

FASB Update

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Agenda

- Introduction
- NFP financial reporting initiative
- Accounting standard updates
- Other FASB projects
- Questions

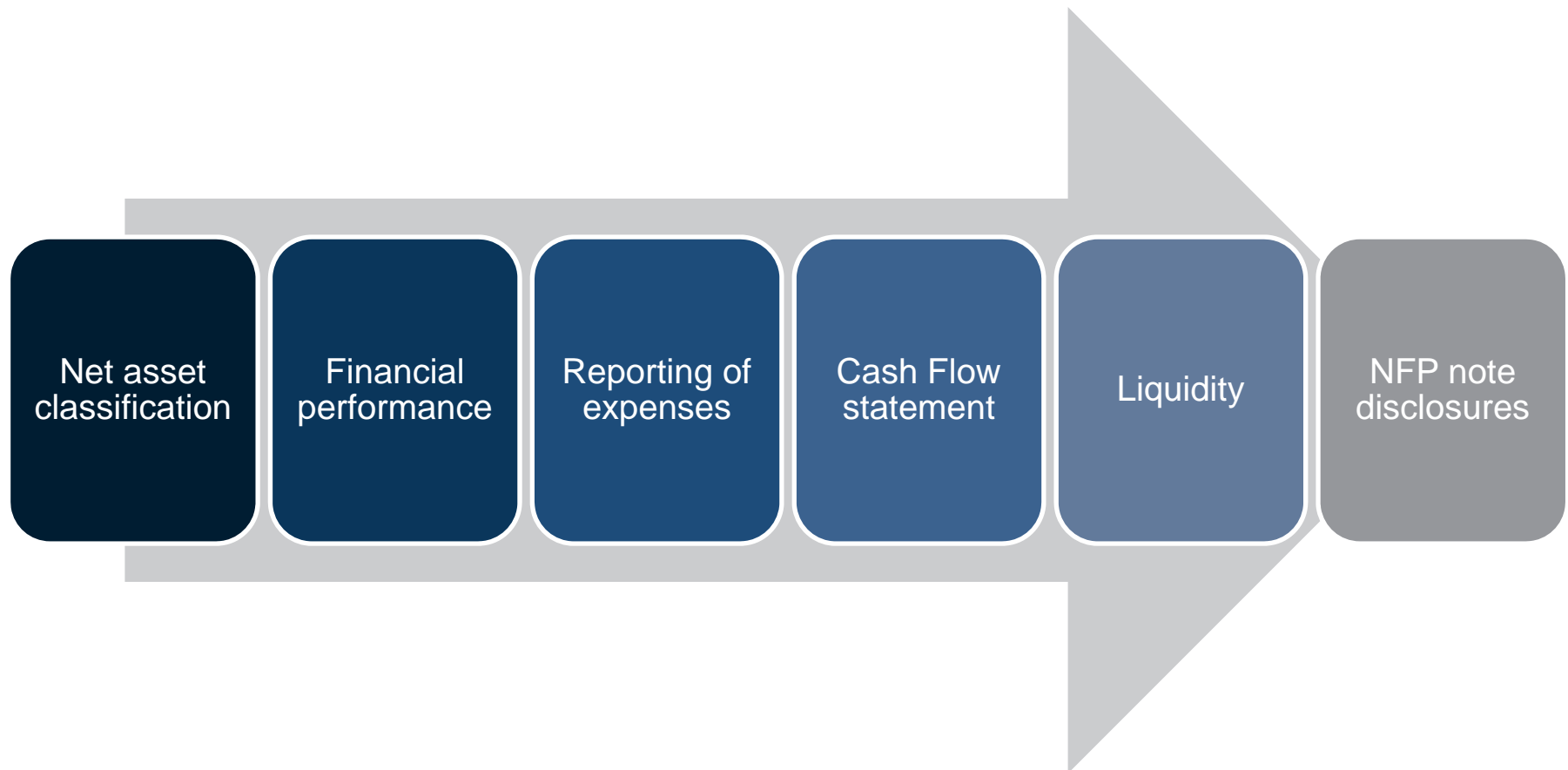
Objectives

- Become aware of the current status of the NFP financial reporting initiative
- Gain an understanding of the changes related to recent and relevant accounting standard updates
- Obtain knowledge regarding other FASB projects

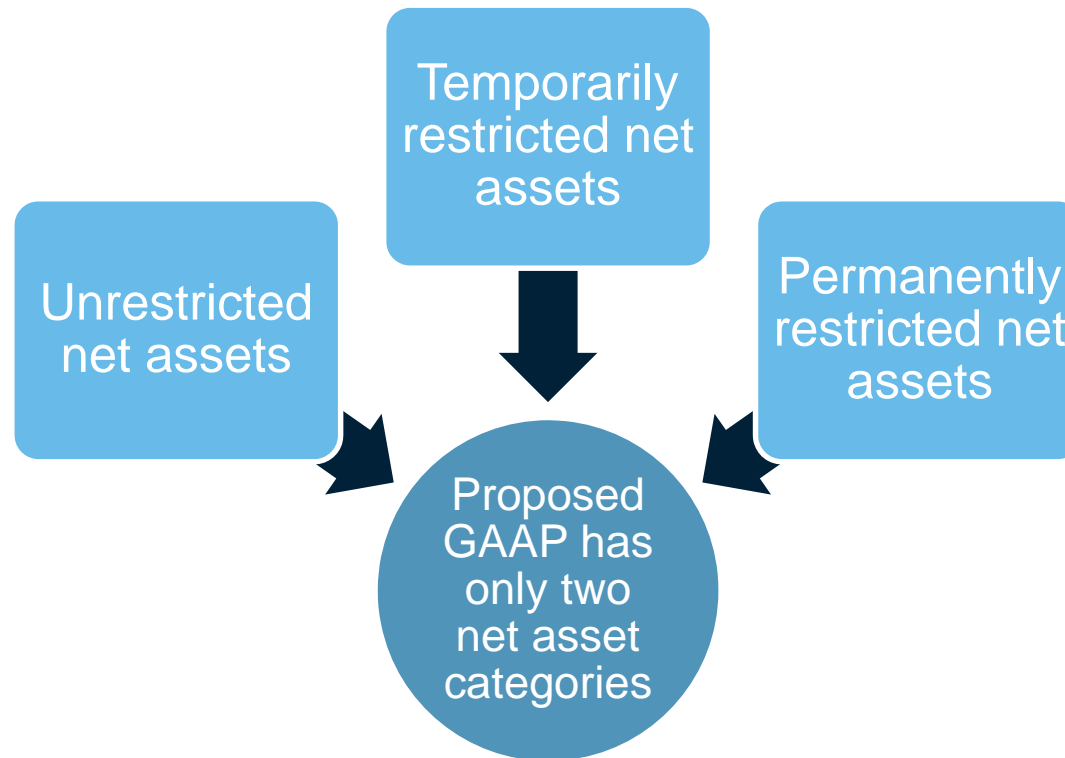
NFP financial reporting initiative

- Initially referred to as the “blank slate project” that was undertaken by the FASB NFP Advisory Committee (“NAC”) back in late 2009
 - Discussed a unified reporting model for higher education
 - Considered questions that users of higher education financial statements have
- Reassessed current standards for financial reporting by NFP entities with primary focus on:
 - Net asset classifications
 - Information regarding liquidity, financial performance, and cash flows

NFP financial reporting initiative cont.



NFP financial reporting initiative cont.



NFP financial reporting initiative cont.

Net Assets – FASB (“Board”) Decision

Without donor
restrictions

Disclose amount and
purpose of board
designations

With donor
restrictions

Disclose nature and
amount of donor
restrictions

NFP financial reporting initiative cont.

Board Decision: Defined a required intermediate operating measure for NFPs – based on two dimensions:

Mission (resources from or directed at carrying out an NFP's purpose for existence – versus investing and financing)

Availability (based on whether available for current period activities and reflects external donor-imposed limitations and internal decisions of the NFP's governing body)

NFP financial reporting initiative cont.

Financial Performance: Operating Measure

Require available
revenues separate
from board
designations

Show gross instead of net

Remove requirement
that if an operating
measure is presented,
then the change in
URNA must be shown

(ASC 958-225-45-10)

Board designations – show as transfers on the face of the statement of activities

NFP financial reporting initiative cont.

One statement approach

Ability to present total revenue and contributions

Effect of transfers easier to identify

Too much information in one statement

Labeling of totals difficult

Two statement approach

Greater emphasis on the operating measure

Facilitates multi-year comparison

Some may ignore the second statement

Incorrectly equate the operating measure to net income

NFP financial reporting initiative cont.

➤ Example Revised Statements

- Statement of Activities (one statement or two statement)
- Statement of Cash Flows (direct method required and movement of certain items between categories)
- Expenses (show by nature and function in one location in the financial statements – statement of activities, a separate statement of functional expenses or in the notes)

College/University

STATEMENT OF ACTIVITIES - One Statement Approach
For the Year Ended June 30, 20X2

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|-----------------|
| Revenue and support | | | |
| Fees for services | \$ 495 | | \$ 495 |
| Bequests | 600 | | 600 |
| Contributions | 425 | \$ 1,500 | 1,925 |
| Restricted support released for current period | 1,375 | (1,375) | |
| Total revenue and support | 2,895 | 125 | 3,020 |
| Expenses | | | |
| Total expenses | 1,950 | | 1,950 |
| Excess/(deficit) before appropriation/transfers | 945 | 125 | 1,070 |
| Board appropriations/transfers to/(from) operations | | | |
| Investment returns appropriated from donor endowment | 60 | a | 60 |
| Investment returns appropriated from quasi-endowment | 90 | b | 90 |
| Bequests transferred to quasi-endowment | (500) | c | (500) |
| Total appropriations/transfers to/(from) operations | (350) | | (350) |
| Excess/(deficit) from operations | 595 | | |
| Investment returns, net | 170 | 445 | 615 |
| Board appropriations/transfers from/(to) operations | | | |
| Investment returns appropriated from donor endowment | | a (60) | (60) |
| Investment returns appropriated from quasi-endowment | (90) | b | (90) |
| Bequests transferred to quasi-endowment | 500 | c | 500 |
| | 410 | (60) | 350 |
| Total change in net assets | 1,175 | 510 | 1,685 |
| Net assets at the beginning of year | 1,500 | 2,100 | 3,600 |
| Net assets at the end of year | \$ 2,675 | \$ 2,610 | \$ 5,285 |

College/University

STATEMENT OF ACTIVITIES - Two Statement Approach
For the Year Ended June 30, 20X2

| | | | |
|--|---------------|----------|--|
| Operating revenue and support | | | |
| Fees for services | \$ 495 | | |
| Bequests | 600 | | |
| Contributions | 425 | | |
| Restricted support released for current period | <u>1,375</u> | | |
| Total operating revenue and support | <u>2,895</u> | | |
| Operating expenses | | | |
| Total operating expenses | <u>1,950</u> | | |
| Excess/(deficit) before appropriation/transfers | <u>945</u> | | |
| Board appropriations/transfers to/(from) operations | | | |
| Investment returns appropriated from donor endowment | 60 | a | |
| Investment returns appropriated from quasi-endowment | 90 | b | |
| Bequests transferred to quasi-endowment | <u>(500)</u> | c | |
| Total board transfers to/(from) operations | <u>(350)</u> | | |
| Excess/(deficit) from operations | <u>\$ 595</u> | d | |

College/University

STATEMENT OF ACTIVITIES - Two Statement Approach (continued)
For the Year Ended June 30, 20X2

| | <u>Without Donor Restrictions</u> | | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---------------------------------------|---|------------------------------------|-----------------|
| Excess/(deficit) from operations | \$ 595 | d | | \$ 595 |
| Nonoperating activities | | | | |
| Contributions | | | \$ 1,500 | 1,500 |
| Restricted support released for current period | | | (1,375) | (1,375) |
| Investment returns, net | 170 | | 445 | 615 |
| Board designated transfers from/(to) operations | | | | |
| Investment returns appropriated to operations from donor endowment | | a | (60) | (60) |
| Investment returns appropriated to operations from quasi-endowment | (90) | b | | (90) |
| Bequests transferred to quasi-endowment | <u>500</u> | c | | <u>500</u> |
| Changes in net assets | 1,175 | | 510 | 1,685 |
| Net assets at the beginning of year | <u>1,500</u> | | <u>2,100</u> | <u>3,600</u> |
| Net assets at the end of year | <u>\$ 2,675</u> | | <u>\$ 2,610</u> | <u>\$ 5,285</u> |



STATEMENT OF CASH FLOWS - Direct Method
For the Year Ended June 30, 20X2

| | | |
|---|----|---|
| Cash flows from operating activities | | |
| Cash received from service recipients | \$ | - |
| Cash received from donors | | - |
| Cash paid to employees | | - |
| Cash paid to vendors | | - |
| Purchase of property and equipment | | - |
| Contributions restricted for property and equipment | | - |
| Net cash flows from operating activities | | - |
| Cash flows from investing activities | | |
| Cash received from interest and dividends | | - |
| Purchases of investment assets | | - |
| Proceeds from sale of investment assets | | - |
| Net cash flows from investing activities | | - |
| Cash flows from financing activities | | |
| Payments of principal on long-term debt | | - |
| Interest paid on long-term debt | | - |
| Contributions restricted for endowment | | - |
| Net cash flows from financing activities | | - |
| Net increase in cash | | - |
| Cash at beginning of year | | - |
| Cash at end of year | \$ | - |

College/University

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 20X2

| | | FUNCTION * | | | | | | Not-functionalized | | |
|---------------------------------|-----------------------------------|--------------------|------------------|-------------|-----------------------|-----------------------|-------------|--------------------------|---------------|----------------|
| | | Program Activities | | | Supporting Activities | | | Total Operating Expenses | Non-Operating | Total Expenses |
| | | Instruction | Academic Support | Etc. | Total | Institutional Support | Fundraising | | | |
| N A T U R E * | Salaries and benefits | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| | Rental & maintenance of equipment | | | | - | | | - | - | - |
| | Occupancy | | | | - | | | - | - | - |
| | Information technology | | | | - | | | - | - | - |
| | Professional service fees | | | | - | | | - | - | - |
| | Office supplies | | | | - | | | - | - | - |
| | Travel | | | | - | | | - | - | - |
| | Printing and publications | | | | - | | | - | - | - |
| | Advertising | | | | - | | | - | - | - |
| | Interest | | | | - | | | - | - | - |
| | Depreciation | | | | - | | | - | - | - |
| | Other | - | - | - | - | - | - | - | - | - |
| | Total Expenses | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

* Either (or both) on face of Statement of Activities.

NFP financial reporting initiative cont.

➤ Reporting of investment expenses

- Report investment returns net of external and direct internal investment expenses
- No longer required to disclose investment-related expenses that have been netted against investment returns
 - Except there will be a requirement to disclose the amount of internal salaries and benefits netted against investment return

NFP financial reporting initiative cont.

➤ Liquidity

- Goal is to allow donors, creditors, and other users to more easily assess an NFP's liquidity
- Board decision – NFP entity should define the time horizon being utilized to manage liquidity (i.e., 30, 60, or 90 days) and include the following disclosures:
 - Quantitative information to disclose:
 - a. The total amount of financial assets
 - b. Restricted amounts not available to meet cash needs within the time horizon (related to contracts, donors, or governing body actions)
 - c. The total amount of financial liabilities due within the time horizon.

NFP financial reporting initiative cont.

- Liquidity cont.

- Qualitative information to disclose:
 - a. Strategy for addressing entity-wide risks that may affect liquidity, including discussion about utilizing lines of credit
 - b. Policy for establishing liquidity reserves
 - c. Basis for determining the time horizon used for managing liquidity

NFP financial reporting initiative cont.

➤ Underwater endowments

- Will be reflected within “net assets with donor restrictions” rather than in “net assets without donor restrictions”
- Additional disclosure requirements to also include:
 - The governing body’s policy or decision on whether to reduce or discontinue spending from underwater endowment funds
 - Original gift amount, or level required by donor stipulations or law, of underwater endowment funds in the aggregate
 - Fair value of underwater endowment funds in the aggregate

NFP financial reporting initiative cont.

➤ NFP-specific footnotes

- Discussing combination of the endowment, investments, and fair value footnotes
- Considering streamlining of the accounting policies footnote disclosure requirements
- The Board will provide additional implementation guidance for allocating support costs among program and/or support functions.

NFP financial reporting initiative cont.

- Capital restrictions and display of related transactions
 - Current GAAP provides two options:
 - Release entire amount when the related asset is placed-in-service (typically to non-operating)
 - Release to operations over the estimated useful life of the related asset to match depreciation expense
 - Board decision - To require the use of the placed-in-service approach
 - The NFP would show a transfer out of current operations for the amount of gifted long-lived assets to be utilized in future years, with subsequent transfers back to operations during following years. These transfers would be presented separately from governing board designations.

NFP financial reporting initiative cont.

➤ Cost-Allocation

- Board decision - Method used to allocate costs among programs and support functions should be described in the notes

➤ Tax-exempt status reporting

- Board decision - No longer a requirement for a NFP to disclose its tax-exempt status

NFP financial reporting initiative cont.

➤ Project Timeline

- Exposure draft expected in 2nd half of 2014
- Comment period during 4th quarter of 2014 and 1st quarter of 2015
- Re-deliberations starting in 2nd quarter of 2015
- Final standard - ???

Accounting standard updates

- ASU 2013-12, Definition of a Public Business Entity
 - The Board decided to proactively determine entities within scope of the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*.
 - Minimize the inconsistency, complexity instead of having multiple definitions of a nonpublic entity and public entity within U.S. generally accepted accounting principles on a going-forward basis.
 - Not-for-profits **are excluded** from the Guide
 - ***This update excludes all not-for-profits*** from the definition of public business entity so that a public versus nonpublic distinction will no longer be made between not-for-profits in future standard setting.

Accounting standard updates cont.

- ASU 2013-12, Definition of a Public Business Entity cont.
 - The Board will consider factors ***on a standard-by-standard basis***, when determining whether all, none, or only some NFPs will be eligible to apply financial accounting and reporting alternatives within U.S. GAAP for private companies.
 - Applies to future standards only

Accounting standard updates cont.

- ASU 2013-06, Not-for-Profit Entities (Topic 958):
Services Received from Personnel of an Affiliate
 - Personnel services received from an affiliate (parent/sub or common control) for which the affiliate does not charge the recipient NFP should be recognized in the recipient NFP's financial statements.
 - Measured at actual costs incurred by the affiliate
 - Fair value option is available if use of cost significantly misstates the value of the services received.
 - The ASU defines an affiliate as “a party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with an entity.”

Accounting standard updates cont.

- ASU 2013-06, Not-for-Profit Entities (Topic 958):
Services Received from Personnel of an Affiliate cont.
 - Effective prospectively for fiscal years beginning after June 15, 2014 (FYE 6/30/2015). Early adoption is permitted.
 - May apply a modified retrospective approach in which all periods presented would be adjusted except for the beginning balance of net assets for the earliest period shown.

Accounting standard updates cont.

- Revenue Recognition (ASU 2014-09: Revenue from Contracts with Customers)
 - Final standard issued May 28, 2014
 - Creates a single, principle-based revenue standard
 - Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services
 - Improve accounting for contracts with customers
 - Practical expedients for contracts less than one year
 - Improved disclosures
 - Excludes contributions and collaborative arrangements
 - Effective in FY 2018 for NFPs with public debt, otherwise FY 2019

Accounting standard updates cont.

- ASU 2013-08, Financial Services – Investment Companies (effective for fiscal years beginning after December 15, 2013)
 - Changes the approach to an assessment as to whether an entity is an investment company and clarifies the characteristics used to determine whether an entity is an investment company
 - Some entities previously considered an investment company may not be the new definition (and some might now meet the definition that did not meet it previously)
 - For institutions utilizing net asset value (NAV) as a practical expedient for measuring investments, an assessment of whether that expedient can still be used after considering the new definition of an investment company in ASU 2013-08 will need to be performed

Accounting standard updates cont.

- ASU 2013-08, Financial Services – Investment Companies (effective for fiscal years beginning after December 15, 2013) cont.
 - If an investee does not meet the definition of an investment company, the practical expedient cannot be used
 - The easiest way to determine if an investee is an investment company (and therefore the investor is able to use the practical expedient) is to look at the investees financial statements
 - ASU 2013-08 requires that an investment company disclose that it is an investment company that follows the accounting and reporting guidance of Topic 946 of the Codification
 - Effective for fiscal years beginning after December 15, 2013

Other ASUs effective in future years

- ASU 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date*
- ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*
- ASU 2014-05, *Service Concession Arrangements (Topic 853)*
- ASU 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*
- ASU 2014-15, *Presentation of Financial Statements- Going Concern*

Other FASB projects

➤ Disclosure Framework

- Improve the effectiveness of disclosures in notes to the financial statements by clearly communicating the information **most important** to the users of those statements
- Field studies performed to gain a better understanding of the extent of discretion in the notes
 - Participants followed criteria related to materiality and entity-specific relevance – on average, disclosures were reduced by 7 pages
 - Areas where reductions were most common:
 - Fair value hierarchy (namely the level 3 reconciliations), information related to other post-employment benefit obligations and split-interest agreements, pension and post-retirement, and certain accounting policies

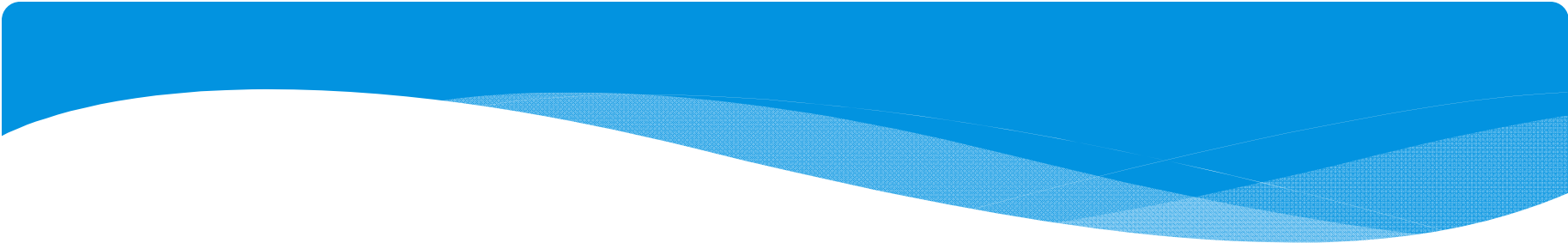
Other FASB projects

➤ Leases

- Lease contract conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.
- All leases (more than 12 months) will be recognized on the lessee's balance sheet
- Two types, based on significance of asset consumption
 - Type A – most equipment leases (amortization/interest expense);
or
 - Type B – most real estate leases (lease expensed on straight-line basis)
- Lease term - if reasonably certain (assured) that lessee will exercise the renewal option, then renewal periods included
- Effective date unknown – need enough time to implement



Questions?



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