishing a formal reserve is appropriate for your organization
- For internal designations
 - Formalize any internal resolutions regarding treatment of internally designated funds (board-designated endowment) if not already done.

NOTE: Boards can delegate authority to management to determine internal designations – make sure management determinations are captured as board designated net assets for financial reporting purposes

Net Assets Without Donor Restrictions, cont.

Note DD

Not-for-Profit Entity A's governing board has designated, from net assets without donor restrictions, net assets for the following purposes as of June 30, 20X1.

Board designated endowment	\$ 4,000,000
Capital replacement reserve	<u>1,100,000</u>
Total	<u>\$ 5,100,000</u>

Net Assets Without Donor Restrictions, cont.

Net assets

Without donor restrictions

Board designated endowment	4,000,000	3,500,000
Capital replacement reserves	1,100,000	900,000
Undesignated	<u>40,106,000</u>	<u>40,491,000</u>
Total net assets without donor restrictions	45,206,000	44,891,000

With donor restrictions

Restricted for a specified purpose	3,000,000	3,400,000
Restricted to passage of time	2,200,000	3,500,000
Subject to NFP appropriation and spending policy	6,000,000	3,500,000
Held in perpetuity	<u>1,100,000</u>	<u>1,100,000</u>
Total net assets with donor restrictions	<u>12,300,000</u>	<u>11,500,000</u>

Total liabilities and net assets	<u>\$ 76,446,000</u>	<u>\$ 75,766,000</u>
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Net Assets Without Donor Restrictions, cont.

Implementation Timeline

- Immediate analysis and documentation of board resolutions or other documents that indicate internal designations
 - Links to liquidity disclosures
- Can start to disclose early – nothing precluding this in current standards

Endowment Disclosures



Current GAAP

Existing disclosures from current nonprofit reporting model standards are still applicable

- Spending policy
- Interpretation of laws
- Separation of donor-restricted and non-restricted endowments



Endowment Disclosures, cont.

New GAAP

- Present donor restricted endowments as part of disclosures with donor restrictions
- Additional disclosures under new reporting model
 - Board's interpretation of ability to spend from underwater funds
 - Underwater endowment funds must be reported within those net assets with donor restrictions (will cause a prior period restatement in some cases)
 - Endowment spending policy required to include specifics on continued appropriations from underwater endowments
 - Investment return, net – no longer needs to be broken out between interest and change in value of investment

Underwater endowment – A 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

Endowment Disclosures, cont.

New GAAP

- For underwater endowment funds (board-designated and donor-restricted)
 - The fair value of underwater endowment funds
 - Original endowment gift amount or level required to be maintained by donor stipulations or by law that extends donor restrictions
 - The amount of deficiencies of the underwater endowment funds

Endowment Disclosures, cont.

Action Items/Reminders

- Identify policy updates needed to accounting and disclosure of underwater endowments including board designated endowments.
- Determine whether segregation is needed within investment portfolio for donor endowments and board-designated endowments to facilitate new disclosure requirements
- Identify any prior period restatement needed for reclassification of prior underwater endowments included in net assets without donor restrictions back to the earliest period presented in the year of adoption
- Continue to track the investment changes (interest, dividends, fair value) separately in the internal chart of accounts

Endowment Disclosures, cont.

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 4,000,000	\$ -	\$ 4,000,000
Donor-restricted endowment funds	-	-	-
Donor corpus restricted in perpetuity	-	6,000,000	6,000,000
Unappropriated endowment earnings	-	1,100,000	1,100,000
Total funds	<u>\$ 4,000,000</u>	<u>\$ 7,100,000</u>	<u>\$ 11,100,000</u>

Endowment Disclosures, cont.

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ 4,100,000	\$ 6,950,000	\$ 11,050,000
Investment return, net	300,000	280,000	580,000
Contributions	-	200,000	200,000
Appropriation of endowment assets for expenditure	(500,000)	(330,000)	(830,000)
Board designations	100,000	-	100,000
Endowment net assets, end of year	<u>\$ 4,000,000</u>	<u>\$ 7,100,000</u>	<u>\$ 11,100,000</u>

Endowment Disclosures, cont.

Recommended Action

Option #1

Footnote disclosure to present information

- Keeps face of financial statements as simple as possible

Option #2

Limit categories on the face of the financial statement to those broad categories most important to your financial statement users

Implementation Timeline

- Immediate analysis of policy updates needed to account for disclosure of underwater endowments
- Investment portfolio considerations to separate donor and board-designated endowed investment assets
- Analyze need for prior period restatement or prior underwater endowments included in net assets without donor restrictions back to the earliest period presented in the year of adoption
- Retrospective application back to the earliest period presented

Functional Expenses

Functional Expenses

Current

- Only “voluntary health and welfare organizations” required to present a full Statement of Functional Expenses
- All organizations required to present summary within Statement of Activities or within notes

ASU 2016-14

- All nonprofit organizations required to present expenses by nature and function
- Multiple reporting options available

Functional Expense Classification

A method of grouping expenses according to the purpose for which costs are incurred. The primary functional classifications of a not-for-profit entity are program services and supporting activities.

Natural Expense Classification

A method of grouping expense according to the kinds of economic benefits receiving in incurring those expenses. Examples...salaries and wages...professional services, supplies, interest expense...

Functional Expenses (cont.)

Action Items/Reminders

- Chart of accounts – setup by department
 - Ex. Program salaries separate from management salaries
- Establishment of top-side re-allocation approach for indirect/shared expenses for functional presentation
 - Depreciation, interest, shared salary costs, facilities (occupancy)
- Investment expenses should be netted with investment return not as part of functional and natural classifications of expenses
 - Direct internal and external investment expenses

Functional Expenses (cont.)

Recommended Approach

- Statement of activities – functional presentation
- Presentation of a matrix by both natural and functional classification as a footnote disclosure (no separate statement of functional expenses) or as a separate statement of functional expenses
- No percentage approach to use when breaking out natural categories of expenses for presentation – management flexibility
 - Keep aggregation of natural categories as simple as possible within considerations from management and third parties

Functional Expenses (cont.)

Implementation Examples

- Statement of Activities – Functional presentation
- Statement of Functional Expenses
- Footnote disclosures – Matrix of Natural and Functional Expense Presentation
 - Captions for natural presentation
 - Program and supporting service for functional presentation
- Footnote of allocation policy/rationale for allocation

Functional Expenses (cont.)

Note F

The table below presents expenses by both their nature and their function for fiscal year 20X1.

	Program Activities			Supporting Activities			Total Expenses
	Instruction	Student Support Services	Programs Subtotal	Management and General	Fund-Raising	Supporting Subtotal	
Salaries and benefits	\$ 7,400,000	\$ 2,725,000	\$ 10,125,000	\$ 3,130,000	\$ 260,000	\$ 3,390,000	\$ 13,515,000
Supplies and travel	890,000	499,000	1,389,000	325,000	40,000	365,000	1,754,000
Services and professional fees	560,000	600,000	1,160,000	450,000	90,000	540,000	1,700,000
Office and occupancy	360,000	297,000	657,000	218,000	50,000	268,000	925,000
Depreciation	960,000	670,000	1,630,000	450,000	140,000	590,000	2,220,000
Interest	271,000	68,000	339,000	27,000	20,000	47,000	386,000
Total expenses	\$ 10,441,000	\$ 4,859,000	\$ 15,300,000	\$ 4,600,000	\$ 600,000	\$ 5,200,000	\$ 20,500,000

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and office and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

Functional Expenses (cont.)

Implementation Timeline

- Work on chart of account setup by department – immediately
- Option of present the analysis of functional and natural classification in the year of adoption
 - Not required to present analysis for comparative year presented



Cash Flow (Direct vs. Indirect Method)

Cash Flow (Direct vs. Indirect)

Technical Summary

- Option to present either direct or indirect method of cash flow presentation
- If using the direct method not required to have an indirect reconciliation



Cash Flow (Direct vs. Indirect)

Recommended Approach

- Continue with the indirect method of presentation if that is the current presentation
 - Generally less difficult to prepare, so also less costly
 - Anticipate method will continue to be widely accepted amongst third party users

Suggestions if Implementing Direct Method

- To facilitate this method, you may need to add new reports and/or accounts to your accounting software to track:
 - Cash receipts from donors
 - Cash receipts from other sources
 - Cash payments

Placed in Service Approach for Reporting Expirations of Restrictions on Long-Lived Assets

Restrictions on Long-Lived Assets

Technical Summary

- In the absence of explicit donor stipulations, use the placed-in-service approach for reporting expirations of restrictions on long-lived assets
- Reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for long-lived assets that have been placed in service at the beginning of the period of adoption
 - The entire amount of the contribution of property, plant, and equipment or cash shall be reclassified at the time the asset is placed in service
- Eliminates current option to release the donor-imposed restriction over the estimated useful life of the acquired asset

Restrictions on Long-Lived Assets (cont.)

Action Items/Reminders

- Identify any internal implied time restrictions on in-service long-lived assets for aggregation of a retrospective release from restriction



Restrictions on Long-Lived Assets (cont.)

Implementation Considerations

- Immediately identify any internal implied time restrictions on in-service long-lived assets for aggregation of a retrospective release from restriction
 - Placed in service approach is an option under current GAAP, if released prior to adoption of new reporting standard apply a change in accounting policy
- Retrospective approach as of the earliest period presented

Liquidity

New GAAP

- Qualitative information in the notes to financial statements that is useful in assessing an entity's liquidity and that communicates how an NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the date of the statement of financial position
 - Unusual circumstances such as special borrowing arrangements for cash to be held in separate accounts
 - Known liquidity problems
 - The fact the organization has not maintained appropriate amounts of cash to comply with donor imposed restrictions
 - Limitations resulting from contractual agreements.

New GAAP

- Quantitative information on the face of the financials or in the notes to communicate the availability of the organization's financial assets at the date of the statement of financial position to meet cash needs for general expenditures within one date from the statement of financial position including:
 - Nature
 - External limits imposed by donors, laws, and contracts with others
 - Internal limits imposed by governing board decisions

New GAAP

- Required note disclosures
 - A description of the kind of asset whose use is limited
 - Information about the nature and amount of limitations on the use of cash and cash equivalents
 - Contractual limitations on particular assets
 - Information about the nature and amounts of different types of restrictions that affect how and when, if ever, the resources can be used
 - Information about additional limitations placed on net assets, such as information about the amounts and purposes of board designations of net assets without donor restrictions

Action Items/Reminders

- Determine revisions needed to chart of account structure to organize statement of financial position in a classified manner
- Footnote disclosure is best for liquidity information
 - Keep face of financials as simple as possible
- For comparative financials – option to present liquidity disclosures in the year of adoption only

Liquidity Disclosure (cont.)

Recommended Action

- Recommendation for a classified balance sheet
- Facilitates less cumbersome/less clunky disclosures to meet requirements
 - Allow easier presentation/cleaner



Liquidity (cont.)

Liquidity Disclosure

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

As part of this policy, the Organization holds in its short-term investment account a balance of securities equal to at least three months of operating expenses that can be readily liquidated to pay for operating needs.

Long-term investments include endowment funds consisting of donor-restricted endowments and a quasi-endowment. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure. As described in Note 10, the quasi-endowment has a spending rate of 5 percent. Accordingly, \$500,000 of appropriations from the quasi-endowment will be available within the next 12 months. The quasi-endowment could be made available in its entirety if needed. No appropriations from donor-restricted endowments have been made available for operations as of June 30, 20X1. There are certain limitations on availability of long-term investment funds totaling approximately \$2,500,000 at June 30, 20X1 and 20X0 which are subject to certain lockup restrictions as indicated in Note 8. The Organization would be able to access these funds at the end of any calendar year with a 60 day redemption notice, but would otherwise not be available to support general expenditures within one-year from the statements of financial position. As of June 30, 20X1, the Organization does not intend to redeem such investments.

Certificates of deposit of approximately \$200,000 are required as collateral for the notes payable on the Organization's facilities. These funds are not available for use until the balance of the note is paid in full.

Short-term contributions receivable consists of unconditional promises to give expected to be received within one year from June 30, 20X1. The Organization is currently in the midst of a capital campaign to raise operating funds which will be available to fund general operations and funds to build a new program site which are not available for general operations. Unrestricted short-term contributions receivable will be available to support general operations of the Organization.

The following is a quantitative disclosure which describes assets that are available within one year of June 30, 20X1 to fund general expenditures and other obligations as they become due:

	<u>20X1</u>	<u>20X0</u>
Cash and cash equivalents	6,620,000	7,525,000
Contributions receivable	1,000,000	500,000
Short-term investments	1,500,000	1,200,000
Long-term investments appropriated for use	<u>500,000</u>	<u>450,000</u>
	<u>9,620,000</u>	<u>9,675,000</u>

Liquidity (cont.)

Liquidity Disclosure

XYZ NFP is substantially supported by restricted contributions. Because of these restrictions, XYZ NFP must maintain sufficient resources to meet responsibilities to donors. As part of XYZ NFP's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, XYZ NFP invests cash in excess of daily requirements in short-term investments. In the event of an unanticipated liquidity need, XYZ NFP could also draw upon its \$1,000,000 line of credit.

The following reflects XYZ NFP financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Amounts not available include amounts set aside for long-term investing in the board-designated endowment that could be drawn upon if the governing board approves that action. Amounts already appropriated from either the donor-restricted endowment or board-endowment for general expenditure within one year of the balance sheet date have not been subtracted as unavailable.

Financial assets	29,271,000
Less: amounts unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted for a specified purpose	3,000,000
Restricted to the passage of time	2,200,000
Subject to NFP appropriation and spending policy	6,000,000
Held in perpetuity	1,100,000
Redemption restrictions on long-term investments	3,151,000
Certificates of deposit restricted for debt service	200,000
Board designations:	
Board designated endowment	4,000,000
Financial assets available to meet cash needs for general expenditures within one year	<u>9,620,000</u>

Implementation Timeline

- Immediate action - determine revisions needed to chart of account structure to organize statement of financial position in a classified manner
 - FY 2017-18 – present classified balance sheet
 - FY 2018-19 – full implementation
- Retrospective application back to the earliest period presented
- For comparative financials – option to present liquidity disclosures in the year of adoption only

More options for some, more information for others

Current

- Statement of Financial Position
- Statement of Activities
- Statement of Functional Expenses*
- Statement of Cash Flows

ASU 2016-14

- Statement of Financial Position
- Statement of Activities **or** Statement of Revenues, Expenses and Other Changes in Net Assets without Donor Restrictions and Statement of Changes in Net Assets
- Reporting of Expenses by Nature and Function
 - In a separate statement
 - Incorporated into Statement of Activities
 - In the footnotes
- Statement of Cash Flows

In Conclusion...

During this webinar, we've:

- Discussed the changes between the 1993 Statement of Financial Accounting Standards and the new ASU
- Examined how the changes will affect donors, grantors, creditors and other users of nonprofits' financial statements
- Identified implementation deadlines and the benefits/pitfalls of early adoption





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Participants will receive an email within 3 business days with access to their certificate of completion.