



# A PRACTICAL GUIDE TO IMPLEMENTING THE NEW NOT-FOR-PROFIT REPORTING MODEL

# GOALS FOR TODAY

1

Refresher on Changes to Financial Statements

2

How to Implement Changes

3

Example Statements of Activities

# ASU 2016-14 – PRESENTATION OF FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ENTITIES

- ▶▶ Net asset classification scheme
- ▶▶ Improved disclosures about availability of resources & liquidity
- ▶▶ Methods of Presenting Statement of Cash Flows
- ▶▶ Presentation of expenses by nature & function
- ▶▶ Presentation of net investment return
- ▶▶ Donor-imposed restrictions for the acquisition or construction of a long-lived assets
- ▶▶ Disclosures about self-defined operating measures

# TRANSITION

- ▶ Effective for financial statements for fiscal years beginning after December 15, 2017, & for interim financial statements for periods after that date (early adoption is allowed)
- ▶ If comparative financial statements are issued, a NFP may omit the following information in comparative financial statements for any years presented before the adoption year
  - Analysis of expense by functional & natural classification
- ▶ Disclosures around liquidity & availability of resources

# NET ASSET CLASSIFICATION SCHEME

- ▶▶ Current GAAP
  - Unrestricted
  - Temporarily restricted
  - Permanently restricted
- ▶▶ Updated GAAP
  - Without donor restrictions
  - With donor restrictions
- ▶▶ Underwater endowments netted with donor restrictions



# REQUIRED DISCLOSURES FOR NET ASSETS CLASSIFICATION SCHEME

Without Donor Restrictions	With Donor Restrictions
Amounts & purpose of governing board designations	Composition of net assets at period's end
Can be disclosed on face or in the notes	How the restrictions affect resource use
	Can be disclosed on face or in notes

# EXAMPLE FOOTNOTE DISCLOSURES ON NET ASSETS WITH & WITHOUT RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods:	
	<b>2016</b>
Subject to expenditure for specified purpose:	
Capital projects	\$ XXX,XXX
Educational programs	XXX,XXX
Financial aid	XXX,XXX
Other	XXX,XXX
	<u>XXX,XXX</u>
Subject to the passage of time:	
Beneficial interest in trusts	XXX,XXX
Assets held under split-interest agreements	XXX,XXX
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	XXX,XXX
	<u>XXX,XXX</u>
Endowments:	
Subject to appropriation and expenditure when a specified event occurs:	
Available for general use	XXX,XXX
Educational programs	XXX,XXX
Financial aid	
Underwater endowments	(XXX,XXX)
	<u>XXX,XXX</u>
Subject to endowment spending policy and appropriation:	
General use	XXX,XXX
Educational programs	XXX,XXX
Financial aid	XXX,XXX
	<u>XXX,XXX</u>
Total endowments	<u>XXX,XXX</u>
Total net assets with donor restrictions	<u>\$ XXX,XXX</u>

# EXAMPLE FOOTNOTE DISCLOSURES ON NET ASSETS WITH & WITHOUT RESTRICTIONS

## Note D

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors.



# EXAMPLE FOOTNOTE DISCLOSURES ON NET ASSETS WITH & WITHOUT RESTRICTIONS

Purpose restrictions accomplished	\$ 5,350
Program A expenses	\$ 3,450
Program B expenses	\$ 1,190
Program C expenses	\$ 8,990
Program A equipment acquired and place in service	\$ 1,500
Time restrictions expired	\$ 850
Passafe of specified time	\$ 400
Death of annuity beneficiary	\$ 1,250
<u>Release of appropriated endowment amounts without purpose restrictions</u>	<u>\$ 4,500</u>
<u>Release of appropriated endowment amounts with purpose restrictions</u>	<u>\$ 3,000</u>
Total restrictions released	<u>\$ 19,240</u>

## Note DD

Not-for-Profit Entity A's governing board has designated, from net assets without donor restrictions of \$92,600, net assets for the following purposes as of June 30, 20X1.

<u>Quasi-endowment</u>	<u>\$36,600</u>
<u>Liquidity reserve</u>	<u>1,300</u>
<b><u>Total</u></b>	<b><u>\$37,900</u></b>

# ENDOWMENT FUNDS



- ▶▶ The aggregate amount by which funds are underwater (currently required)
- ▶▶ The aggregate of the original gift amounts (or level required by donor or law) for such funds
- ▶▶ Any governing board policies or decisions to spend or not spend from underwater funds

# NET ASSET DISCLOSURES EXAMPLE

	2016		
	Without Donor Restriction	With Donor Restriction	Total
Board-designated endowment funds	\$ XXX,XXX	\$ -	\$ XXX,XXX
Donor-restricted endowment funds			
Original donor-restricted gift amounts required to be maintained in perpetuity by donor	XXX,XXX	XXX,XXX	XXX,XXX
Accumulated investment gains	XXX,XXX	XXX,XXX	XXX,XXX
<b>Total endowment funds</b>	<b>\$ XXX,XXX</b>	<b>\$ XXX,XXX</b>	<b>\$ XXX,XXX</b>
	2016		
	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX
Investment return			
Investment income	XXX,XXX	XXX,XXX	XXX,XXX
Transfer of net assets for underwater endowments			
Net depreciation	XXX,XXX	XXX,XXX	XXX,XXX
Total investment return	XXX,XXX	XXX,XXX	XXX,XXX
Contributions	XXX,XXX	XXX,XXX	XXX,XXX
Appropriation of endowment assets for expenditure	(XXX,XXX)	(XXX,XXX)	(XXX,XXX)
<b>Endowment net assets, end of year</b>	<b>\$ XXX,XXX</b>	<b>\$ XXX,XXX</b>	<b>\$ XXX,XXX</b>

# ENDOWMENT DISCLOSURE SEXAMPLE

	2016		
	Without Donor Restriction	With Donor Restriction	Total
Board-designated endowment funds	\$ XXX,XXX	\$ -	\$ XXX,XXX
Donor-restricted endowment funds			
Original donor-restricted gift amounts required to be maintained in perpetuity by donor	XXX,XXX	XXX,XXX	XXX,XXX
Accumulated investment gains	XXX,XXX	XXX,XXX	XXX,XXX
Total endowment funds	<u>\$ XXX,XXX</u>	<u>\$ XXX,XXX</u>	<u>\$ XXX,XXX</u>
	2016		
	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX
Investment return			
Investment income	XXX,XXX	XXX,XXX	XXX,XXX
Transfer of net assets for underwater endowments			
Net depreciation	XXX,XXX	XXX,XXX	XXX,XXX
Total investment return	XXX,XXX	XXX,XXX	XXX,XXX
Contributions	XXX,XXX	XXX,XXX	XXX,XXX
Appropriation of endowment assets for expenditure	(XXX,XXX)	(XXX,XXX)	(XXX,XXX)
Endowment net assets, end of year	<u>\$ XXX,XXX</u>	<u>\$ XXX,XXX</u>	<u>\$ XXX,XXX</u>

# UNDERWATER RECLASSIFICATION EXAMPLE

<b>Statement of Activities, abbreviated</b>			
	<b>2015</b>		
	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
<b>Change in Net Assets</b>	XXX,XXX	XXX,XXX	XXX,XXX
<b>Net Assets, Beginning of Year, as Previously Stated</b>	XXX,XXX	XXX,XXX	XXX,XXX
<b>Restatement applicable to prior year underwater endowments</b>	XXX,XXX	(XXX,XXX)	XXX,XXX
<b>Net Assets, Beginning of Year, Restated</b>	XXX,XXX	XXX,XXX	XXX,XXX
<b>Net Assets, End of Year</b>	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX

- ▶ Assuming adoption as of June 30, 2016
  - Restatement amount would be equal to underwater value as of July 1, 2014
  - Any change in underwater value attributed to 2015 activity would be reflected as a change in 2015 investment return amount

# INFORMATION ABOUT AVAILABLE RESOURCES & LIQUIDITY

Qualitative Disclosures	Qualitative Information
Strategy for addressing risks that may affect liquidity	Include information that communicates the availability of an NFP's financial assets at the balance sheet date to meet cash needs within one year of the balance sheet date
Policy for establishing liquidity reserves	Can be on the face of the Statement of Financial Position or in the notes
Information that communicates how NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date	

# EXAMPLE FOOTNOTE FOR LIQUIDITY DISCLOSURES

## Note G

The following reflects Not-for-Profit Entity A's financial assets as of the balance sheet 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 quasi-endowment that could be drawn upon if the governing board approves that action. However, amounts already appropriated from either the donor-restricted endowment or quasi-endowment.

# LIQUIDITY – EXAMPLE FOOTNOTE

Financial assets, at year-end	XXX,XXX
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	(XX,XXX)
Subject to appropriation & satisfaction of donor restrictions	(XXX,XXX)
Investments held in annuity trust	(X,XXX)
Board designations:	
Quasi-endowment fund, primarily for long-term investing	(XX,XXX)
Amounts set aside for liquidity reserve	(X,XXX)
Financial assets available to meet cash needs for general expenditures within one year	XX,XXX



# LIQUIDITY – EXAMPLE FOOTNOTE

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 & cash equivalents	XX,XXX
Accounts receivable	X,XXX
Operating investments	X,XXX
Promises to give	X,XXX
Distributions from assets held under split-interest agreements	X,XXX
Distributions from beneficial interests in assets held by others	X,XXX
Endowment spending-rate distributions & appropriations	XX,XXX
	<hr/>
	XX,XXX

# LIQUIDITY DISCLOSURE – OTHER NARRATIVE

Our endowment funds consist of donor-restricted endowments & funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

Our board-designated endowment of \$9,592,091 is subject to an annual spending rate of 4.5 percent as described in Note 9. Although we do not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of our Board's annual budget approval & appropriation), these amounts could be made available if necessary.

As part of our liquidity management plan, we invest cash in excess of daily requirements in short-term investments, CDs, & money market funds. Occasionally, the Board designates a portion of any operating surplus to its operating reserve, which was \$300,000 as of June 30, 2016.

# METHOD OF PRESENTING STATEMENT OF CASH FLOWS FOR OPERATING ACTIVITIES

Can present as indirect or direct



If direct is presented, the presentation of the indirect reconciliation is no longer required

# PRESENTATION OF EXPENSES

- ▶▶ Expenses have to be presented by natural classification & functional classification in one location
- ▶▶ Can be shown on face statements or notes
- ▶▶ Expenses on SOA can be shown by natural classification or functional
- ▶▶ Voluntary health & welfare organizations are no longer required to report a separate statement of expenses by function & nature but would have the same flexibility as other NFPs

# EXAMPLE FOOTNOTE DISCLOSURE FOR EXPENSES

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, & office & occupancy, which are allocated on a square-footage basis, as well as salaries & benefits, which are allocated on the basis of estimates of time & effort.

# EXPENSES – ADDITIONAL ITEMS

- ▶▶ New requirement to provide qualitative disclosure about methods used to allocate expenses attributable to more than one program
- ▶▶ ASU refines some definitions & enhanced guidance
  - Mgmt & Gen – includes additional examples
  - Implementation guidance to help distinguish between direct conduct & direct supervision of program or supporting services

# EXPENSES BY NATURE & FUNCTION

	Program Activities			Supporting Activities			Total Expenses
	A	B	C	Program Subtotal	MG&A	Fund-raising	
Salaries/benefits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent/utilities							
Professional fees							
Supplies							
Depreciation							
Interest							
<b>Total expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

	Program Activities				Supporting Activities			Total Expenses
	Instruction	Academic Support	Student Services	Auxiliary Enterprises	Educational Programs	MG&A	Fund-raising	
Salaries/benefits	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -	\$ -
Rent/utilities								
Professional fees								
Supplies								
Depreciation								
Interest								
<b>Total expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

# PRESENTATION OF NET INVESTMENT RETURN

- ▶▶ Presented net of external & direct internal investment expenses (other than those from programmatic investing)
- ▶▶ No longer required to disclose expenses netted against investment return
- ▶▶ No longer required to display the investment return components in the endowment net assets rollforward



# EXPIRATIONS OF RESTRICTIONS ON GIFTS OF LONG-TERM ASSETS

- ▶▶ Use the placed-in-service approach for reporting expirations of restrictions
- ▶▶ Eliminates the option to release the donor-imposed restriction over the estimated useful life
- ▶▶ For NFPs that have collection items
  - Now viewed as long-lived assets used in carrying out an NFP's operations

# DISCLOSURES ABOUT OPERATING MEASURES



- ▶▶ For NFPs that present a self-defined operating measure that also presents internal designations on the face of the financial statements
  - Required to report types of internal transfers disaggregated & described by type

# EXAMPLE STATEMENTS OF ACTIVITIES

## Format A

Information  
presented in a  
single column

## Format B

Information  
presented in a  
multicolumn  
format

## Format C

Information  
presented in two  
statements

# EXAMPLE A

Changes in net assets without donor restrictions:	
Revenues and gains:	
Contributions	\$ 8,640
Fees	5,200
Investment return, net	6,650
Gain on sale of equipment	200
Other	150
Total revenues and gains without donor restrictions	<u>20,840</u>
Net assets released from restrictions (Note D):	
Satisfaction of program restrictions	8,990
Satisfaction of equipment acquisition restrictions	1,500
Expiration of time restrictions	1,250
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	7,500
Total net assets released from restrictions	<u>19,240</u>
Total revenues, gains, and other support without donor restrictions	<u>40,080</u>
Expenses and losses:	
Salaries and benefits	15,115
Grants to other organizations	4,750
Supplies and travel	3,155
Services and professional fees	2,840
Office and occupancy	2,528
Depreciation	3,200
Interest	382
Total expenses (Note F)	<u>31,970</u>
Fire loss on building	80
Total expenses and losses	<u>32,050</u>
Increase in net assets without donor restrictions	<u>8,030</u>
Changes in net assets with donor restrictions:	
Contributions	8,390
Investment return, net	18,300
Actuarial loss on annuity trust obligations	(30)
Net assets released from restrictions (Note D)	(19,240)
Increase in net assets with donor restrictions	<u>7,420</u>
Increase in total net assets	<u>15,450</u>
Net assets at beginning of year	270,640
Net assets at end of year	<u>\$ 286,090</u>

# EXAMPLE B

	2016		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, Gains (Losses) and Other Support</b>			
Tuition and fees			
Institutional scholarships			
Net tuition and fees			
Contributions			
Auxiliary enterprises			
Investment return designated for operations			
Other			
Net assets released from restrictions			
Change in value of split-interest agreements			
Total revenue, gains (losses) and other support			
<b>Expenses</b>			
Instruction			
Academic support			
Student service			
Operation and maintenance			
Institutional support			
Fundraising			
Auxiliary enterprises			
Other			
Total expenses			
<b>Change in Net Assets Before Other Activities</b>			
<b>Other Activities</b>			
Investment return less amounts designated for operations			
Depreciation and amortization			
<b>Change in Net Assets</b>			
<b>Net Assets, Beginning of Period</b>	31,394,325	45,046,020	76,440,345
<b>Net Assets, End of Period</b>			

# EXAMPLE C

## PART 1

Revenues and gains without donor restrictions:	
Contributions	\$ 8,640
Fees	5,200
Investment return, net	6,650
Gain on sale of equipment	200
Other	150
Total revenues and gains without donor restrictions	<u>20,840</u>
Net assets released from restrictions (Note D):	
Satisfaction of program restrictions	8,990
Satisfaction of equipment acquisition restrictions	1,500
Expiration of time restrictions	1,250
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	7,500
Total net assets released from restrictions	<u>19,240</u>
Total revenues, gains, and other support without donor restrictions	<u>40,080</u>
Expenses and losses:	
Program A	13,296
Program B	8,649
Program C	5,837
Management and general	2,038
Fundraising	2,150
Total expenses (Note F)	<u>31,970</u>
Fire loss on building	80
Total expenses and losses without donor restrictions	<u>32,050</u>
Increase in net assets without donor restrictions	<u>\$ 8,030</u>

# EXAMPLE C

## PART 2

### Net assets without donor restrictions:

Total revenues and gains	\$ 20,840
Net assets released from restrictions (Note D)	19,240
Total expenses and losses	(32,050)
Increase in net assets without donor restrictions	8,030

### Net assets with donor restrictions:

Contributions	8,390
Investment return, net	18,300
Actuarial loss on annuity trust obligations	(30)
Net assets released from restrictions (Note D)	(19,240)
Increase in net assets with donor restrictions	7,420

Increase in net assets	15,450
Net assets at beginning of year	270,640
Net assets at end of year	\$ 286,090

# QUESTIONS?



**THANK YOU!**