




## Understanding the New Not-For-Profit Reporting Standard

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# Objective & Agenda

To provide an framework for using FASB ASU 2016-14 for organizations to better tell their stories through the simplification of financial statements and opportunity to enhance disclosures.

- 1** OVERVIEW
- 2** IMPACT TO THE FACE OF THE STATEMENTS
- 3** IMPACT TO THE FOOTNOTES
- 4** CHANGES TO COME

# Overview

- Effective for annual financial statements issued for fiscal years beginning after December 15, 2017
- Should be presented retrospectively in the year the update is first applied.



# Overview

## **KEY CHANGES:**

- Net assets classes
- Expense reporting
- Investment return
- Statement of cash flows
- Liquidity and availability

# Net Asset Classes

## DONOR RESTRICTIONS



# Donor Restriction

WITH AND WITHOUT

**CURRENT  
GAAP**

Unrestricted

Temp.  
Restricted

Perm.  
Restricted

**FUTURE  
GAAP**

Without Donor  
Restrictions

With Donor Restrictions



**DISCLOSURES**

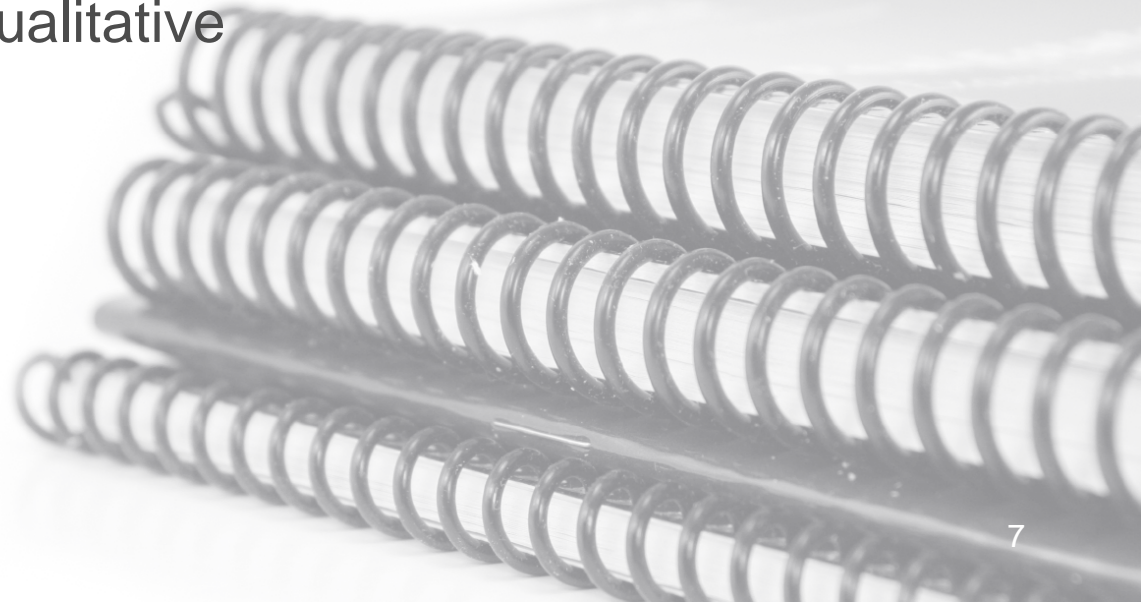
Amount,  
purpose, and  
type of board  
designations

Nature and amount of donor  
restrictions

# Net Assets

## DISCLOSURE REQUIREMENTS

- Breakdown of net assets with donor restrictions
- Emphasis on how/when net assets can be used:
  - Specific purpose
  - Specific time
  - Perpetual restriction (endowment)
  - Board designations - quantitative and qualitative



# Example Statement of Financial Position

## NET ASSETS

	<u>20X1</u>
<b>Assets:</b>	
Cash	\$ 75,000
Contributions receivable	20,000
Prepaid expenses	5,000
Short-term investments	300,000
<b>Total assets</b>	<b><u>\$ 400,000</u></b>
<b>Liabilities:</b>	
Accounts payable	\$ 80,000
<b>Total liabilities</b>	<b><u>80,000</u></b>
<b>Net assets:</b>	
Without donor restrictions	300,000
With donor restrictions	20,000
<b>Total net assets</b>	<b><u>320,000</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 400,000</u></b>



# Example Statement of Activities

## TWO NET ASSETS CLASSES

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenues, gains, and other support:</b>			
Contributions	\$ 8,640	\$ 8,390	\$ 17,030
Fees	5,200		5,200
Investment return, net	6,650	18,300	24,950
Gain on sale of equipment	200		200
Other	150		150
<b>Net assets released from restrictions (Note D):</b>			
Satisfaction of program restrictions	8,990	(8,990)	
Satisfaction of equipment acquisition restrictions	1,500	(1,500)	
Expiration of time restrictions	1,250	(1,250)	
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	7,500	(7,500)	
<b>Total net assets released from restrictions</b>	<u>19,240</u>	<u>(19,240)</u>	<u>-</u>
<b>Total revenues, gains, and other support</b>	<u>40,080</u>	<u>7,450</u>	<u>47,530</u>
<b>Expenses and losses:</b>			
Program A	13,296		13,296
Program B	8,649		8,649
Program C	5,837		5,837
Management and general	2,038		2,038
Fundraising	2,150		2,150
<b>Total expenses (Note F)</b>	<u>31,970</u>		<u>31,970</u>
Fire loss on building	80		80
Actuarial loss on annuity trust obligations		30	30
<b>Total expenses and losses</b>	<u>32,050</u>	<u>30</u>	<u>32,080</u>
<b>Change in net assets</b>	<u>8,030</u>	<u>7,420</u>	<u>15,450</u>
<b>Net assets at beginning of year</b>	<u>84,570</u>	<u>186,070</u>	<u>270,640</u>
<b>Net assets at end of year</b>	<u>\$ 92,600</u>	<u>\$ 193,490</u>	<u>\$ 286,090</u>

# Example Net Assets Footnote

**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 spending policy and appropriation:**

Investment in perpetuity (including amounts above original gift amount of \$122,337), which, once appropriated, is expendable to support:

Program A activities	33,300
Program B 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

Total net assets with donor restrictions

\$ 193,490

# Example Board Designated Net Assets

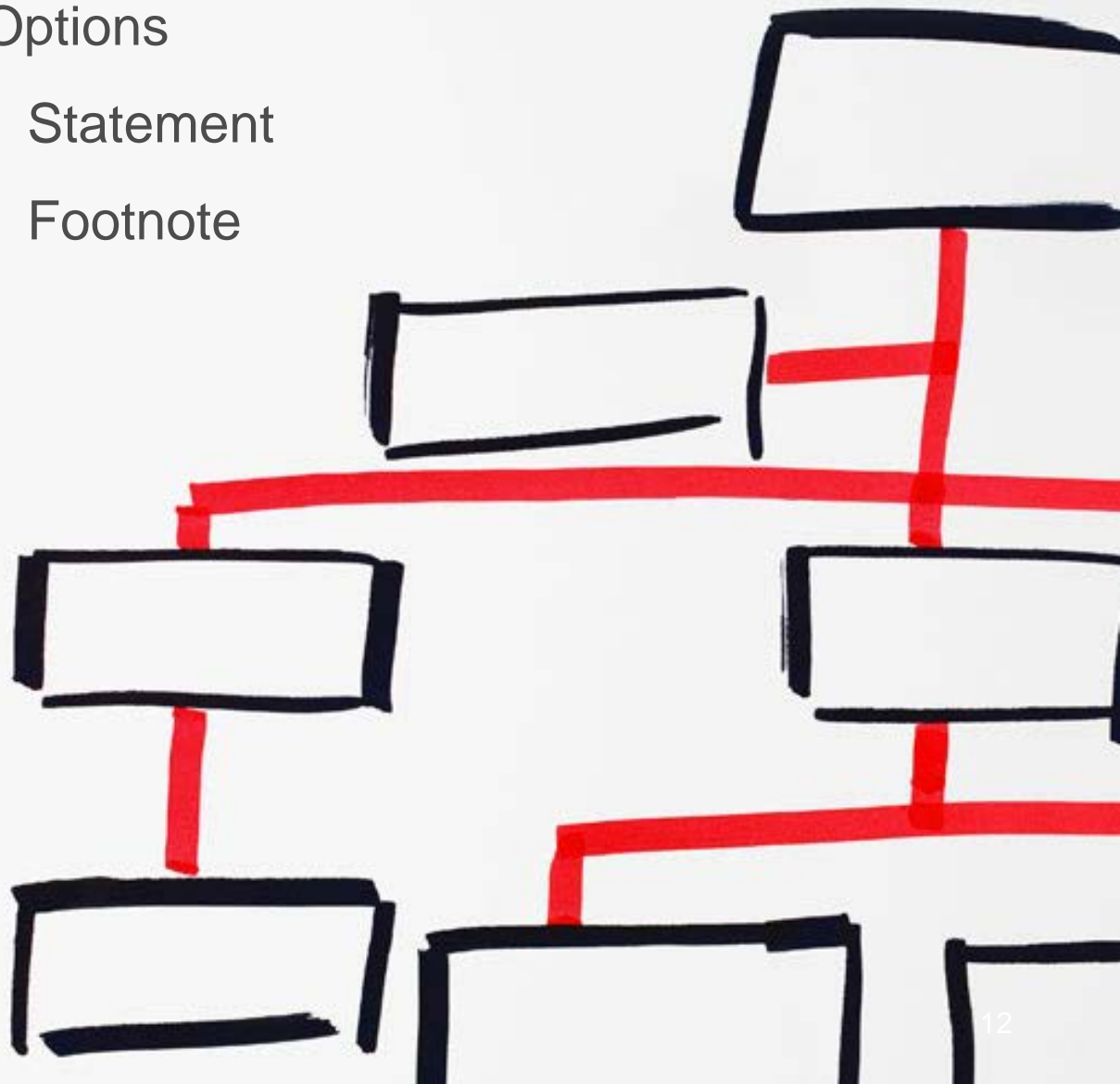
## DISCLOSURE

Financial assets, at year-end	\$ 234,410
Less those 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	(174,700)
Investments held in annuity trust	(4,500)
Board designations:	
Quasi-endowment fund, primarily for long-term investing	(36,600)
Amounts set aside for liquidity reserve	(1,300)
	<hr/>
Financial assets available to meet cash needs for general expenditures within one year	\$ 5,370

Not-for-Profit Entity A is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Not-for-Profit Entity A must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of Not-for-Profit Entity A'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, Not-for-Profit Entity A 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, which was \$1,300 as of June 30, 20X1. There is a fund established by the governing board that may 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, Not-for-Profit Entity A also could draw upon \$10,000 of available lines of credit (as further discussed in Note XX) or its quasi-endowment fund.

# Expense Reporting

- By nature and function
- Options
  - Statement
  - Footnote



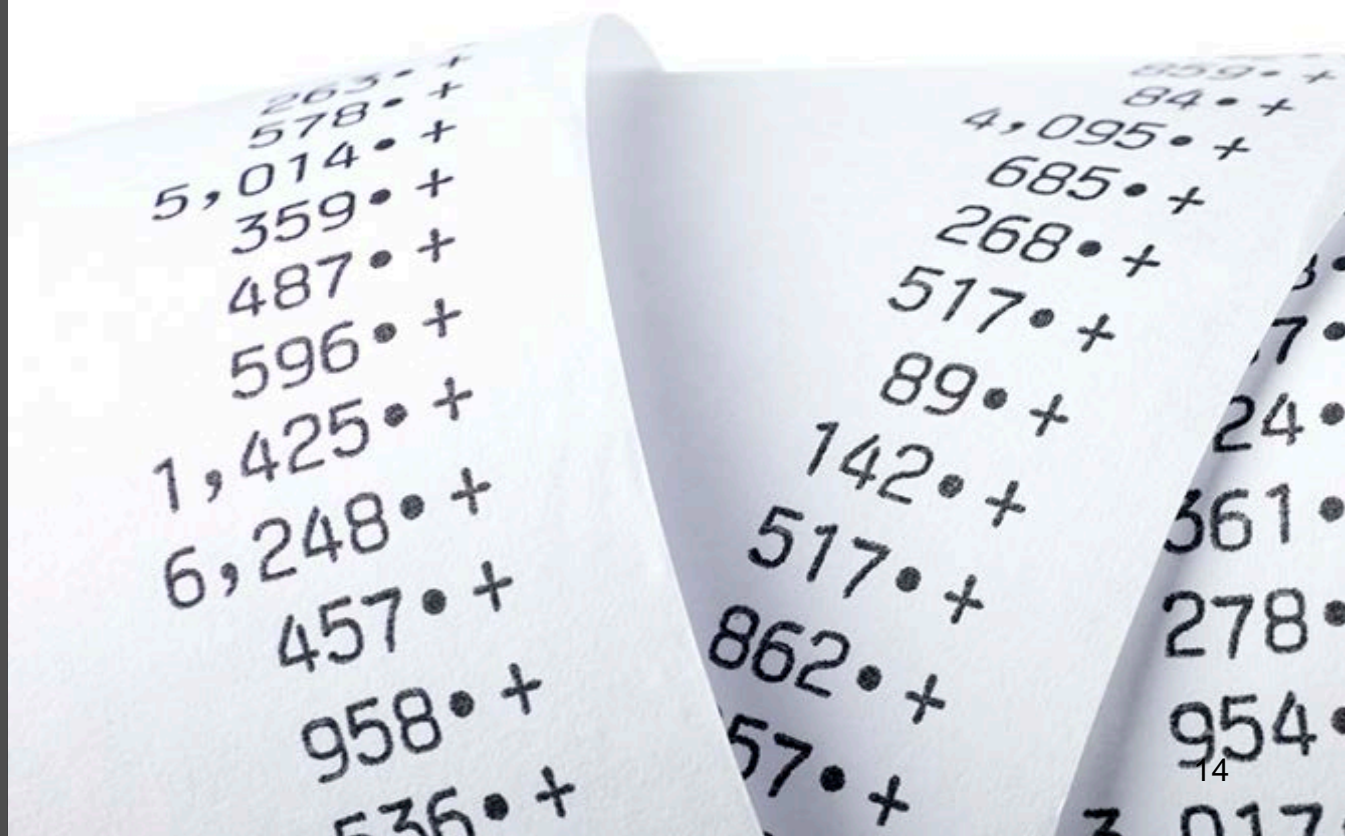
# Example Expense Reporting

	<u>Services</u>	<u>Management and General</u>	<u>Planning and Development</u>	<u>Total Expenses</u>
Salaries	\$ -	\$ -	\$ -	\$ -
Employee health and retirement benefits	-	-	-	-
Payroll taxes and unemployment benefits	-	-	-	-
Professional fees clinical	-	-	-	-
Professional fees other	-	-	-	-
Contracted services	-	-	-	-
Children's work study	-	-	-	-
Food	-	-	-	-
Supplies	-	-	-	-
Telephone	-	-	-	-
Electricity, fuel and water	-	-	-	-
Repairs and maintenance	-	-	-	-
Rent	-	-	-	-
Service provider taxes	-	-	-	-
Insurance	-	-	-	-
Postage	-	-	-	-
Printing and stationery	-	-	-	-
Special publicity and education	-	-	-	-
Special assistance	-	-	-	-
Staff expenses	-	-	-	-
Dues, subscriptions and recreation	-	-	-	-
Travel and auto	-	-	-	-
Bad debts	-	-	-	-
Interest	-	-	-	-
Depreciation of buildings and equipment	-	-	-	-
Amortization	-	-	-	-
Miscellaneous	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

# Expense Reporting

## WHEN TO ALLOCATE M&G EXPENSE

Activities that represent direct conduct or direct supervision of program or other supporting activities require allocation from management and general activities to those program or other supporting activities.



# Example Allocation Method Disclosure

## Note X. Methods Used for Allocation of Expenses from Management and General Activities

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. Those expenses include depreciation and amortization, the president's office, communications department, and information technology department. Depreciation is allocated based on square footage, the president's office is allocated based on estimates of time and effort, certain costs of the communications department are allocated based on estimates of time and effort, and the information technology department is allocated based on estimates of time and costs of specific technology utilized.

# Investment Return

- Presented on a net basis, with all external and direct internal investment management and custodial expenses netted against the return
- No longer required to report investment income components and related expenses separately





# Example Investment Return

## STATEMENT OF OPERATIONS FOR NFP HEALTHCARE ENTITY

### Format 1: Year 1 Presentation of Net Investment Return

Revenue	\$ X,XXX
Expenses	<u>XXX</u>
Excess of revenues over expenses	<u>XXX</u>
Investment return, net	XXX
Less:	
Unrealized gains (losses) on other than trading debt securities excluded from performance indicator	<u>(200)</u>
Performance indicator	<u>XXX</u>
Add:	
Unrealized gains (losses) on other than trading debt securities excluded from performance indicator	<u>200</u>
Change in net assets without donor restrictions	<u><u>\$ XXX</u></u>

# Example Investment Return

## STATEMENT OF OPERATIONS FOR NFP HEALTHCARE ENTITY

### Format 2: Year 1 Presentation of Net Investment Return

Revenue	\$ X,XXX
Expenses	XXX
Excess of revenues over expenses	<u>XXX</u>
Investment return, net, excluding unrealized gains (losses) on debt securities (other than trading)	<u>XXX</u>
Performance indicator	<u>XXX</u>
Unrealized gains (losses) on other than trading debt securities excluded from performance indicator	<u>200</u>
Change in net as sets without donor restrictions	<u><u>\$ XXX</u></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 DISCLOSURE:** 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 decision to reduce or not spend from such funds.



# Example Underwater Endowment Disclosure

As of December 31, 20X1 and 20X0, we had the following endowment net asset composition by type of fund:

12/31/20X1	Without Donor Restriction	With Donor Restrictions	Total
Board-designated endowment funds	\$ 15,511,186	\$ -	\$ 15,511,186
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	19,174,849	19,174,849
Accumulated investment gains	-	12,678,095	12,678,095
	\$ 15,511,186	\$ 31,852,944	\$ 47,364,130

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 20X0, funds with original gift values of \$19,883,738, fair values of \$19,841,061, and deficiencies of \$42,677 were reported in net assets with donor restrictions. These amounts were fully recovered during 20X1 due to favorable market fluctuations.

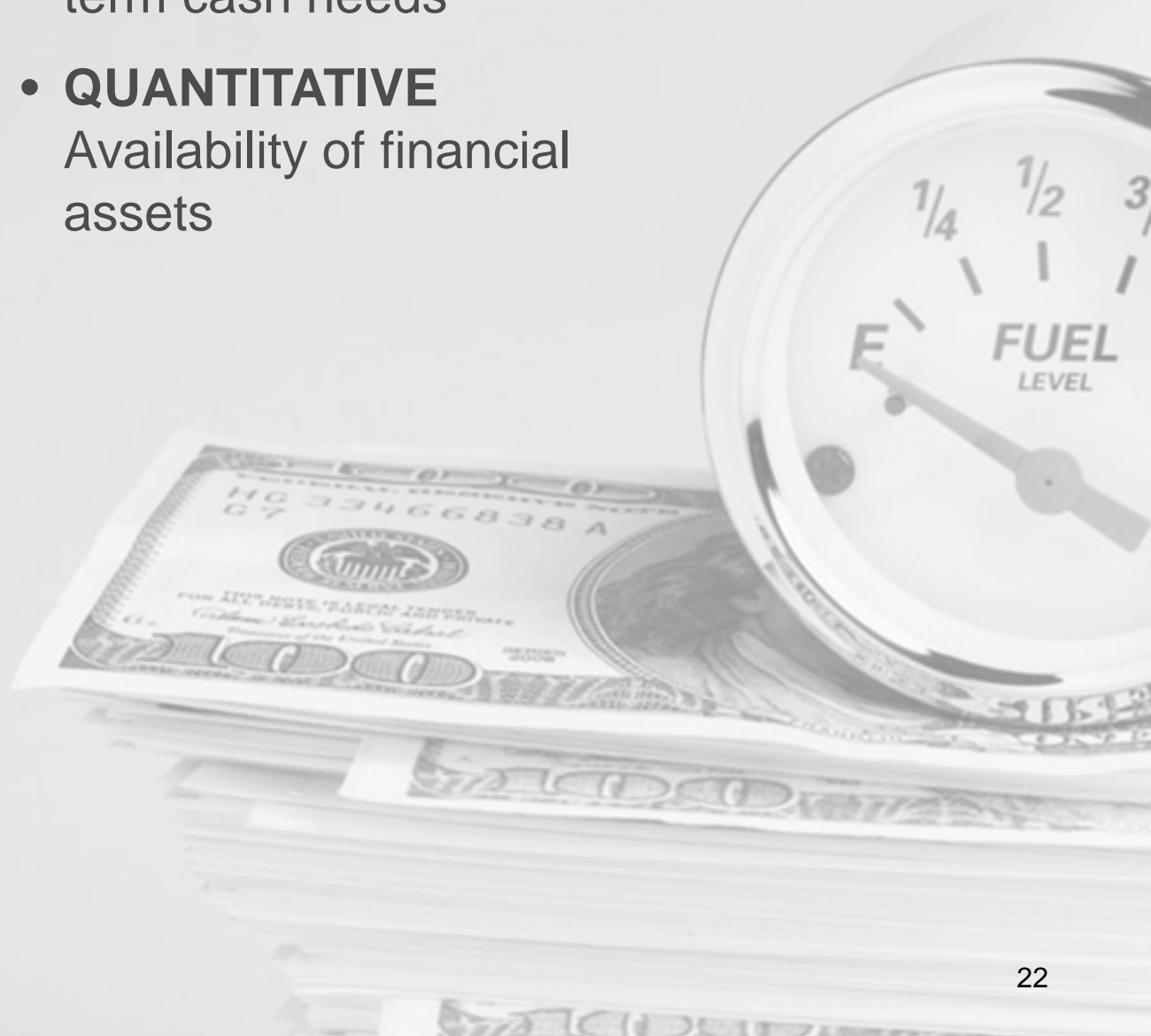
# Statement of Cash Flows

- Direct or indirect method allowed
- Direct method no longer requires the reconciliation of the change in net assets to cash flows from operating activities



# Liquidity Disclosures

- **QUALITATIVE**  
Availability to meet short term cash needs
- **QUANTITATIVE**  
Availability of financial assets



# Example Liquidity Disclosure

NFP A's financial assets available 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	10,804
	<u>\$ 20,734</u>

NFP A's endowment funds consist 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 Y, 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.

As part of NFP A'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, NFP A 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 process, amounts from its quasi-endowment could be made available if necessary. However, both the quasi-endowment and donor-restricted endowments contain investments with lock-up provisions that would reduce the total investments that could be made available (see Note X for disclosures about investments).

# Changes to Come

PHASE 2

## **NO TIMETABLE:**

- Operating measures:  
All other elements
- Realignment of certain  
cash flow line items







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