

Changes in Financial Reporting

The Financial Accounting Standards Board's new Accounting Standard Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* goes into effect for annual financial statements issued for fiscal years beginning after Dec. 15, 2017 and for interim periods within fiscal years beginning after Dec. 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application, and early application of the standard is permitted, but only for an annual fiscal period or for the first interim period within the year of adoption. Entities that present comparative statements can elect to omit certain comparative disclosures in the year of adoption.

The primary purpose of the update is to improve the current net asset classifications and the information presented in the financial statements and footnotes about the not-for-profits liquidity, financial performance and cash flows.

The main provisions taken from the new standard are as follows:

- 1) Changes the characterization on the face of the statement of financial position into two classes of net assets at the end of the period: net assets with donor restrictions and net assets without donor restrictions, rather than for the currently required three category classes - unrestricted, temporarily restricted and permanently restricted.
- 2) Present on the face of the statement of activities the amount of the change in each of the two classes of net assets (noted in item 1). Not for Profit organizations (NFP) would continue to report the currently required amount of the change in total net assets for the period. The update also requires a breakdown of expenses via an expense analysis.
- 3) Continues to present the statement of cash flows using either the direct or indirect method of reporting however, the new standard phases out the direct method reconciliation requirement from the direct method to the indirect method.
- 4) Provides the following enhanced disclosures about:
 - a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the period.
 - b. Composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.
 - c. Qualitative information that communicates how a NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date.
 - d. 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 a NFP's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date.

- e. Report expenses by both their natural classification and their functional classification. The analysis of expenses (as stated in 2) is to be provided in one location, which could be on the face of the statement of activities, as a separate statement, or in the footnotes to the financial statements.
 - f. Method(s) used to allocate costs among program and support functions.
 - g. Underwater endowment funds, which include required disclosures of:
 - 1) A NFP's policy and any actions taken during the period concerning appropriation from underwater endowment funds
 - 2) The aggregate fair value of such funds
 - 3) The aggregate of the original gift amounts (or level required by donor or law) to be maintained
 - 4) The aggregate amount by which funds are underwater (deficiencies), which are to be classified as part of net assets with donor restrictions.
- 5) Report investment return net of external and direct internal investment expenses and no longer requires disclosure of those netted expenses.
- 6) Use the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption.

The full text of the Standard can be found at: [Accounting Standards Update No. 2016-14](#).