

Revenue Recognition: Not-for-Profit Financial Reporting – ASU 2016-14

January 24, 2018

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Today's Speakers



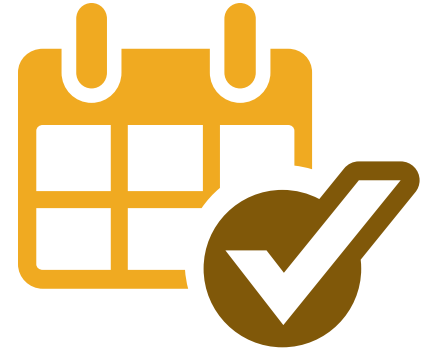
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Agenda

- Background
- Overview of Key Points in ASU 2016-14
- Preparing for the New Standard



Learning Objectives

As a result of participating in this session, you should be able to:

- Discuss the key changes associated with ASU 2016-14
- Consider suggestions and examples for implementing this new standard in your organization's financial statements
- Identify the new net asset classifications that will be used in the financial statements of not-for-profit organizations
- Recognize expanded disclosure requirements, including those related to expenses and asset liquidity

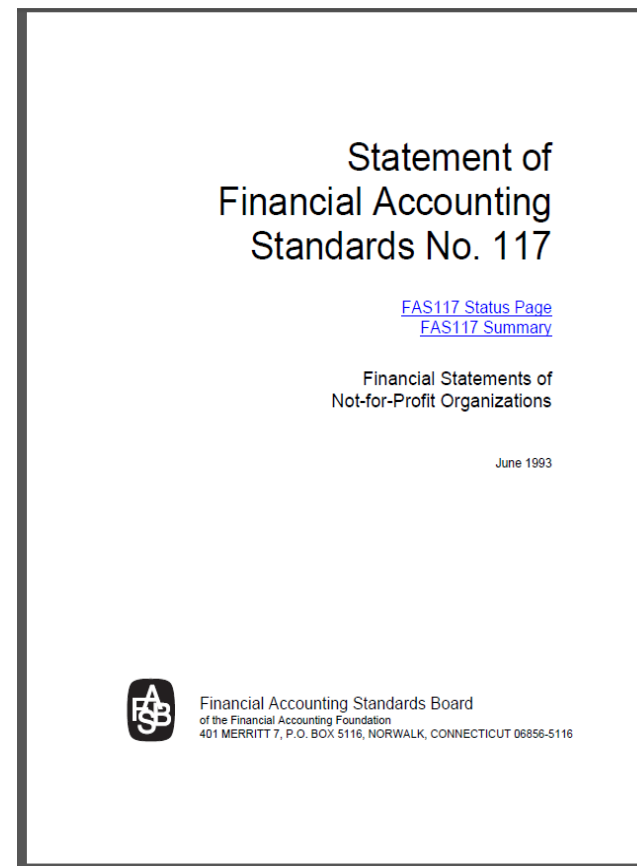
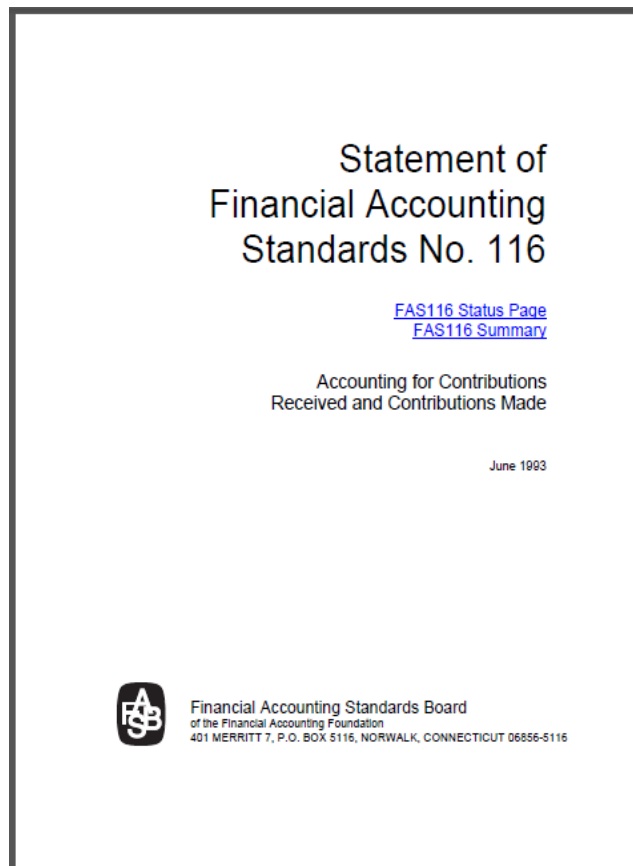




Background

You May Remember... June 1993

The last time the “world changed” for not-for-profit accounting was with FASB statements 116 and 117 – effective for fiscal years beginning after December 15, 1994 (or 1995 if under \$5M in assets and \$1M in expenses)



23 Years Later...

FINANCIAL ACCOUNTING SERIES

FASB ACCOUNTING STANDARDS UPDATE

No. 2016-14
August 2016

Not-for-Profit Entities (Topic 958)

Presentation of Financial Statements of
Not-for-Profit Entities

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

FASB Nonprofit Advisory Committee (NAC)

- Formed in October 2009
- The NAC is a standing committee that works closely with the FASB in an advisory capacity to ensure that perspectives from the not-for-profit (NFP) sector are effectively communicated to the FASB on a timely basis in connection with the development of financial accounting and reporting standards.
- One of the NAC's key projects = ASU 2016-14

ASU 2016-14 - Presentation of NFP Financial Statements

- ASU 2016-14 - Issued August 18, 2016
- Effective – 12/31/2018 year-end, or fiscal years ending in 2019; Early adoption is permitted
 - *“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.”*
- GAAP amendments from this ASU were designed to:
 - Improve the usefulness of information provided to donors, grantors, creditors and other users of an NFP’s financial statements
 - Reduce complexities or costs for preparers or users of financial statements
 - Both improve usefulness and reduce complexities or costs

Polling Question #1



How would you describe your level of familiarity with the ASU so far?

- A. I have a basic understanding of ASU 2016-14 but haven't dug into all the details yet
- B. I generally know how ASU 2016-14 will affect my organization but don't have a plan for implementation yet
- C. I know how the ASU will affect my organization and have a plan for implementation
- D. These updates are new to me

ASU 2016-14 - Presentation of NFP Financial Statements

Key Objectives of ASU-2016-14

- Update, not overhaul, the current model
- Improve net asset classifications
- Improve information in financial statements and notes about financial performance, cash flows and liquidity
- Better enable NFPs to “tell their financial story”

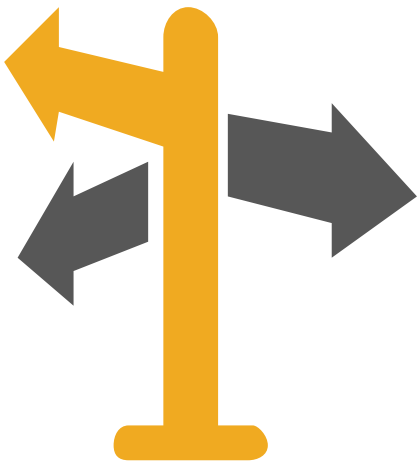


ASU 2016-14 - Presentation of NFP Financial Statements

Specific Goals and Background

- Eliminating the distinction between permanently restricted and temporarily restricted net assets will reduce complexity
- Enhanced disclosure in notes to financial statements will provide useful information about donor-imposed restrictions (nature, amounts, etc.)
- Simplifying the face of the financial statements (together with enhanced note disclosures) will enable the NFP to provide more useful information to readers in assessing the NFP's:
 - Availability of resources to meet cash needs for general expenditures within one year
 - Liquidity and financial flexibility
 - Financial performance during the period
 - Service efforts and ability to continue providing services
 - Execution of its stewardship responsibilities and other aspects of its management's performance

While Change Can Be Challenging... Remember the Overall Goals



Reducing Complexity



Financial Statement Users



Key Provisions

Key Provisions of ASU 2016-14

Liquidity & Availability

Net Asset Classification

Expenses

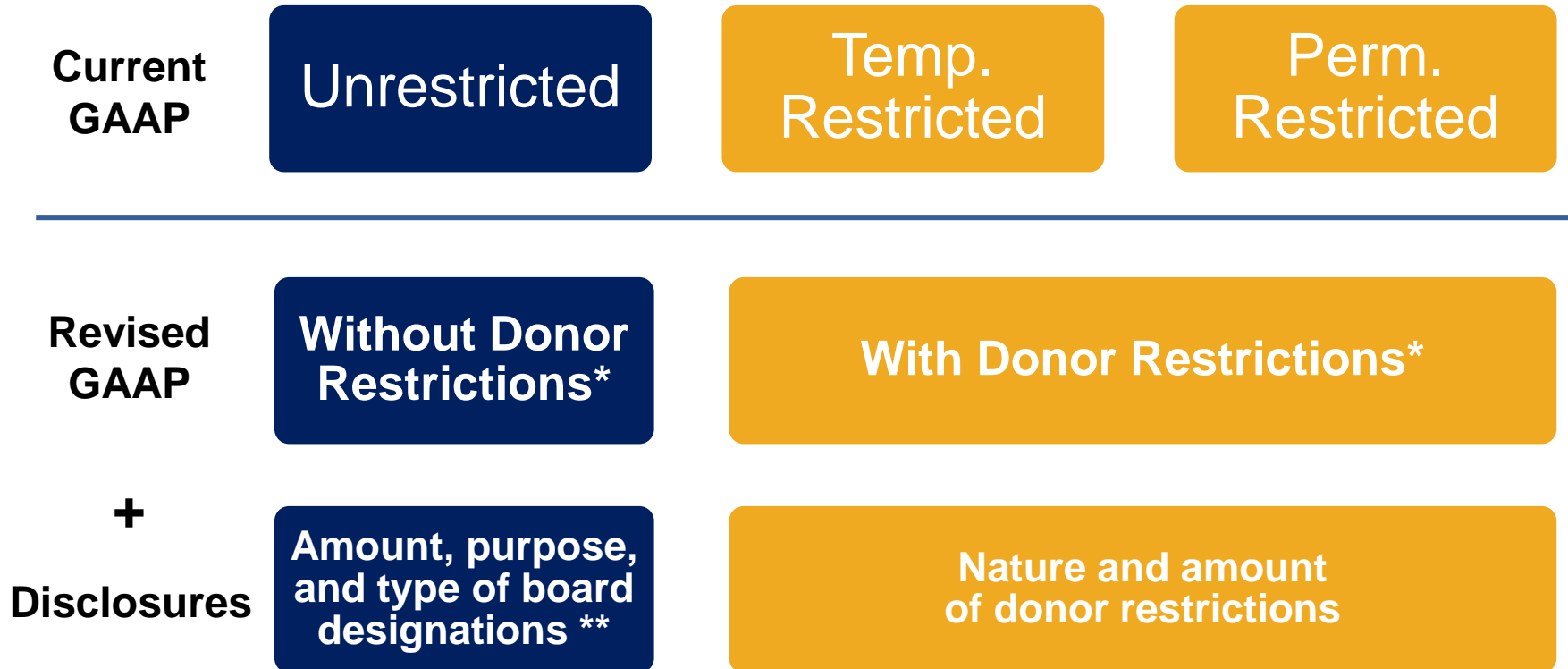
Statement of Cash
Flows

Investment Return

Net Assets

- Net asset classification
 - Updates the net asset presentation
 - Changes underwater endowment accounting and disclosure
 - Removes option for implied time restrictions on capital gifts
 - Enhances disclosures, including Board designations of net assets
- New FASB ASC Master Glossary definition
 - Net assets without donor restrictions subject to self-imposed limits by action of the governing board. Board-designated net assets may be earmarked for future programs, investment, contingencies, purchase or construction of fixed assets, or other uses. Some governing boards may delegate designation decisions to internal management. Such designations are considered to be included in board-designated net assets.
- What are your NFP's policies related to Board designations of net assets?

Net Asset Presentation (after ASU 2016-14)



* NFPs may choose to disaggregate further

** New disclosure requirement

Polling Question #2



Do you think that the changes to net asset presentation and the enhanced disclosures help provide clarity to the reader of an NFP's financial statements?

- A. Yes
- B. No
- C. Not sure
- D. I already miss FASB Statements 116 and 117

Example – Net Assets in the Statement of Financial Position

Net Assets [The level of detail presented here is not required, however if the information presented on the face is not sufficiently detailed, it must be included in the notes.]

Without donor restrictions		
Undesignated	3,057,607	1,370,401
Designated by the Board for operating reserve	300,000	250,000
Designated by the Board for endowment	15,511,186	14,912,222
Invested in property and equipment, net of related debt	21,150,885	20,193,878
	<u>40,019,678</u>	<u>36,726,501</u>
With donor restrictions		
Perpetual in nature	22,864,750	22,450,146
Purpose restrictions	14,228,316	10,351,233
Time-restricted for future periods	1,391,825	1,279,636
Underwater endowments	-	(42,677)
	<u>38,484,891</u>	<u>34,038,338</u>
Total net assets	78,504,569	70,764,839
Total liabilities and net assets	<u>\$ 94,314,447</u>	<u>\$ 86,137,541</u>

Net Assets:

Without Donor Restrictions	\$ 40,019,678
With Donor Restrictions	38,484,891
Total Net Assets	<u>\$ 78,504,569</u>

Minimum presentation required

Example – Net Asset Details in Notes to Financial Statements

Net assets with donor restrictions are restricted for the following purposes or periods.

	<u>20X1</u>	<u>20X0</u>
Subject to expenditure for specified purpose:		
Building project	\$ 500,000	\$ -
Operation of the training center	448,377	108,927
Educational programs	375,627	119,290
Financial aid	146,105	85,744
Promises to give, the proceeds from which have been restricted by donors for		
Educational programs	57,265	-
Centennial anniversary celebration	22,847	-
	<u>1,550,221</u>	<u>313,961</u>
Subject to the passage of time:		
Beneficial interests in charitable trusts held by others	812,850	804,179
Assets held under split-interest agreements	558,975	440,457
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	20,000	35,000
	<u>1,391,825</u>	<u>1,279,636</u>
Endowments:		
Subject to appropriation and expenditure when a specified event occurs:		
Restricted by donors for		
Available for general use	7,223,171	5,252,329
Educational programs	4,186,393	3,761,284
Financial aid	1,268,531	1,023,659
	<u>12,678,095</u>	<u>10,037,272</u>

Example – Net Asset Details in Notes to Financial Statements (Continued)

Subject to NFP endowment spending policy and appropriation:		
Operation of the Training Center	6,811,531	6,726,382
Educational programs	8,279,742	8,000,578
Financial aid	1,688,411	1,686,761
General use	2,058,166	2,058,166
Unconditional promises to give, net - permanently restricted to general endowment	336,999	372,553
Underwater endowments	-	(42,677)
	<u>19,174,849</u>	<u>18,801,763</u>
Total endowments	<u>31,852,944</u>	<u>28,839,035</u>
Not subject to spending policy or appropriation:		
Beneficial interest in assets held by community foundation	1,094,842	1,090,505
Beneficial interests in perpetual trusts	2,595,059	2,515,201
	<u>3,689,901</u>	<u>3,605,706</u>
	<u>\$ 38,484,891</u>	<u>\$ 34,038,338</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.

Board Designations of Net Assets

Net assets without donor restrictions:

Undesignated	56,377
Quasi-endowment	35,000
Operating reserve	1,300
	<hr/>
Total	92,677

Tabular disclosure or
on face of balance sheet

Text
disclosure
in notes

Note 13 - Net Assets Without Donor Restrictions

The Board of Directors of XYZ Organization has several standing board policies that affect the presentation of board designations on net assets. Bequests without donor restrictions are designated for long-term investment (quasi-endowment). The quasi-endowment fund balance totaled \$35,000 at December 31, 20XX. Additionally, the Board of Directors has established an operating reserve with the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity need. The operating reserve balance totaled \$1,300 at December 31, 20XX.

Statement of Activities – Example A

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support:			
Contributions	11,989	15,531	27,520
Fees	7,083		7,083
Investment return, net	113	(3,618)	(3,505)
Net assets released from restrictions	6,913	(6,913)	-
Total revenues and other support	26,098	5,000	31,098
Expenses:			
Program A	13,960		13,960
Program B	5,497		5,497
Management and general	4,609		4,609
Fundraising	1,441		1,441
Total expenses	25,507	-	25,507
Change in net assets	591	5,000	5,591
Net assets at beginning of year	124,465	157,268	281,733
Net assets at end of year	125,056	162,268	287,324

Statement of Activities – Example B

	Without Donor Restrictions	With Donor Restrictions			Total
		Program Restrictions	Endowment Funds	Total	
Revenues and other support:					
Contributions	11,989	3,487	12,044	15,531	27,520
Fees	7,083			-	7,083
Investment return, net	113		(3,618)	(3,618)	(3,505)
Net assets released from restrictions	6,913	(1,112)	(5,801)	(6,913)	-
Total revenues and other support	26,098	2,375	2,625	5,000	31,098
Expenses:					
Program A	13,960			-	13,960
Program B	5,497			-	5,497
Management and general	4,609			-	4,609
Fundraising	1,441			-	1,441
Total expenses	25,507	-	-	-	25,507
Change in net assets	591	2,375	2,625	5,000	5,591
Net assets at beginning of year	124,465	11,474	145,794	157,268	281,733
Net assets at end of year	125,056	13,849	148,419	162,268	287,324

Liquidity and Availability of Resources

Quantitative and qualitative disclosures about liquidity and availability of resources

- Qualitative - how a NFP manages its liquid available resources and its liquidity risk (in the notes)
- Quantitative - communicate the availability of an NFP's financial assets at the balance sheet date to meet cash needs for general expenditures within one year (on the face and/or in the notes)

Availability of a financial asset may be affected by:

- Its **nature**
- **External limits** imposed by donors, laws, and contracts with others
- **Internal limits** imposed by governing board decisions

Sample Liquidity/Availability Disclosure A

Financial assets, at year-end*	\$ 234,410
Less those available 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	\$ 5,370

*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

Polling Question #3

How would you describe your Organization's policies related to Board designations of net assets:

- A. We have a clear policy related to Board designations
- B. We do not have a clear policy, and our documentation is primarily in Board meeting minutes
- C. We do not have any Board designated net assets
- D. This topic only comes up in a Board meeting if someone thinks our unrestricted net asset balance is getting too large



Sample Liquidity/Availability Disclosure B

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$	4,851,231
Accounts receivable		312,216
Operating investments		723,006
Promises to give		965,846
Distributions from assets held under split-interest agreements		145,000
Distributions from beneficial interests in assets held by others		180,110
Endowment spending-rate distributions and appropriations		<u>1,115,664</u>
	\$	<u>8,293,073</u>

Don't Forget the Qualitative Disclosures - Example

NOTE 6 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization has approximately \$8,300,000 of financial assets available within 1 year of the statement of financial position date to meet cash needs of general expenditures consisting of the items listed above. None of the financial assets listed above are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. The contributions receivable are subject to implied time restrictions but are expected to be collected within one year.

The Organization 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 \$750,000. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, as disclosed in Note 8, the Organization also has a line of credit available.

Liquidity and Availability Disclosure

- Other considerations in addition to the tables shown previously:
 - Highlight Board designation of net assets for a liquidity reserve
 - Discuss other Board designations that could be “undesigned” if needed
 - Policies related to self-imposed liquidity reserve requirements
 - Line of credit
 - Collateral or special borrowing requirements
- Continue to list assets in liquidity order on the Statement of Financial Position



Expense Reporting

- Expenses

- Requirement to report expenses by function (already required) and natural classification
- Analysis showing the relationship between function and nature
- Additional qualitative information about cost allocations methods
- ALL NFPs must report information about all expenses in one location
 1. On the face of the Statement of Activities
 2. As a schedule in the notes to the financial statements, or
 3. As a separate statement

* Satisfying these requirements in a supplemental schedule is not an option.

Expense Reporting Example

- May be presented as a separate statement or in the footnotes
- No prescribed categories of natural expenses – consider what tells your organization’s “story” to the financial statement readers

	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

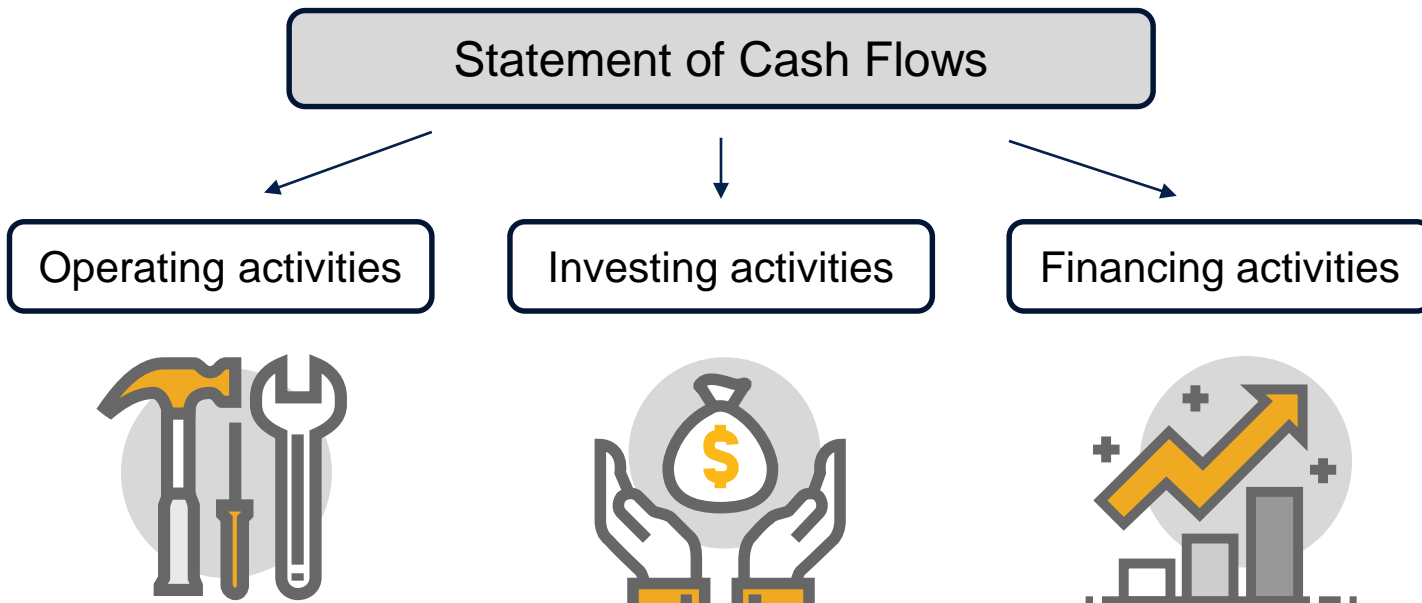
Expense Reporting – Disclosure of Allocation Methods

Note 13 - Functionalized Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimates of time and effort.

Statement of Cash Flows

- Continues to allow the option of either direct or indirect method
- Indirect reconciliation no longer required for direct method
- Does not require direct method (which was in initial draft)



Investment Return

- Present investment return net of external and direct internal investment expenses
- Direct internal expense examples – Investment officer/employees, travel to meet with fund managers, allocation of accounting employees' time, etc.
- No longer required to disclose netted expenses
 - If you still want to disclose, clearly label it in the notes and do not include in the reporting of expenses
- No longer required to disclose the components of investment return

Presentation of an Operating Measure

- Operating measure: Two options
 - Define specifically what is in the operating measure or
 - Start with the change in net assets without donor restrictions (old unrestricted) and say what is not included in the operating measure
 - Example “Operating results in the consolidated statements of activities reflect all transactions increasing or decreasing asset without donor restrictions except those items with long-term investment, actuarial adjustments to self-insurance liabilities, changes in postretirement benefit obligations and changes in the fair value of the derivative instruments, and other infrequent gains and losses.”

Polling Question #4



Which requirement from ASU 2016-14 do you believe will be the most complicated to address or implement?

- A. Net assets presentation
- B. Liquidity and availability calculations and disclosures
- C. Schedule of expenses by function and nature
- D. Not worried about any of it, I've got this!



Preparing for the New Standard

Presentation of NFP Financial Statements

- Steps to take now to plan ahead:
 - Educate financial statement users – Upper management, Board, Audit committee, etc.
 - Draft sample schedules and disclosures for review and discussion well in advance of implementation so stakeholders can have input
- Note the following on implementation: all is retrospective to the earliest period presented EXCEPT:
 - Analysis of expenses by both natural classification and functional classification
 - Disclosures about liquidity and availability of resources.

A Couple of Closing Thoughts

- Two Areas Where Restatement of Beginning Net Assets May Be Needed When Adopting ASU 2016-14
 - Underwater Endowments
 - Time Restriction on Capital Gifts
 - If your NFP is currently releasing from temporarily restricted net assets over the life of the asset, rather than when placed in service

- Most of these changes will not impact your general ledger or chart of accounts
 - Day to day life in accounting should not be heavily impacted
 - One possible exception could be related to expense reporting – is the chart of accounts setup to handle functional and natural expense reporting

Thank you

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