FASB / Nonprofit Reporting Changes

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Agenda

- NFP financial report standard
- Contributions and exchange transactions
- Other

ASU 2016-14, Topic 958

- First major set of changes to Not for Profit (NFP) financial statement presentation standards since the issuance of FASB Statement No. 117, *Financial Statements for Not-for-Profit Organizations*, in 1993.
- Net assets classification
- Liquidity and risk
- Expenses
- Statement of cash flows

Net Assets Classifications

- Temporarily and permanently restricted classes of net assets combined into ***net assets with donor restrictions***.
- Unrestricted net assets renamed ***net assets without donor restrictions***.
- Consistent with current GAAP, NFPs must continue to provide relevant information about the nature and amounts of donor restrictions on net assets (either on the face of the statement of financial position or in notes).

SFP Presentation

Net assets:	
Without donor restrictions	$ 100,000
With donor restrictions	125,000
Total net assets	$ 225,000

Minimum presentation required

Alternate disaggregation allowed

Net assets:	
Without donor restrictions	
Undesignated	$ 80,000
Designated by the Board	20,000
	100,000
With donor restrictions	
Time restricted	75,000
Purpose restricted	35,000
Perpetual in nature	15,000
	125,000
Total net assets	$ 225,000

Example Note 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 - Housing development	$ 30,000
Program B - Purchase of equipment	5,000
	35,000
Subject to the passage of time:	
For periods after 2018	75,000
Subject to Organization spending policy:	
Investment in perpetuity	15,000
Total net assets with donor restrictions	$ 125,000

Example Note Disclosure – Board Designations

Text in note disclosures

Note X – Net Assets Without Donor Restrictions

The Board of Directors of the Organization has several standing board policies that affect the presentation of board designations on net assets. Bequests without donor restrictions are $5,000, designated for long-term investment (quasi-endowment). The quasi-endowment balance totaled $4,500 at December 31, 2018. 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 immediate liquidity need. The operating reserve totaled $15,000 at December 31, 2018.

Tabular disclosure on face of the SFP

Net assets without donor restrictions:	
Undesignated	$ 80,000
Quasi-endowment	5,000
Operating reserve	15,000
	$ 100,000

Statement of Activities - Example

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support			
Contributions	$ 100,000	$ 30,000	$ 130,000
Investment return, net	21,000	-	21,000
Other	6,000	-	6,000
Net assets released from restrictions	57,000	(57,000)	-
Total revenues and other support	184,000	(27,000)	157,000
Expenses			
Program A	42,000	-	42,000
Program B	37,000	-	37,000
Management and general	14,000	-	14,000
Fundraising	4,000	-	4,000
	97,000	-	97,000
Change in net assets	87,000	(27,000)	60,000
Net assets at beginning of year	13,000	152,000	165,000
Net assets at end of year	$ 100,000	$ 125,000	$ 225,000

Liquidity

- Qualitative information in the notes that communicates how an NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date.

- Quantitative information either on the face of the balance sheet 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 balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date.

- Availability affected by nature of assets as well as external and internal limitations.

Qualitative Liquidity Disclosure – Example 1

The Organization periodically designates a portion of any operating surplus to its liquidity reserve. As of December 31, 2018, the liquidity reserve was $15,000. The liquidity reserve is a 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, the Organization could also draw upon an available line of credit of $2 million or the quasi-endowment fund.

Qualitative Liquidity Disclosure – Example 2

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations come due. The Organization also invests cash in excess of daily requirements in short-term investments. To manage unanticipated liquidity needs, it has committed lines of credit in the amount of $2 million, which it could draw upon as well as a liquidity reserve of $15,000 and a quasi-endowment of $ 5,000. 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).

Quantitative Liquidity Disclosure – Example 1

Financial assets at December 31, 2018	$ 205,000
Less:	
Financial assets unavailable for general expenditures - contractual/donor-imposed restrictions	(110,000)
Liquidity reserve	(15,000)
Quasi-endowment fund, primarily long-term investing	(5,000)
Financial assets available within one year to meet cash needs for general expenditures	$ 75,000

Quantitative Liquidity Disclosure – Example 2

The Organization's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Cash and cash equivalents	$	42,000
Accounts receivable		11,000
Contributions receivable		6,000
Short-term investments		9,000
Other investments appropriated for current use		7,000
Financial assets available within one year to meet cash needs for general expenditures	$	75,000

Expenses

- NFPs will be required to disclose expenses by natural classification either on the face of the statement of activities or in the notes to the financial statements.

- Retains the current requirement for NFPs to report expenses by their functional classification either on the statement of activities or in the notes to the financial statements.

- Requires NFPs to report all expenses (other than netted investment expenses) by function and nature in **one** location. In reporting its expenses, an NFP would be required to show the relationship between its functional and natural classification by disaggregating its functional categories by their natural classification.

Expenses

- Requires enhanced disclosures about the methods used to allocate costs among program and support functions and includes examples of note disclosures on cost allocation methods.

- Refines the definition of *management and general activities.* Provides additional implementation guidance to better depict the types of costs that can be allocated among program and/or support functions and those that should not be allocated.

- If presenting comparative financial statements, NFPs have the option to omit in the year of adoption the analysis of expenses by both functional and natural classification.

Functional Expenses Presentation – Example 1

Expenses	
Program services	
Salaries, benefits, and taxes	56,000
Occupancy costs	8,000
Depreciation	5,000
Supplies	4,000
Other	6,000
	79,000
Management and general	
Salaries, benefits, and taxes	6,000
Occupancy costs	2,000
Depreciation	2,000
Supplies	1,000
Other	3,000
	14,000
Fundraising	
Salaries, benefits, and taxes	2,800
Occupancy costs	400
Depreciation	300
Supplies	200
Other	300
	4,000
Total expenses	97,000

Presentation on statement of activities

Functional Expenses Presentation – Example 2

	Program Services	Supporting Activities: Management & General	Supporting Activities: Fundraising	Total
Salaries, benefits, and taxes	$ 56,000	$ 6,000	$ 2,800	$ 64,800
Occupancy costs	8,000	2,000	400	10,400
Depreciation	5,000	2,000	300	7,300
Supplies	4,000	1,000	200	5,200
Other	6,000	3,000	300	9,300
Total expenses	$ 79,000	$ 14,000	$ 4,000	$ 97,000

Presentation in the notes or in a separate statement

This Presentation Is NOT Allowed

Expenses detailed by natural classification are as follows:

Salaries, benefits, and taxes	$	64,800
Occupancy costs		10,400
Depreciation		7,300
Supplies		5,200
Other		9,300
Total expenses	$	97,000

Expenses detailed by functional classification are as follows:

Program services	$	79,000
Management and general		14,000
Fundraising		4,000
Total expenses	$	97,000

Example Disclosure of Expense Allocation Methods

Note X - 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 programs 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:

- Management and 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

Management and General Expenses

- 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.

- IT - benefits various functions and generally would be allocated
- CEO - could be allocated to program, fundraising, M&G
- CFO - could be allocated to IM&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

Contributions and Exchange Transactions

ASU 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*

- Applicable to all entities that receive or make contributions of cash and other assets (except for transfers of assets from government entities to business entities)
- Provides guidance on determining whether a transaction should be accounted for as a contribution or as an exchange transaction
- Primary aspect of this determination is whether the two parties receive and sacrifice **commensurate value**
- For contributions, follow the guidance in FASB ASC 958-605, *Not-for-Profit Entities-Revenue Recognition*
- For exchange transactions, follow other guidance (for example, FASB ASC 606)

Commensurate Value

- Key point in determination between a contribution and an exchange transaction

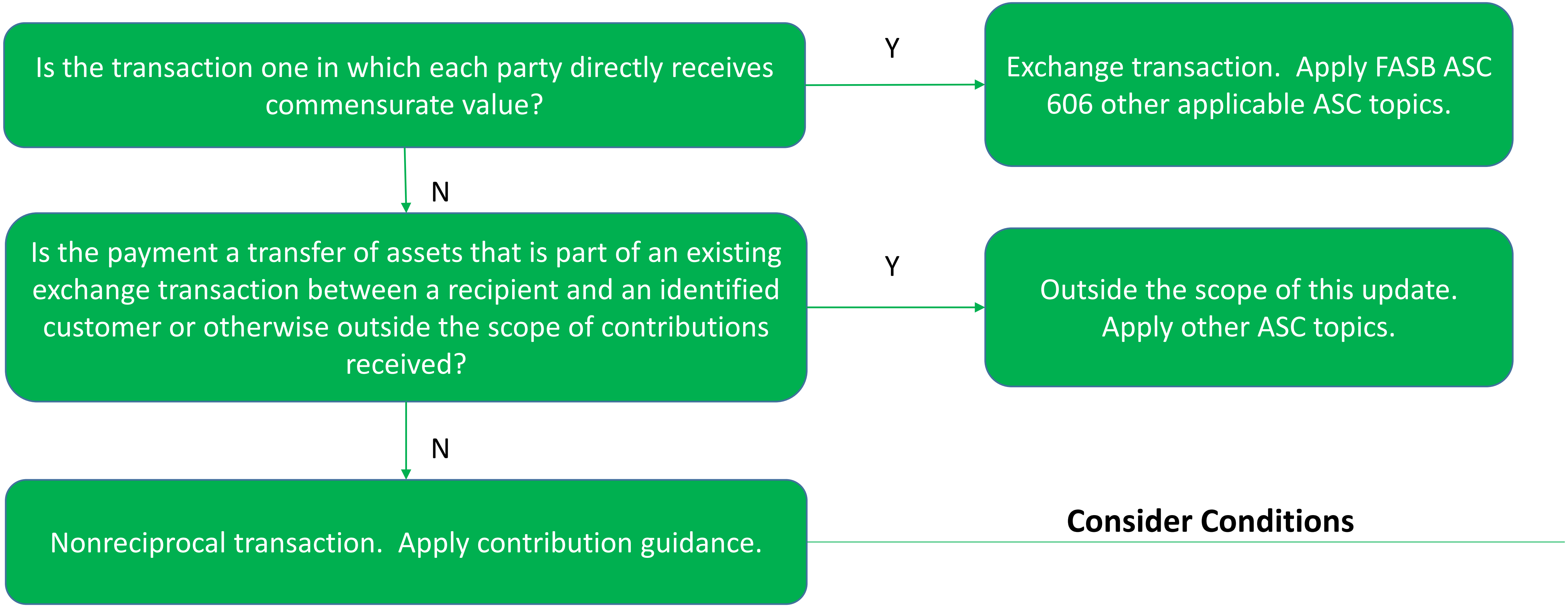
- A resource provider is not synonymous with the general public. A benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider.

- Execution of a resource provider's mission or the positive sentiment from acting as a donor does not constitute commensurate value received by a resource provider for purposes of determining whether a transfer of assets is a contribution or an exchange.

Exchange or Contribution?

Indicative of Exchange	Indicative of Contribution
• Expressed intent by both parties to exchange for commensurate value • Both parties agree on the amount of assets transferred for commensurate value • Existence of contractual provisions for economic forfeiture beyond the amount of assets transferred by the resource provider to penalize the recipient for nonperformance	• Recipient solicits assets without the intent of exchanging goods or services of commensurate value • Resource provider has full discretion in determining the amount of the transferred assets • The penalties assessed on the recipient for failure to comply with the terms of the agreement are limited to the delivery of assets or services already provided and the return of the unspent amount

ASU 2018-08 Framework for Classifying Transfers of Assets



Example – Exchange or Contribution?

Facts: The local government provided funding to NFP C to perform a research study on the benefits of a longer school year. The agreement requires NFP C to plan the study, perform the research, and summarize and submit the research to the local government. The local government retains all rights to the study.

- Is this transaction a contribution or an exchange transaction?

Example – Exchange or Contribution?

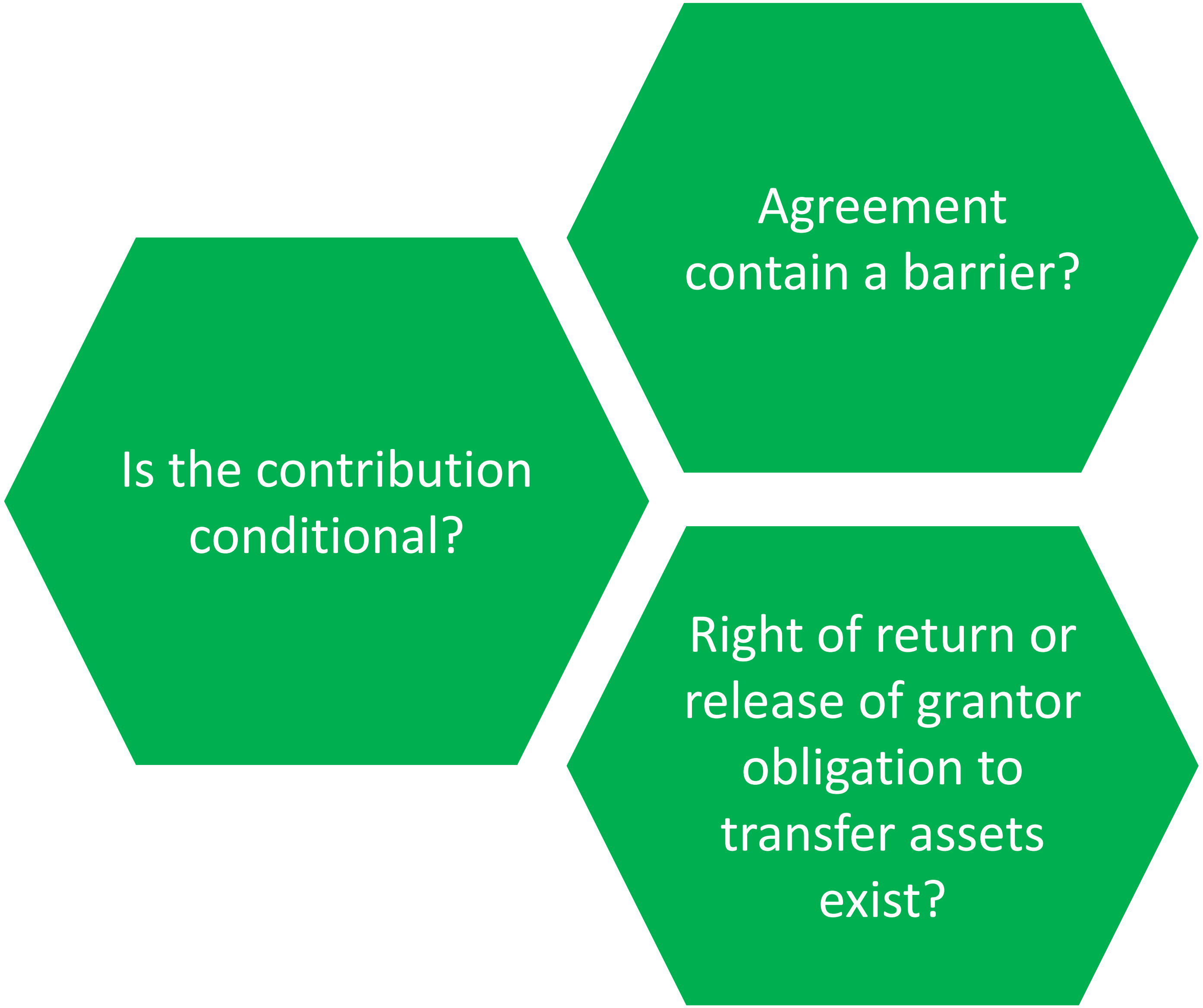
Facts: University D applied for and was awarded a grant from the federal government. University D must follow the rules and regulations established by the Office of Management and Budget of the federal government and the federal awarding agency. University D is required to incur qualifying expenses to be entitled to the assets. Any unspent money during the grant period is forfeited, and University D is required to return any advanced funding that does not have related qualifying expenses. University D also is required to submit a summary of research findings to the federal government, but University D retains the rights to the findings and has permission to publish the findings if it desires.

- Is this transaction a contribution or an exchange transaction?

Conditional Contribution?

- Conditional if both a barrier must be overcome **and** a right of return/release of grantor obligation exists

- Guidance helps in distinguishing between donor-imposed conditions and restrictions



What is a Barrier?

Indicators of a barrier include:

A measurable performance-related barrier, or other measurable barrier, which may be coupled with a time limit

Transferred asset must be spent to achieve a set outcome, identified units of output, or occurrence of specified event

If the stipulation is related to the purpose of the arrangement

Recipient has limited discretion over how transferred assets are spent

Recipient must take additional actions it would not otherwise take to receive the asset

No single indicator is determinative and judgement is required

Stipulations Related to Purpose of Agreement

- Only stipulations related to the purpose of the agreement are considered barriers:
  - Homeless shelter to provide specified number of meals to homeless
  - Animal shelter to expand facility to accommodate specified number of animals
  - Research report summarizing findings from grant on gluten related allergies
- Administrative or trivial stipulations are not indicative of a barrier
  - Routine reporting, including annual production reports generally are administrative
- What about a report on total meals provided to the homeless during the grant period?
  - Providing the meals is the purpose of the agreement, the report is administrative

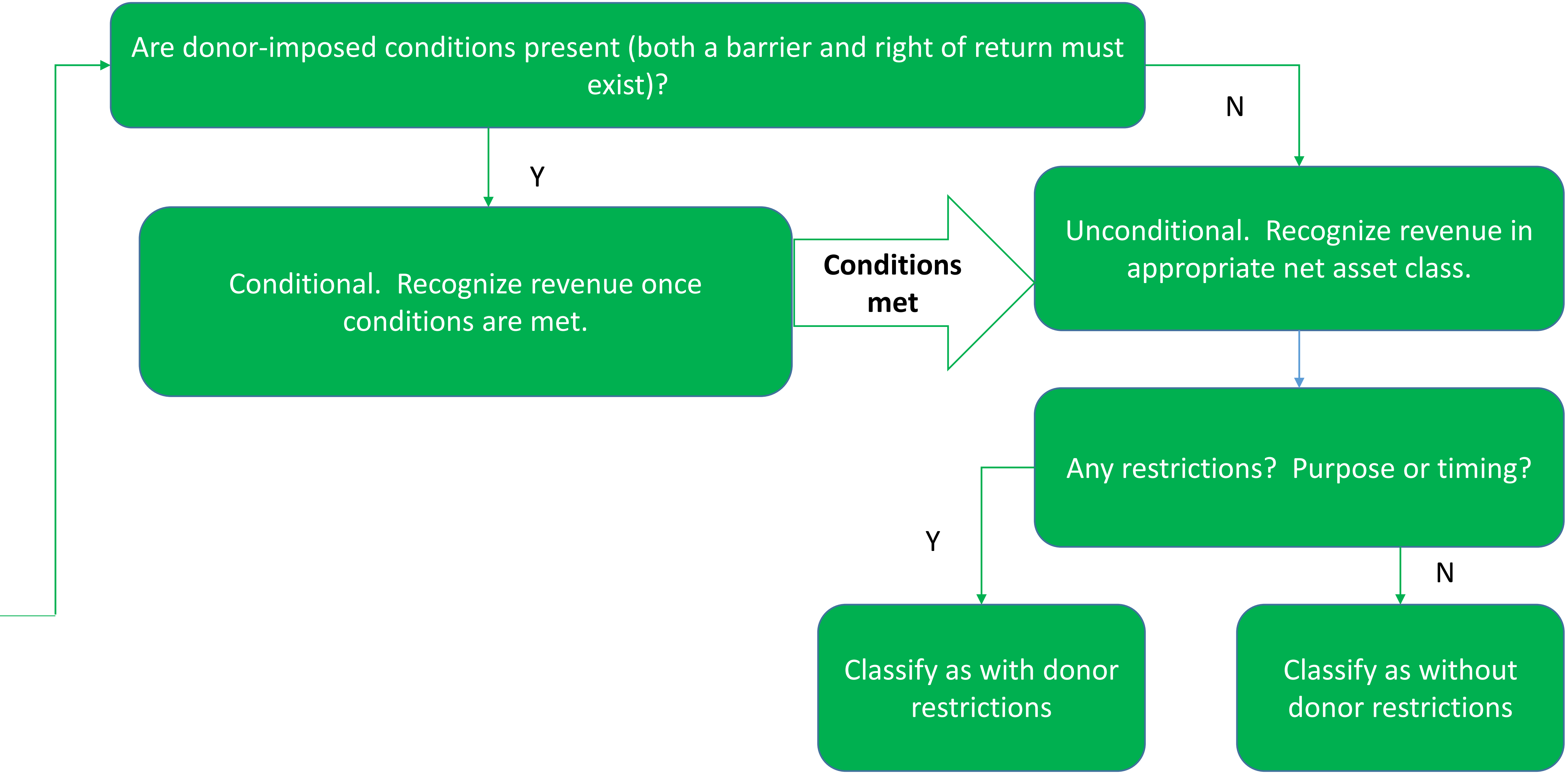
Condition or Restriction?

- Donor-imposed <u>conditions</u> should be substantially met by the entity **before** the receipt of assets (including contributions receivable) is recognized as a contribution.

- In contrast, donor-imposed <u>restrictions</u> limit the use of the contribution to a specific activity or time, but they do **not** affect whether the recipient is entitled to the contribution.

- Limited discretion by the grantee on how an activity may be conducted is often an indicator of a condition. For example, expenses subject to OMB guidelines.

ASU 2018-08 Framework for Recognizing Contributions



Example – Contribution for a Research Grant

Facts: NFP E is a public charity that performs research on various diseases and allergies, including gluten-related allergies, as part of its overall mission. It receives a $100,000 grant from a foundation to perform research on gluten-related allergies over the next year. While the grant agreement does not indicate that a barrier exists, it does include a right of return as part of the foundation's standard wording and a requirement that at the end of the grant period a report must be filed with the foundation that explains how the assets were spent.

- Is the reporting requirement a barrier?
- Is the contribution conditional or unconditional?
- When contribution revenue is recognized, in which net asset class should it be included?

Example – Contribution to a Homeless Shelter

Facts: NFP J operates as a homeless shelter that provides individuals with temporary accommodations, meals, and counseling. NFP J receives an upfront grant of $75,000 from the city for its meals program. The grant requires NFP J to use the assets to provide at least 5,000 meals to the homeless. While the grant agreement contains a right of return for meals not served, management has determined that the likelihood of not meeting the 5,000 meal minimum is remote.

- Is the grant conditional or unconditional?
- How should NFP J record the $75,000 received upfront?
- In which net asset class should NFP J recognize revenue?

Effective Dates

Resource recipients

Effective for annual reporting periods beginning after December 15, 2018 for non-public entities and June 15, 2018 for public companies.

Resource providers

Effective for annual reporting periods beginning after December 15, 2018 for non-public entities and December 15, 2018 for public companies.

Early adoption is permitted.