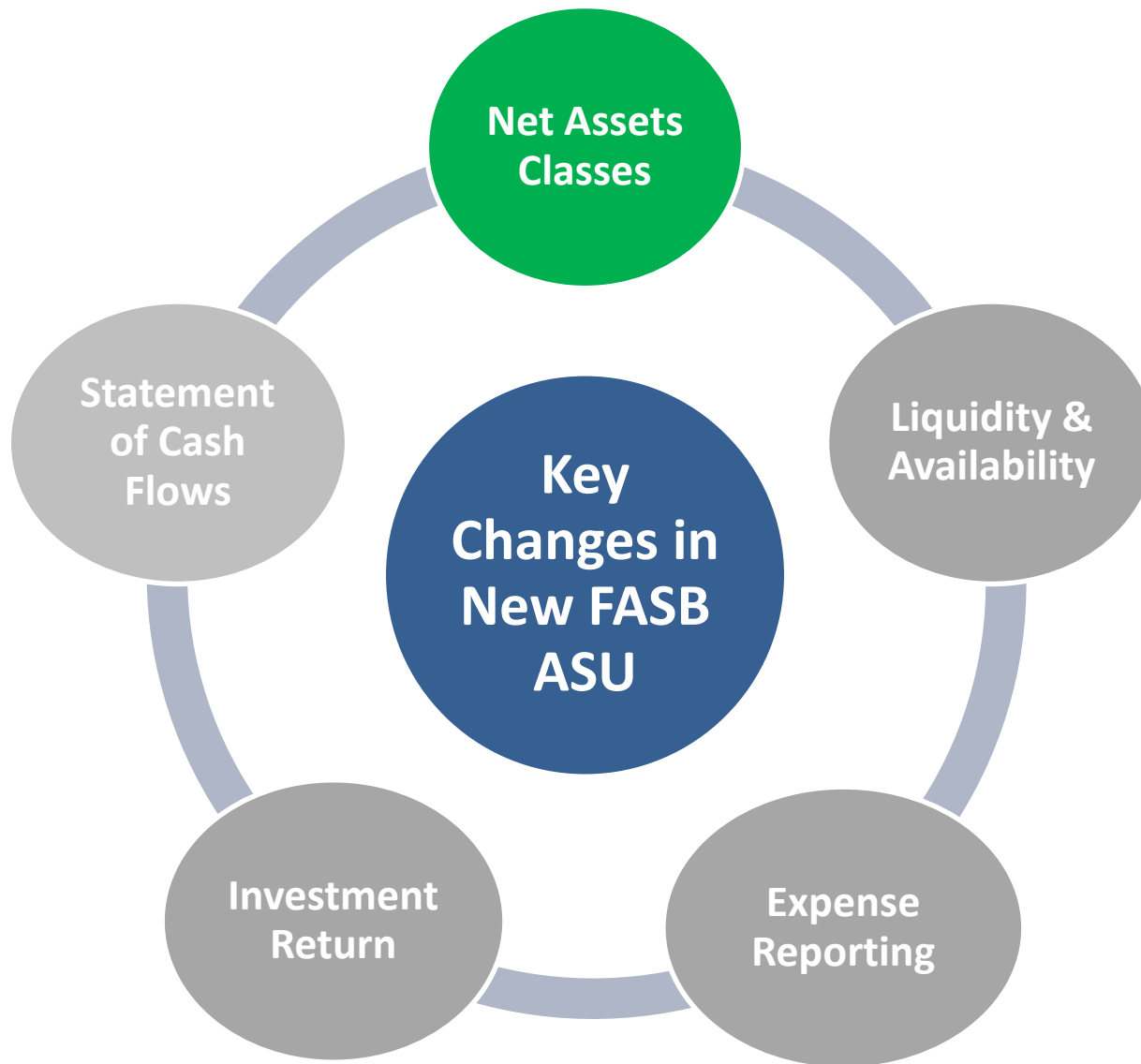


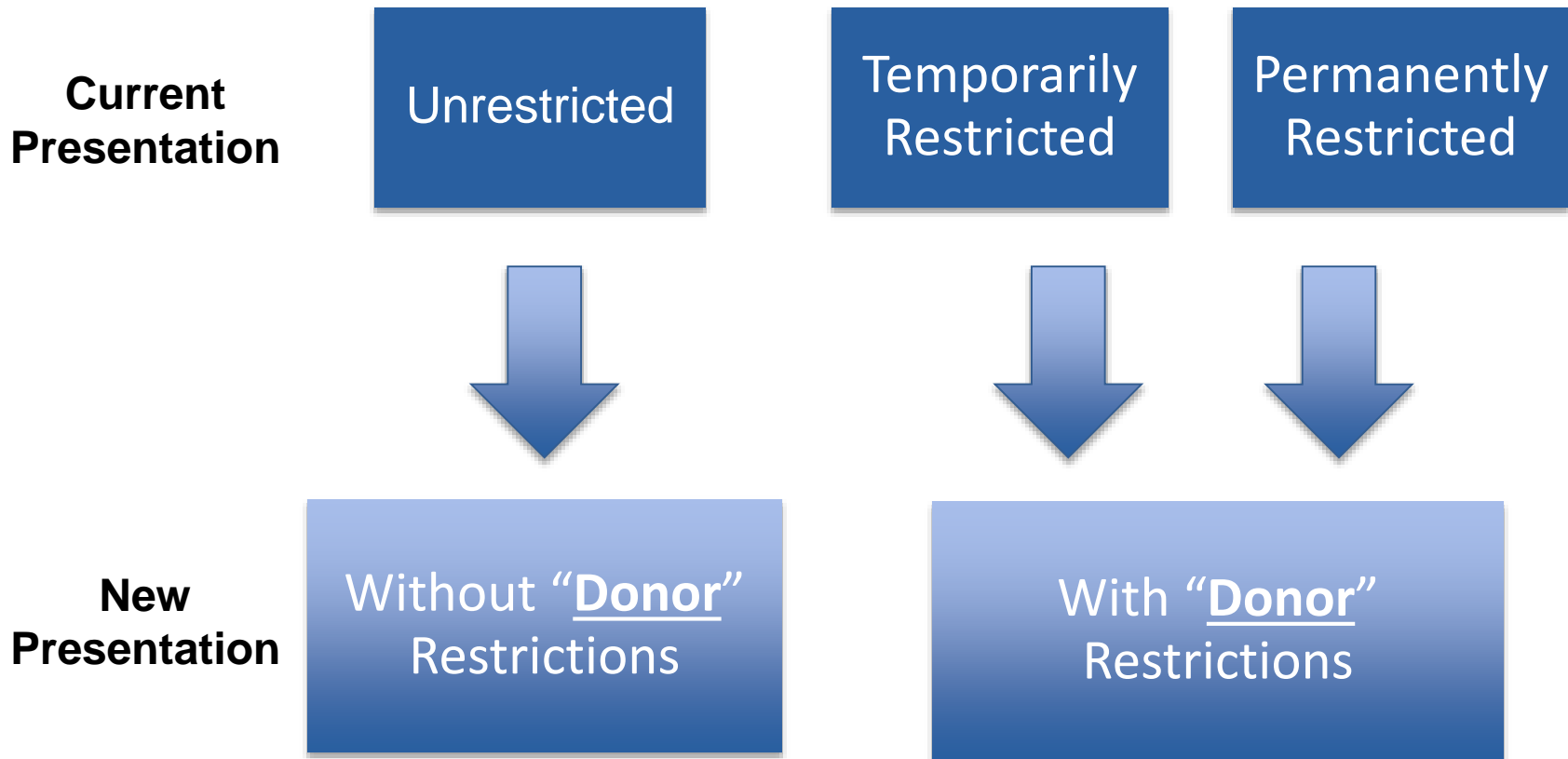
# Applying FASB's New NFP Financial Statement Standard



# Objectives for Net Asset Classes

- ▶ **Address complexities with the current three classes of net assets**
- ▶ **Address misunderstandings and confusion around the term “unrestricted net assets”**
- ▶ **Address deficiencies in the utility of information about how restrictions imposed by donors, laws, and governing boards affect an NFP’s liquidity and classes of net assets**

# Two Net Asset Classes



# Net Asset Classification Requirement

## ▶ Two classes

- Donor/grantor-imposed restrictions
  - Includes perpetual and temporary
- Without donor/grantor-imposed restrictions
  - Includes board designated

## ▶ Disclosure requirements

- Composition of net assets with donor/grantor restrictions
- Emphasis on how/when resources (net assets) can be used
  - Specified purpose
  - Specified time
  - Perpetual (endowment)
- Quantitative and qualitative information about board designations

# Implementation – Balance Sheet

## Net assets:

Without donor restrictions	97,677
With donor restrictions	<u>115,657</u>
 Total net assets	 <u><u>213,334</u></u>

Minimum presentation required

Alternative disaggregation allowed

## Net assets:

### Without donor restrictions -

Undesignated	92,677
Designated by the Board for [purpose]	<u>5,000</u>
	97,677

### With donor restrictions -

Time restricted only, for periods after 20X1	5,250
Purpose restricted	8,250
Perpetual in nature	<u>102,157</u>
	<u>115,657</u>

Total net assets	<u><u>213,334</u></u>
------------------	-----------------------

# Example Disclosure – With Donor Restrictions

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

**Subject to expenditure for specified purpose:**

Program A activities:

Purchase of equipment	\$ 3,060
Research	950
Educational seminars and publications	240

Program B activities:

Disaster relief	745
Educational seminars and publications	280

Program C activities: general

Buildings and equipment	2,150
Annuity trust agreements for research	2,815
	10,450

**Subject to the passage of time:**

For periods after June 30, 20X1	3,140
---------------------------------	-------

**Subject to NFP's spending policy and appropriation:**

Investment in perpetuity (including amounts above original gift amount of \$122,3370, the income from which is expendable to support:

Program A activities	33,300
Program C activities	15,820
Program C activities	16,480
Any activities of the organization	109,100
	174,700

**Subject to appropriation and expenditure when a specified event occurs:**

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

**Not subject to appropriation or expenditure:**

Land required to be used as a recreation area	3,000
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<b>Total Net Assets with Donor Restrictions</b>	<b>\$ 193,490</b>
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# Board-Designated Net Assets

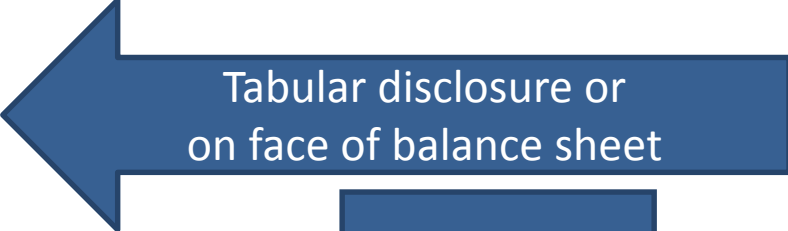
- ▶ **New required disclosure of nature and amounts of board-designations of net assets**
- ▶ **New FASB ASC Master Glossary definition:**
  - Net assets without donor restrictions subject to self-imposed limits by action of the governing board.
  - Board-designated net assets may be earmarked for future 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.
- ▶ **Definition indicates a need for NFPs to have policies and/or practices regarding board-designations on net assets; even if no designations**



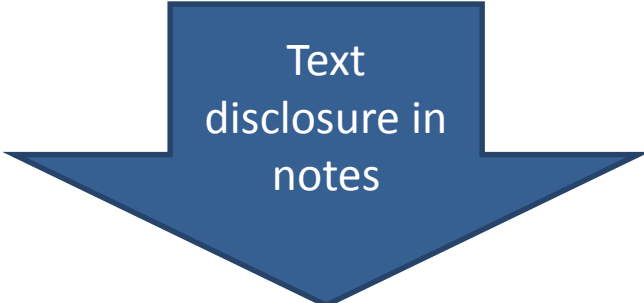
# Example Disclosures – Board-Designations

## Net assets without donor restrictions:

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



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.

# Underwater Endowments

## ▶ **New FASB ASC Master Glossary definition:**

- 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.

## ▶ **Report entire balance of endowment fund within “with donor restrictions” class of net assets.**



# Underwater Endowments

## ▶ New disclosure requirements:

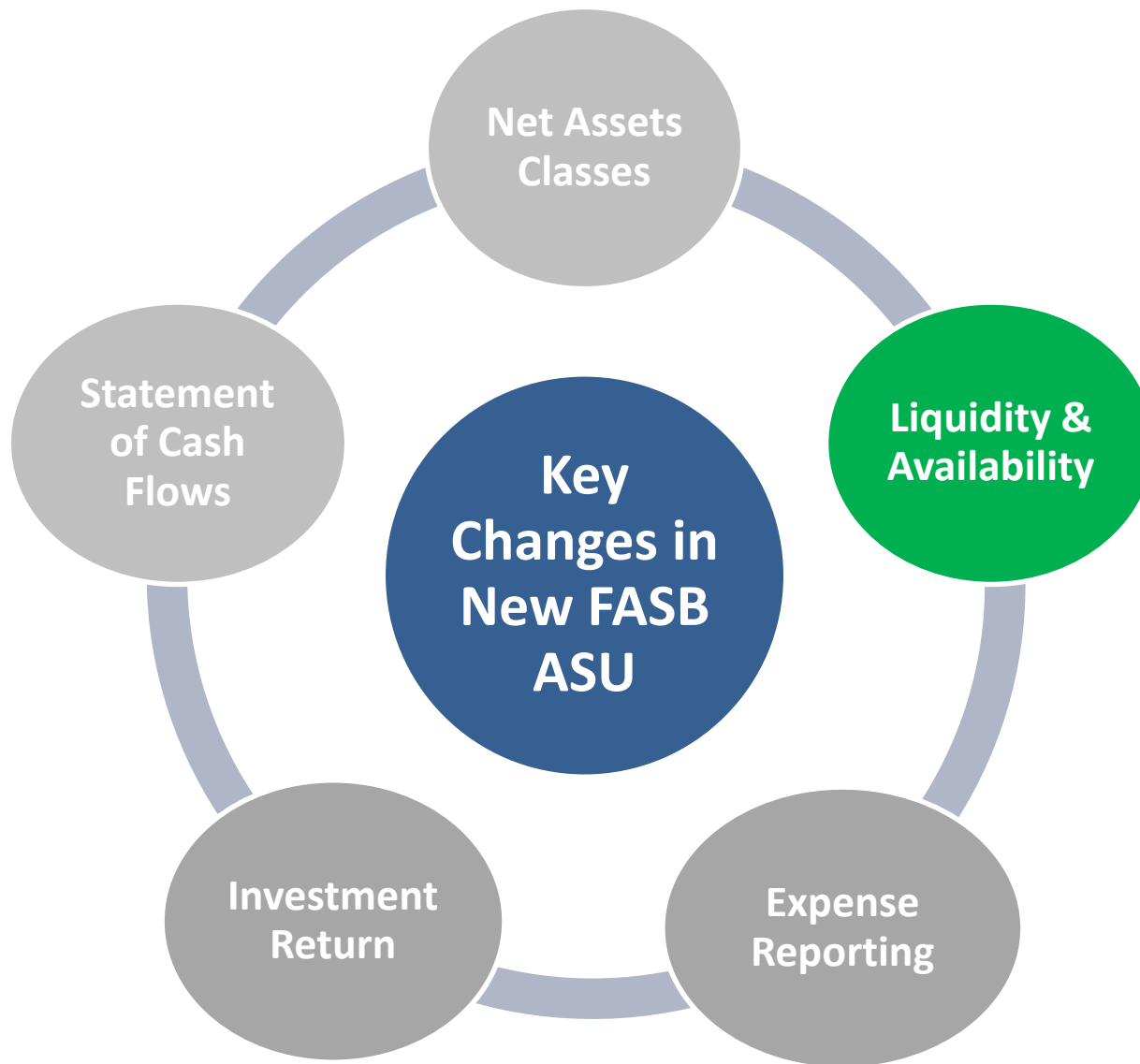
- Interpretation of the ability to spend from underwater endowment funds
- Policy, and any actions taken during the period, concerning appropriation from underwater endowment funds
- For each period a statement of financial position is presented - each of the following, in the aggregate, for all underwater endowment funds:
  1. The fair value of the underwater endowment funds
  2. Original endowment gift amount or level required to be maintained by donor stipulations or by law that extends donor restrictions
  3. Amount of the deficiencies of the underwater endowment funds (1. less 2.)

# Example Disclosures

## Underwater Endowment Funds -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires NFP A to retain as a fund of perpetual duration. NFP A has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations.

As of June 30, 20X1, three donor-restricted endowment funds had aggregated original values totaling \$3,500, current fair values totaling \$3,300, and deficiencies totaling \$200. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.



# New Required Disclosures

- ▶ **Qualitative** information on how a NFP manages its liquid resources available to meet cash needs for general expenditures within 1 year of the balance sheet date (*in the notes*)
  
- ▶ **Quantitative** information that communicates the availability of financial assets at the balance sheet date to meet cash needs for general expenditures within 1 year of the balance sheet date (*on the face of the financials and/or in the notes*)
  - Availability may be affected by -
    - Nature of the assets
    - External limits imposed by donors, laws, and contracts with others;
    - Internal limits imposed by board decisions

# Qualitative Liquidity Disclosures - example

NFP A utilizes a 60-day time horizon to assess its immediate liquidity needs. This period of time was established based on management's review of the typical life cycle of converting its financial assets to cash and typical payments of its trade payables. The entity invests cash in excess of daily requirements in short-term investments.

Occasionally the Board designates a portion of any operating surplus to its liquidity reserve. As of June 30, 20X1, the liquidity reserve was \$1,300. This is a governing board-designated fund with the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, NFP A also could draw upon \$10,000 of available lines of credit (as further discussed in Note XX) or the quasi-endowment fund.

# Quantitative Liquidity Disclosures - example

Financial assets, at year end	\$ 229,200
Less:	
Contractual or donor-imposed restrictions making financial assets unavailable for general expenditure	(192,413)
Quasi-endowment fund, primarily for long-term investing	(34,628)
Less amounts set aside for liquidity reserve:	<u>(1,300)</u>
Financial assets available within one year to meet cash needs for general expenditures within one year	<u>\$ 859</u>



# Additional Example Disclosures

- ▶ **The following quantitative and qualitative disclosures may supplement an unclassified balance sheet presentation.**

958-210-55-7 NFP A has \$395,000 of financial assets available within one year of the balance sheet date consisting of cash of \$75,000, contributions receivable of \$20,000, and short-term investments of \$300,000. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The contributions receivable are subject to time restrictions, but will be collected within one year. NFP A has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 60 days of normal operating expenses, which are, on average, approximately \$275,000. As part of its liquidity management, NFP A invests cash in excess of daily requirements in various short-term investments including certificate of deposits and short term treasury instruments. As more fully described in Note xx, NFP A also has committed lines of credit in the amount of \$20,000, which it could draw upon in the event of an unanticipated liquidity need.

# Additional Example Disclosures

- ▶ The following qualitative disclosures may supplement a classified balance sheet presentation.

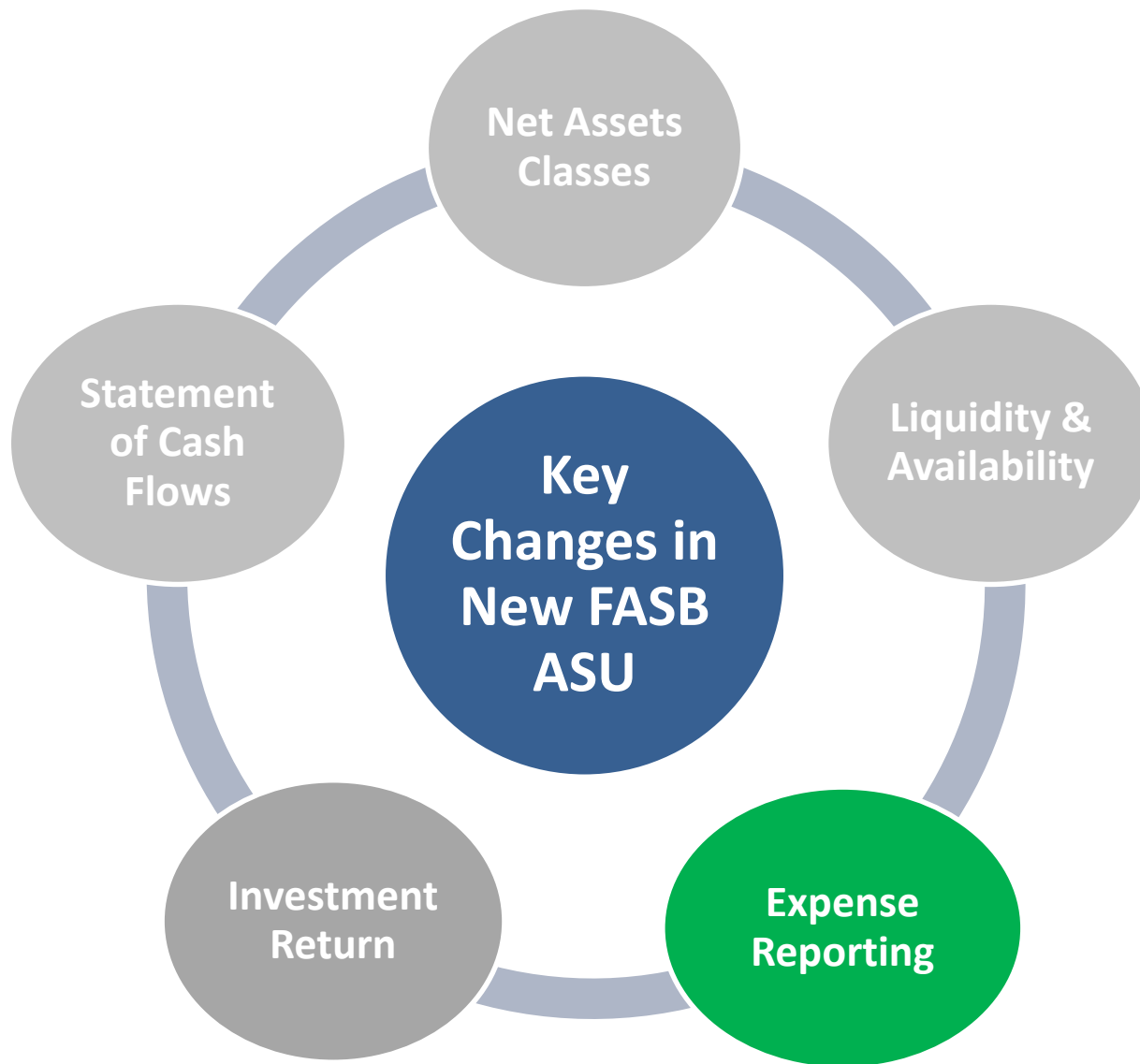
## Note T

As part of NFP A's liquidity management, it invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, NFP A has committed lines of credit in the amount of \$20 million which it could draw upon. Additionally, NFP A has a quasi-endowment of \$33 million. Although NFP A does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation, amounts from its quasi-endowment could be made available if necessary. However, both the quasi-endowment and donor endowment contain lock-up provisions that would reduce the total investments that could be made available.

NFP A's financial assets due within one year of the balance sheet date for general expenditure are as follows:

Cash and cash equivalents	\$ 4,575
Accounts and interest receivable	2,130
Contributions receivable	1,825
Short-term investments	1,400
Other investments appropriated for current use	1,650
	<u>\$ 11,580</u>

NFP A's endowment funds consist of donor endowment and quasi-endowment. Income from donor endowment is restricted for specific purposes and, therefore, is not available for general expenditure. The quasi-endowment has a spending rate of 5 percent. \$1.65 million of appropriations from the quasi-endowment will be available within the next 12 months.



# New Requirements for Expenses

- ▶ **Present an analysis of expenses by function and nature in one location**
  - May be presented in the notes, in the statement of activities, or as a separate statement
  - Disaggregation of functional expense classifications by their natural expense classifications
  - Voluntary Health and Welfare entities no longer required to present a separate statement of functional expenses
- ▶ **Include a description of the method used to allocate costs among program and support functions**
- ▶ **Improved guidance about management & general expenses**

# Analysis of Expenses - Example

## ► Presentation in the notes or in a separate statement

	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
<b>Total expenses</b>	<b>\$13,296</b>	<b>\$14,486</b>	<b>\$27,782</b>	<b>\$ 2,038</b>	<b>\$ 2,150</b>	<b>\$ 4,188</b>	<b>\$31,970</b>

# Analysis of Expenses - Example

## ► Presentation on face of the statement of activities

Expenses:	
Grant activities -	
Grants	12,125
Salaries, benefits and taxes	1,808
Occupancy costs	970
Depreciation	845
Supplies	1,255
Other	56
	<hr/>
	17,059
Management and general -	
Salaries, benefits and taxes	452
Occupancy costs	243
Depreciation	211
Supplies	314
Other	14
	<hr/>
	1,234
	<hr/>
Total expenses	18,293

# Example Disclosure of Allocation Methods

## Note 5 - Methods Used for Allocation of Expenses Among Program and Supporting Services

The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Organization. Those expenses include depreciation, the Executive Director's office, communications department, and information technology department. Depreciation is allocated based on a square footage basis, the Executive Director's office is allocated based on a time and cost study of where efforts are made, certain costs of the communications department are allocated based on the benefit received, and the information technology department is allocated based on a cost study of specific technology utilized.

# Functional Expenses Defined

## ▶ Program Services

- Activities that result in good and services being distributed to beneficiaries, customers, or members that fulfill the purposes or mission for which the NFP exists.

## ▶ Supporting Activities

- Supporting activities are all activities of an NFP other than program services. Generally, they include the following:
  - Management general activities
  - Fundraising activities
  - Membership development activities



# Management and General Expenses

- ▶ Oversight
- ▶ Business management
- ▶ General recordkeeping and payroll
- ▶ Budgeting
- ▶ Financing, including unallocated interest costs
- ▶ Soliciting funds other than contributions and membership dues
- ▶ Administering government, foundation, and similar customer-sponsored contracts, including billing and collecting fees and grant and contract financial reporting.
- ▶ Disseminating information to inform the public of the NFP's stewardship of contributed funds
- ▶ Making announcements concerning appointments
- ▶ Producing and disseminating the annual report
- ▶ Employee benefits management and oversight (human resources)
- ▶ All other management and administration except for the direct conduct of program services, fundraising activities, or membership development activities.

# Enhanced Guidance on M&G Allocation

- ▶ **Activities that represent direct conduct or direct supervision of program or other supporting activities require allocation from management & general activities**
  
- ▶ **Examples added:**
  - IT - benefits various functions and generally would be allocated
  - CEO – could be allocated to program, fundraising, M&G
  - CFO – could be allocated to M&G and investment expense
  - HR – generally would assign all to M&G
  - Grant Accounting and Reporting – program reports would be program (grant-related) but financial reports and related accounting would be M&G

# Transition Guidance

# Effective Dates and Transition

## ▶ Effective date:

- Fiscal years beginning after 12/15/2017 (e.g. CY 2018 and FY 2018/2019)
- Interim financials the following year

## ▶ Transition:

- In year of adoption apply all provisions of the new ASU
- For comparative years presented; apply all provisions, except can choose not to present –
  - Analysis of expenses by nature and function (*except for Voluntary Health and Welfare Entities that are required under current GAAP to present Statement of Functional Expenses*), and/or
  - Disclosures around liquidity and availability of resources
- In year of adoption, disclose the nature of any reclassifications or restatements and their effects, if any, on changes in the net asset classes for each period presented.

# Disclosures and Auditor's Reports

## ▶ Required disclosures:

- In year of adoption, disclose the nature of any reclassifications or restatements and their effects, if any, on changes in the net asset classes for each period presented.

## ▶ Auditor's reports:

- In year of adoption, include an emphasis-of-matter paragraph in the auditor's report if the adoption results in changes that have a material effect on the financial statements (AU-C 708.07)

# Early Adoption

- ▶ **Early adoption permitted, but must apply the regular transition provisions**
- ▶ **Example of early adoption:**
  - NFP chooses to early adopt in CY 2016
  - NFP must apply all provisions to CY 2016 financials
  - NFP presents comparative financials for CY 2015; must apply all provisions to the CY 2015 financials, except NFP can choose not to present –
    - Analysis of expenses by nature and function, and/or
    - Disclosures around liquidity and availability of resources

# Practical Guidance

- ▶ **NFPs are already permitted to make many of the changes in the ASU**
- ▶ **The only changes that cannot be made without formally adopting the ASU are:**
  - Presenting one class of restricted net assets (i.e., consolidating temporarily and permanently restricted net assets into net assets with donor restrictions)
  - Underwater endowment accounting
  - Eliminating disclosures of investment return components and netted expenses
  - Eliminating requirement to provide indirect reconciliation if using the direct method for operating cash flows