

FASB Issues ASU2016-14 Presentation of Financial Statements for Not-for-Profit Entities

The Financial Accounting Standards Board (FASB) recently issued an Accounting Standards Update (ASU) and this update is phase 1 of the FASB's efforts to improve and provide more useful information to users of not-for-profit entity financial statements. This will have a significant impact on all nonprofit organizations' financial statements when effective.

A brief summary of the changes are as follows:

1. There will be only two classes of net assets (with donor restrictions and without donor restrictions) presented on the statement of financial position and statement of activities.
2. Either the direct or indirect method of reporting cash flows will be allowed. However, entity's choosing to present the statement of cash flows using the direct method will no longer be required to disclose the indirect method reconciliation.
3. Provide enhanced disclosures about:
 - a. Amounts and purposes of board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources 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 nonprofit manages its liquid resources available to meet cash needs for general expenditures within 1 year of the statement of financial position date.
 - d. 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 a nonprofit's financial assets at the statement of financial position date to meet cash needs for general expenditures within 1 year of the statement of financial position date.
 - e. Amounts of expenses by both their natural classification and their functional classification. This analysis is to be provided in 1 location, which could be on the face of the statement of activities, as a separate statement, or in the notes to the financial statements.
 - f. Methods(s) used to allocate costs among program and support functions.
 - g. Disclosures on underwater endowment funds including policy; aggregate fair value of such funds; aggregate original gift amounts; aggregate amount by which funds are underwater.

4. Report investment return net of external and direct internal investment expenses and no longer require disclosure of those netted expenses.
5. Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations or restrictions on gifts of cash or other assets to be used to acquire or construct long-lived assets (thus eliminating current option to release donor-imposed restriction over the estimated useful life of the acquired asset).

Effective Date

Effective for annual financial statements issued for fiscal years beginning after December 15, 2017, early application is permitted. Amendments should be applied on a retrospective basis in the first year adopted. If comparative financial statements are presented, the nonprofit has the option to omit the following information for any periods presented before the period of adoption:

- a. Analysis of expenses by both natural classification and functional classification, unless the nonprofit was previously required to present a statement of functional expenses.
- b. Disclosures about liquidity and availability of resources.

In the period the amendments are first applied, a nonprofit should disclose the nature of any reclassifications or restatements and their effect, if any, on changes in the net asset classes for each period presented.