Summary of Accounting Standards Update 2016-14 Not-for-Profit Entities:

Presentation of Financial Statements of Not-for-Profit Entities

Effective for Years Ending December 31, 2018 or Later

	CURRENT STANDARDS	NEW STANDARDS	IMPACT
Net Asset Classes	**Three** net asset classes ***(unrestricted, temporarily restricted, and permanently restricted).***	**Two** net asset classes ***(without donor restrictions and with donor restrictions).***	• Simplified financial statement presentation and more understandable for readers. • Additional details may still be disclosed.
Donor-Restricted Endowments	Donor-restricted endowments could have a portion of the balance in any of the three net asset classes, which is not easily understood.	The entire donor-restricted endowment balance (i.e. the original gift or corpus, cumulative earnings, or underwater balance) is grouped together in the ***with donor restrictions*** net asset class.	• Footnote table disclosures have been reformatted, but still provide similar information about the balances of the original gift and accumulated gains. • Simplifies the accounting by recording it all in the same net asset class.
Board Designated Net Assets	Disclosing information about board designations is currently **optional** for footnote disclosure or financial statement presentation.	**Requires** disclosure of amounts and purposes of internal governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions, especially when a measure of operations is included.	• If board designations are used to manage operating results, the new requirements will provide insight into how this is done. • Board designations affect the perception of an organization's liquidity, so it may affect how or where to include disclosures.
Functional Expenses	Only certain types of nonprofits are required to present a statement of functional expenses with information about expense amounts by both natural and functional classifications in one place.	**All** nonprofits are required to present together in one place the amounts of expenses by both their natural and functional classifications. The location of the presentation is **optional** and may be presented in the statement of activities, a separate statement of functional expenses, or a financial statement footnote.	• Consistent treatment and enhanced comparability for all nonprofits. • Additional details for readers to question. • Provides a more complete picture of how resources are utilized by the organization.
Expense Allocations	There is very little guidance currently from the FASB on allocating shared costs between program and supporting activities. Disclosures about the methods of allocating costs between program and support functions is optional.	The definition of management and general activities has been expanded to include the concept of ***direct conduct or supervision*** in order to allocate costs to other program or support functions, with four very common types of allocable costs. You must also disclose additional **qualitative details** about the method(s) used to allocate costs among program and support functions.	• More costs are likely to be considered management and general that don't meet the definition of direct conduct or supervision (e.g. CEO, CFO, HR department, and grant accountant). • Qualitative disclosures will provide additional details on the allocation bases used for costs (i.e. time estimates, square feet, etc.).

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Investment Returns and Expenses	Investment-related expenses may be presented either as netted against investment returns or as part of total expenses. Also, the components of investment returns, including expenses, are required to be disclosed in the footnotes.	Investment-related expenses should be netted with investment returns. Investment-related expenses include both external and direct internal expenses. The separate disclosure of investment expenses is no longer required.	• Consistent treatment and disclosure for all nonprofits. • Use judgment, since allocating external and direct internal expenses reduces general and administrative expenses, but it will also reduce net investment returns and performance.
Statement of Cash Flows	You may present the statement of cash flows using either the indirect or direct method. If the direct method is used, an additional reconciliation of operating cash flows using the indirect method is required. Currently, the indirect method is mostly used in practice.	You may still present the statement of cash flows using either the indirect or direct method. However, the requirement for a reconciliation of indirect operating cash flows is no longer required if the direct method is elected.	• Reduced a duplicative requirement to encourage a broader use of the direct method. • FASB trying to emphasize the direct method as more meaningful information for stakeholders.
Capital Gifts	Capital gifts of cash or other assets to be used to acquire or construct a long-lived asset are initially record as temporarily restricted gifts. Absent any explicit donor stipulations, the restriction may be released by electing one of **two options**, **1)** the placed-in-service approach; or **2)** release the restricted balance ratably over the estimated useful life of the related asset.	Absent any explicit donor stipulations, release restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset using the **placed-in-service approach** (i.e. release the entire balance of restricted funds once the asset begins depreciating) and reclassify any amounts from *net assets with donor restrictions to net assets without donor restrictions.*	• Consistent treatment and enhanced comparability for all nonprofits. • Placed-in-service approach is more balance sheet and liquidity focused. • If you used to release restrictions ratably, **review debt covenants** with lenders, since there will now be depreciation expense with no offsetting income for the ratable release of restrictions.

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Liquidity Disclosures	No currently required liquidity disclosures. However, the balance sheet is expected to be sequenced based on the relative liquidity and financial flexibility of assets and liabilities.	Disclosures about liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date by including **1) *qualitative information*** about how the organization manages its liquid resources; **and 2) *quantitative information***, either on the face of the balance sheet or in the notes that communicate the availability of financial assets at the balance sheet date to meet cash needs. Availability of a financial asset may be affected by (1) its nature, (2) external limits imposed by donors, grantors, laws, and contracts with others, and (3) internal limits imposed by governing board decisions.	• Equivalent to presenting a classified balance sheet, with tweaks for restricted or unavailable funds, and where working capital can be easily calculated is an option. • Expect donors and lenders to pay attention to these disclosures. • There is also a new going concern standard that could make this disclosure an important factor in a going concern analysis. • The FASB left some flexibility for organizations to explain how they manage and analyze liquidity.
Donor Restriction Disclosures	Disclosures are currently required for information about the nature and amounts of different types of donor-imposed restrictions.	The existing disclosure requirements have been enhanced to provide further details and examples on how to show the composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.	• Disclosures of donor restricted balances will likely be broken down at a further level of detail than before.
Endowment Disclosures	• Underwater endowments are considered unrestricted net assets and disclosures are required to present the balance of any underwater endowment balances. • A disclosure is required for the reconciliation of beginning and ending endowment balances and requires the breakout of the components of the associated investment returns.	• Additional disclosures required about underwater donor-restricted endowment funds, including policies about spending from underwater endowments, the fair value of underwater endowments, original gift amounts, and the balance of deficiencies of underwater endowments. • Disclosures related to a reconciliation of beginning and ending endowment balances **no longer require** a breakout of the components of the associated investment returns.	• Underwater endowment balance disclosures provide comparable information as before the new standard. Policy disclosures give further insight into endowment spending. • New reconciliation disclosures will simplify presentation.

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