ELLIN & TUCKER

SUMMARY OF CHANGES TO NOT-FOR-PROFIT FINANCIAL STATEMENTS

FASB Accounting Standards Update No. 2016-14
Issued August 18, 2016

Summary

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-14, which changes the financial reporting model for not-for-profit organizations (NFPs). The standard is intended to simplify net asset classifications and improve disclosures about liquidity, financial performance, and cash flows.

Background

The new standard began taking shape after the FASB formed the Not-for-Profit Advisory Committee (NAC) in 2009. The NAC recognized there was a need for improvement in not-for-profit financial reporting and has been working on this project since 2011. After extensive research, deliberations, discussions, outreach, and receiving over 260 comment letters on the initial exposure draft, the FASB issued the final standard for Phase 1 of the project. Phase 2 of the project, which includes consideration about requiring a measure of operations on the statement of activities, has been deferred for further study.

Main Provisions

The new standard responds to the need for improvement in several areas of not-for-profit financial reporting, including the following:

- The existing three-category classification of net assets (unrestricted, temporarily restricted, and permanently restricted) will be replaced by a two-category classification (net assets with donor restrictions and net assets without donor restrictions). This revision is a simplified approach that combines the former temporarily restricted and permanently restricted net asset classifications into one category.
- Disclosures will be enhanced to clarify the nature of board-designated and donor restrictions, with an emphasis on how and when the resources can be used.
- Disclosures will be enhanced to include both qualitative and quantitative information about liquidity. Qualitative disclosures include how a NFP manages its available liquid resources. Quantitative disclosures include the availability of financial assets to meet cash needs for general expenditures within one year of the balance sheet date.
- NFPs will continue to have flexibility to decide whether to report an operating subtotal, as well as self-define what is included in or excluded from the operating measure.
- NFPs will be required to present expenses by both natural and functional classifications in one location.
- Enhanced disclosures about the methods used to allocate costs among functional classifications will be required.
- The accounting and disclosure requirements for underwater endowments will be updated.
- NFPs will be required to use the placed-in-service approach for reporting the expiration of restrictions on gifts of long-lived assets, thus eliminating the option to release the restrictions over the useful life of the asset.
- Investment return will be presented net of external and direct internal investment expenses on the statement of activities. The requirement to disclose investment expenses that have been netted is eliminated.
- NFPs will continue to have the flexibility to choose between the direct and indirect method of reporting cash flows. The requirement to use the direct method for cash flows in the April 2015 exposure draft has been excluded from the final standard.

Effective Date

The standard will take effect for not-for-profit organizations for fiscal years beginning in 2018. In other words, the standard will affect financial statements for the years ending December 31, 2018 and June 30, 2019. Early application is permitted.

Additional Resources

More information and resources on the standard are available on the FASB website at www.fasb.org.