NOT-FOR-PROFIT FINANCIAL REPORTING STANDARDS UPDATE

Presented By:
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Agenda

- New NFP Reporting Standard
- Revenue Recognition
- Accounting for Grants and Contributions
- Q&A

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ASU 2016-14

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Effective Dates

- Fiscal years beginning after December 15, 2017 (**December 31, 2018** or fiscal 2019 year ends)
- Interim financials for the following year
- Early adoption is permitted, but must apply the regular transition provisions

Transition Guidance

- In the year of adoption, apply all provisions retrospectively
- For comparative presentations, option to omit the following for the periods presented before the period of adoption:
  - 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
- Disclose the nature of any reclassifications or restatements and their effects, if any, on changes in the net asset classes for each period presented

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Adoption Disclosure

- AICPA Save Our Charities Example:

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. We have implemented ASU 2016-14 and have adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented which increased net assets without donor restrictions by $42,677 and decreased net asset with donor restrictions by $42,677 resulting from the reclassifications of underwater endowment funds as required under ASU 2016-14.]

Adoption Disclosure

- United Way Example:

Accounting Pronouncements Adopted

In August 2016, the FASB issued ASU 2016-14, *"Presentation of Financial Statements of Not-for-Profit Entities" (Topic 958)*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Organization has chosen to early-adopt this ASU as of and for the year ended December 31, 2016 with retrospective application for the 2015 consolidated financial statements. The Organization opted to not disclose liquidity and availability information for 2015 as permitted under the ASU in the year of adoption. As a result, the investment expenses are netted against investment return in the consolidated statements of activities. In addition, the Organization changed its presentation of its net assets classes and expanded the footnote disclosures as required by the ASU.

Primary Changes in the New ASU

- **Net Asset Classifications**
- Underwater Endowment Funds
- Placed in Service Approach for Reporting Expirations of Restrictions on Gifts for Acquisition of Long-Lived Assets
- Liquidity and Availability of Resources
- Expense Reporting
- Investment Return
- Statement of Cash Flows

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Net Asset Classifications

- Complexities with the current three classifications of net assets
- Misunderstandings and confusion around the terms unrestricted net assets, temporarily restricted net assets and permanently restricted net assets
- Deficiencies in transparency and utility of information regarding how restrictions imposed by donors, laws, and governing boards affect an NFP's liquidity and classes of net assets

Change in Asset Classifications

Current Presentation (Three Classes):

Unrestricted	Temporarily Restricted	Permanently Restricted

New Presentation (Two Classes):

Without Donor Restrictions	With Donor Restrictions

Net Asset Reporting Requirements

- Two classes
  - Donor-imposed restriction
    - Includes what was previously reported as permanently restricted and temporarily restricted
  - Without donor-imposed restriction, including board designated
- Disclosure requirements
  - With Donor Restrictions
    - Specified purpose, time or to be held in perpetuity
  - Without Donor Restrictions
    - Information about the amounts and purposes of board designations of net assets

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Statement of Financial Position

Minimum Required Presentation:

Net assets:

Without donor restriction	75,000
With donor restriction	225,000
Total net assets	300,000

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Statement of Financial Position

Alternative Expanded Presentation:

Net assets:	
Without donor restriction:	
Undesignated	50,000
Designated by the Board for specific purpose	25,000
	75,000
With donor restrictions:	
Time restricted, for future periods	20,000
Purpose restricted	40,000
Endowment	165,000
	225,000
Total net assets	300,000

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Statement of Activities

Example From ASU

	Without Donor Restrictions	With Donor Restriction	Total
Revenues and other support			
Contributions	$ 8,640	$ 8,390	$ 17,030
Fees	5,200	-	5,200
Investment return, net	6,650	18,270	24,920
Other	350	-	350
Net assets released from restrictions	19,240	(19,240)	-
Total revenues and other support	40,080	7,420	47,500
Expenses			
Program A	13,296	-	13,296
Program B	14,566	-	14,566
Management and general	2,038	-	2,038
Fundraising	2,150	-	2,150
Total expenses	32,050	-	32,050
Change in net assets	8,030	7,420	15,450
Net assets at beginning of year	84,570	186,070	270,640
Net assets at end of year	$ 92,600	$ 193,490	$ 286,090

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Example Disclosures – With Donor Restrictions

Example Straight from ASU

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

Subject to expenditure for specified purposes:	
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	210
Buildings and equipment	2,150
Annuity trust agreements for research	2,815
	10,450
Subject to the passage of time:	
For the 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 $122,370, the income from which 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
	193,490

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Example Disclosures – With Donor Restrictions

- United Way Example:

13. Net Assets With Donor Restrictions

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

December 31,	2016	2015
Subject to expenditure for specified purpose:		
Economic self-sufficiency	$ 3,375,947	$ 3,105,017
Training and research	3,292,693	5,806,362
International membership support	1,142,418	962,001
Initiative to benefit children and families	971,430	1,411,399
Network advocacy support	596,164	72,960
Leadership coalition	479,015	354,874
Sponsorships to UWW events	141,000	183,783
Global initiative	55,812	253,160
Disaster response and recovery	20,811	19,648
Scholarships	2,765	889
Initiative to fight human trafficking	-	113,044
Total subject to expenditure for specified purpose	10,078,055	12,283,137
Endowments subject to the Organization's spending policy and appropriation:		
Investment in perpetuity (original amount of $3,801,730 and $3,795,481 in 2016 and 2015, respectively), which once appropriated, is expendable to support:		
Senior Resource Center	3,791,087	3,791,087
Any activities of the Organization	10,643	4,394
Total endowments subject to the Organization's spending policy and appropriation	3,801,730	3,795,481
Total net assets with donor restrictions	$ 13,879,785	$ 16,078,618

Board-Designated 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.
- New required disclosure of nature and amounts of board-designations of net assets

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Example Disclosures – Board-Designations

Tabular Disclosure or on Face of Statement of Financial Position

Net assets without donor restrictions:

Undesignated	75,000
Board-designated Endowment	35,000
Board-designated Operating Reserve	10,000
Total net assets	120,000

Text Disclosure in Footnotes

Note 2- Net Assets without Donor Restrictions

The Board of Directors of the Organization has designated certain contributions without donor restrictions for long-term investment (board-designated endowment). The board-designated endowment fund balance totaled $35,000 at December 31, 20XX. Additionally, the Board of Directors has established an operating reserve for the purpose of setting funds aside to be used for unforeseen liquidity needs. The operating reserve balance totaled $10,000 at December 31, 20XX.

Example Disclosures – Board-Designations

- United Way Example:

Board Designated for Center on Aging

During 2010, UWW received a contribution from a trust, a portion of which was for the creation of a Center on Aging Adults, as a specialized training and conference resource within the Mary Gates Learning Center. The remaining contribution was put in a permanent endowment for the purpose of providing home care and assisted living to the elderly poor, with specific reference to assisting older people to remain in their own homes, as directed by the donor. During 2015, the donor's legal representative authorized UWW to utilize $409,000 from the accumulated net investment income of the endowment, to provide additional resources for the Center on Aging. The Board designated the use of the funds for the future cost of rental of office space for the Center on Aging staff based on a long term rental agreement.

Board Designated for Quasi-Endowment

UWW's Board has designated funds be set aside to establish and maintain a quasi-endowment for the purpose of securing the Organization's long-term financial viability and continuing to meet the needs of the Organization. The quasi-endowment funds totaled $948,438 and $940,040 at December 31, 2016 and 2015, respectively, and generated $8,398 and $14,397 of additional contributions for the years ended December 31, 2016 and 2015, respectively.

Board Designated for Donor Advised Funds

International Donor Advised Giving (IDAG)

The International Donor Advised Giving (IDAG) program is a component of net assets without donor restrictions and was established by the Board. Companies, foundations and individuals contribute to IDAG to achieve their philanthropic goals outside of the United States. IDAG provides comprehensive grant-making services to ensure compliance with both U.S. and international laws and UWW retains variance power of all contributions to IDAG.

Implementation Considerations – Statement of Financial Position

- Change Unrestricted to “Without Donor Restrictions”
- Combine TRNA and PRNA into one line and change description to “With Donor Restrictions”
- What level of aggregation do you want on the face of the statements? What will be most meaningful to your users of your FS?

Considerations Related to Disclosures of Net Assets

- Are amounts included as board designated supported by actual board resolution?
- May want to reconsider level of detail provided for donor restrictions

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Primary Changes in the New ASU

- Net Asset Classifications
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- **Liquidity and Availability of Resources**
- Expense Reporting
- Investment Return
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Liquidity and Availability of Resources

- "Liquidity" Disclosure:
  - Qualitative information in the notes to the financial statements that is useful in assessing an entity's liquidity and communicates how an NFP **manages its liquid resources** available to meet cash needs for general expenditures within one year to date of the statement of financial position.

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Liquidity and Availability of Resources

- "Availability" Disclosure:
  - Quantitative information either on the face of the statement of financial position or in the notes, and additional qualitative information in the notes as necessary, that communicates the **availability of an NFP's financial assets** at the date of the statement of financial position to meet cash needs for **general expenditures within one year** of the date of the statement of financial position.
  - 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.

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Disclosure Example

Note 5 – Information and Liquidity

The Organization manages its liquidity by managing its working capital and having available a line of credit with a bank.

The following table reflects the Organization's financial assets as of the balance sheet dates, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

	20X2	20X1
Cash and cash equivalents	$ 35,000	$ 25,000
Investments	500,000	450,000
Accounts receivable	50,000	55,000
Total financial assets	585,000	530,000
Less amounts that are internally designated or externally restricted:		
Board-designated endowment	(150,000)	(140,000)
Donor restricted for specific purpose	(75,000)	(80,000)
Financial assets availabe to meet cash needs for general expenditures within one year	$ 360,000	$ 310,000

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Disclosure Example

- Foundation for the Carolinas Example:

Note 3—Liquidity and availability

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

Cash and cash equivalents	$	4,427,463
Accounts receivable and other assets		5,317,606
Short-term investments		2,020,523
	$	11,765,592

The assets above include $7,739,497 in donor-advised funds. The Foundation generally uses these assets for grant making based on donor recommendations.

Endowment funds consist of donor-restricted endowments and board-designated endowments. Income from donor-restricted endowments that is restricted for specific purposes is not available for general expenditure. As described in Note 14, the Foundation's board designated endowments are subject to an annual spending rate of 5.0% and $4,285,450 of appropriation from the board-designated endowments will be available within the next 12 months. Although the Foundation does not intend to spend from this board-designated endowment (other than amounts appropriated per the Board's annual spending rate approval), these amounts could be made available if necessary.

As part the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. The Foundation invests cash in excess of daily requirements in short-term investments and money market funds. Occasionally, the Board will designate a portion of any operating surplus to its operating reserve, which was approximately $3.0 and $3.4 million as of December 31, 2015 and 2016, respectively.

Considerations Related to Liquidity and Availability

- Management will need to determine the most desirable form to comply with the quantitative component of this disclosure.
  - Consider whether the FS will be easier to understand if the reader is able to tie the financial assets on the face of the statement of financial position to the footnote prior to amounts being deducted due to restriction.
- Qualitative disclosures to comply with the donor requirements should tell the story of available resources that management uses to meet and manage cash flow.
- Include your development team.

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Expense Reporting

- Required to present amounts of expenses by function and natural classification in one location
  - May be presented on the face of the statement of activities, as a separate statement, or in the notes
  - Voluntary Health & Welfare entities no longer required to prepare separate statement – ASU applies to all NFPs and requirement is for one of the methods noted above
- Include a description of the method used to allocate costs among program and support functions
- Disaggregate functional expense classifications by their natural expense classifications
- Improved guidance about management and general expenses

Expense Reporting Example

- Presentation in the notes or in a separate statement:

Example From ASU

	Program Services				Supporting Activities			
	Program A	Program B	Program C	Program Subtotal	Mngmt & General	Fund-Raising	Supporting Subtotal	Total Expenses
Salaries, benefits and taxes	$ 7,400	$ 3,900	$ 1,725	$ 13,025	$ 1,130	$ 960	$ 2,090	$ 15,115
Grants to other organizations	2,075	750	1,925	4,750	-	-	-	4,750
Supplies and travel	890	1,013	499	2,402	213	540	753	3,155
Services and professional fees	160	1,490	600	2,250	200	390	590	2,840
Office and occupancy	1,160	600	450	2,210	218	100	318	2,528
Depreciation	1,440	800	570	2,810	250	140	390	3,200
Interest	171	96	68	335	27	20	47	382
Total Expenses	$ 13,296	$ 8,649	$ 5,837	$ 27,782	$ 2,038	$ 2,150	$ 4,188	$ 31,970

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Disclosures of Allocation Methods - Example

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 function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include **depreciation, interest, and office and occupancy**, which are allocated on a square-footage basis, as well as **salaries and benefits**, which are allocated on the basis of estimated time and effort.

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Disclosures of Allocation Methods – United Way Example

Summary of Significant Accounting Policies

Functional Allocation of Expenses

The consolidated statements of functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area of UWW are reported as expenses of those functional areas. A portion of General and Administrative costs that benefit multiple functional areas (indirect costs) have been allocated across Programs and Other Supporting Services based on the proportion of full-time employee equivalents of a program or other supporting service versus the total organizational full-time employee equivalents.

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Reminders about Expense Reporting

- Report expenses, either on the face of financial statements or in the notes, by:
  - Function*
  - Natural classification
  - Analysis (disaggregate function by nature)

  * *currently required in GAAP*
- NFPs are required to provide qualitative disclosures about methods used to allocate costs among program and support functions.
- ASU also provides enhanced guidance on the allocations from M&G expenses.
  - Key concept: direct conduct or direct supervision

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Direct Conduct or Direct Supervision

- Activities that represent direct conduct or direct supervision of program or other supporting activities **require allocation** from management and general activities

- Examples of Direct Conduct or Direct Supervision from ASU
  - CEO – could be allocated to program, fundraising and M&G
  - CFO – could be allocated to M&G and investment expense for time spent managing investment strategy
  - Human Resources – 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
  - IT – would be allocated across various functions that are benefited

Implementation Guidance Related to Expense Reporting

- Will need to present by function and nature in one location:
  - Face of statement of activities
  - Separate statement of functional expense
  - Footnote
- External and direct internal expenses that are netted against investment return <u>**should not**</u> be included in the functional expense analysis.

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Implementation Guidance Related to Expense Reporting

- Many will need to supplement disclosures about the methods used to allocate costs. It is recommended that this be done in the significant accounting policies footnote.
- Consideration of cost allocations – does your current practice comply with the key concept: direct conduct or direct supervision?

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Investment Return

- Investment return reported net of external and direct internal investment expenses
- No longer required to disclose netted expenses
- Does not apply to programmatic investments
  - The activity of making loans or other investments that are directed at carrying out a not-for-profit entity's purpose for existence rather than investing in the general production of income or appreciation of an asset (for example, total return investing)
  - Example of programmatic investing would be a loan made to low-income individuals to promote home ownership

Direct Internal Investment Expenses

- Involve the direct conduct or direct supervision of the strategic and tactical activities involved in generating investment return. Examples are:
  - Salaries, benefits, travel and other costs associated with the officer and staff responsible for development and execution of investment strategy
  - Allocable costs associated with internal investment management and supervising, selecting and monitoring of external investment management firms
  - DO NOT include items that are not associated with generating investment return such as costs associated with unitization and other such aspects of endowment management

ASU 2014-09 (ASC 606)

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Management Considerations

- Determine the types of revenue streams
  - Contributions
  - Grants
  - Contracts
- Does the resource provider **receive commensurate value in return** for the resources provided?
  - If yes, exchange transaction and ASC Topic 606.
  - If no, ASU 2018-08 or other guidance.
- Determine materiality and significance

Effective Dates

Effective date of ASC 606	Calendar year end entities	June 30 year end entities
Public entities*, quarter and year beginning…	January 1, 2018	July 1, 2018
Other entities, year ending…	December 31, 2019	June 30, 2020
Early adoption of ASC 606		
Allowed for both public entities and other entities…	As early as January 1, 2017	As early as July 1, 2017

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Core Principle

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.

Revenue Recognition – Key Steps

Key Components

- **Overall model** is based on transferring control instead of transferring risks and rewards of ownership.
- **Collectability** assessment is different and the revenue recognition model used when collectability is not probable could result in delayed revenue recognition (even with respect to nonrefundable cash received).
- **Multiple-element arrangements** are subject to the following new requirements:
  - For separation purposes, must apply incremental criterion focused on whether a promised good or service is separately identifiable from other promised goods or services in the contract.
  - For allocation purposes, must allocate discounts and (or) variable consideration to less than all performance obligations in certain circumstances.
- **Warranties** are evaluated to determine if they represent a performance obligation to which revenue is allocated.
- **Variable consideration** may be recognized earlier in certain circumstances.

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Key Components

- **Significant financing component** guidance is applied to both deferred and advance payments, which may result in the recognition of interest income (deferred payment) or interest expense (advanced payment).
- **Recognition of revenue over time or at a point in time** (i.e., whether control of a performance obligation's promised goods or services transfers over time or at a point in time) depends on whether one or more of three specific criteria are met.
- **Balance sheet presentation** requires separate recognition of contract liabilities, accounts receivable and contract assets.
- **Disclosure requirements** are significant and likely involve tracking (and disclosing) a variety of information not historically tracked or disclosed.
- **Costs related to customer contracts** (e.g., costs to obtain or fulfill a customer contract) must be capitalized in certain circumstances.

AICPA Revenue Recognition Guide

- Issued in November 2016
- Last Updated: April 2018
- Continuously update
- Chapter 8 – Not-for-Profit Entities

Chapter 8: Not-for-Profit Entities

- Bifurcation of Transactions between Contribution and Exchange Components
- Tuition and Housing Revenues
- Membership Dues
- Government Grants (FASB issued ASU 2018-08)

Bifurcation

- Examples of transactions that may be in part a contribution and in part an exchange transaction include the following:
  - Membership dues
  - Grants, awards, and sponsorships
  - Naming opportunities
  - Donor status
  - Gifts in kind

Bifurcation

- ASC 958-605-55-2
  - "… A grant, sponsorship, or membership may be entirely a contribution, entirely an exchange, or a combination of the two…"
- ASC 958-605-55-6
  - "Moreover, a single transaction may be in part an exchange and in part a contribution… See paragraphs 958-720-45-18 through 45-19… 958-220-55-11 through 55-15 for direct benefits provided to donors at special events."

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ASU 2018-08

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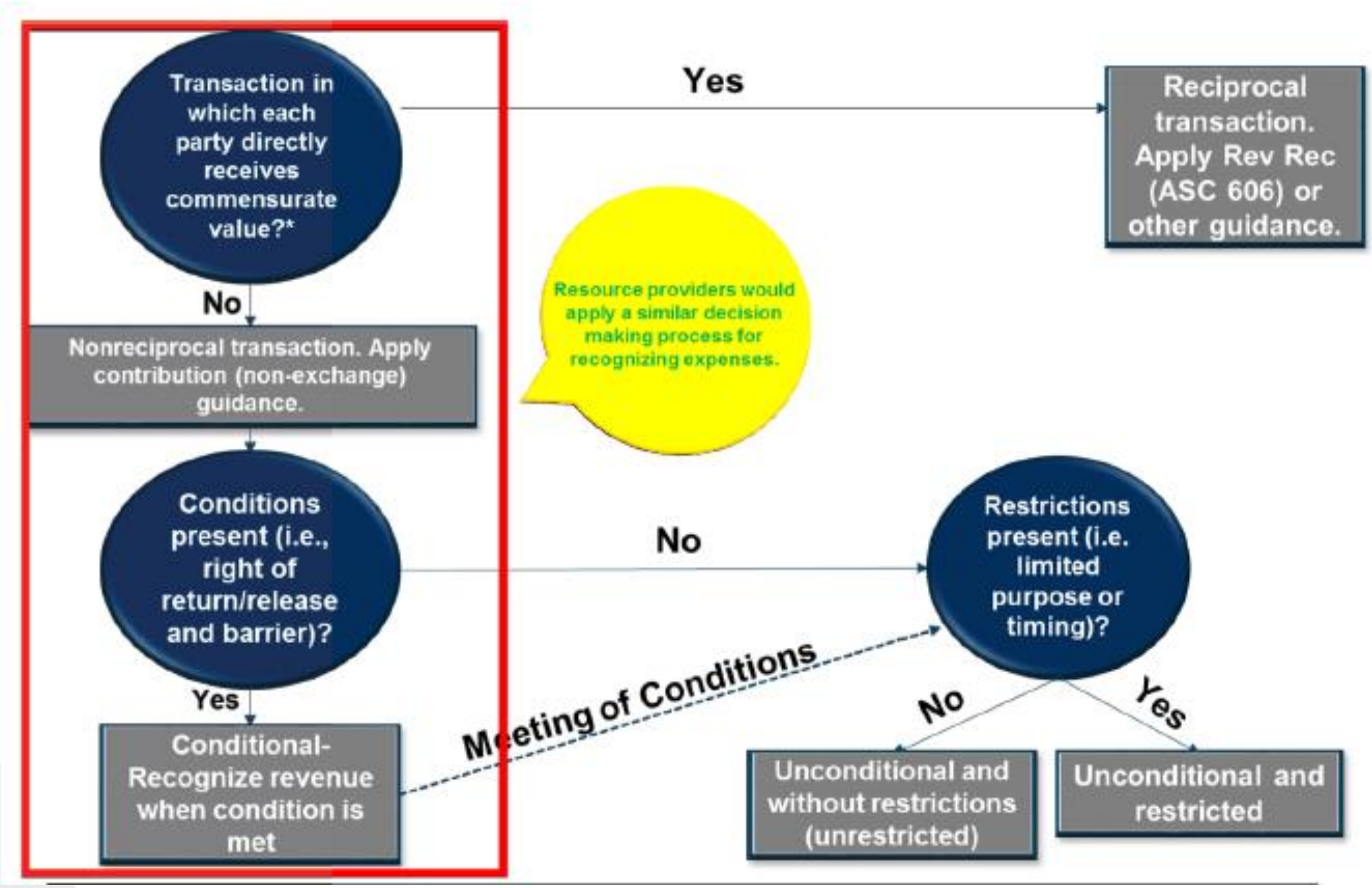
Effective Dates

Recipients*		Resource Providers	
Annual periods beginning after June 15, 2018, including interim periods: • Public Business Entities • NFP that has issued, or is a conduit bond obligor for securities that are traded, listed, or quoted on exchange or an over-the-counter market.	Annual periods beginning after December 15, 2018, and interim periods beginning after December 15, 2019: • All Other Entities	Annual periods beginning after December 15, 2018, including interim periods: • Public Business Entities • NFP that has issued, or is a conduit bond obligor for securities that are traded, listed, or quoted on exchange or an over-the-counter market.	Annual periods beginning after December 15, 2019, and interim periods beginning after December 15, 2020: • All Other Entities

ASU 2018-08

- ASU-2018-08, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made, was finalized and released in June 2018.
  - Applies to all entities that receive or make contributions.
  - Applies to both contributions received by a recipient and contributions made by a resource provider.
  - The term used in the presentation of financial statements to label revenue is not a factor in determining whether an agreement is within the scope of guidance.

NFP Revenue Recognition Decision Process



Issue 1: Who Receives the Benefit?

- The resource provider is **not** synonymous with the general public, even a governmental entity. If a resource provider receives value indirectly by providing a societal benefit, this would be considered a nonreciprocal (or non-exchange) transaction.
- If the primary beneficiary of a grant or contribution is a third party, an NFP must use judgment to determine if the transaction is an exchange or non-exchange transaction.
- Furthering a resource provider's mission or "feel good" sentiment does not constitute commensurate value received.
- The type of resource provider should not override the substance of the transaction.

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Issue 2: Conditional vs. Unconditional Contributions

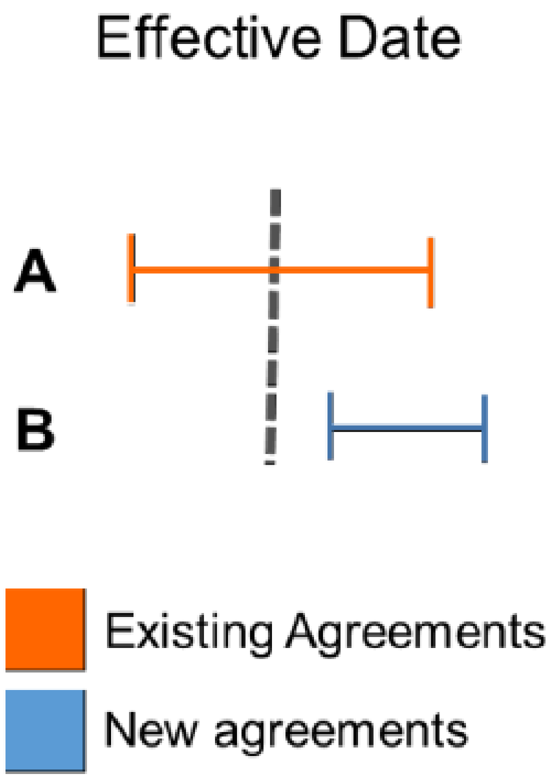
For a donor-imposed condition to exist:

- A right of return/release must exist;

AND

- The agreement must include a barrier
  - Indicators include, but are not limited to, the following:
    - Inclusion of a measurable performance-related barrier.
    - Extent to which a stipulation limits discretion by the recipient on the conduct of an activity.
    - Extent to which a stipulation is related to the purpose of the agreement.

Transition Guidance



- **Modified Prospective**
  - **Apply to all agreements:**
    - Existing at the effective date (only apply to the portion of existing agreements not previously recognized)
    - Entered into after the effective date
- **No restatement of prior amounts recognized**
- **Retrospective Application Permitted**

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