November 18, 2016

Preparing Your Financial Statements (and Organization) for the Reporting Model Changes

HIGHER EDUCATION, NOT-FOR-PROFIT
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In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities, which provides some of the most sweeping changes to the reporting guidance for not-for-profit entities in more than 20 years. This guidance is focused on reporting aspects, rather than changing the existing accounting policies and practices.

ACCOUNTING STANDARDS UPDATE (ASU) 2016-14, NOT-FOR-PROFIT ENTITIES

The question is what your entity can do now to start preparing itself for ASU 2016-14's adoption, which will be required for fiscal years beginning after December 31, 2017. As a reminder, the FASB's goal with this change is to enhance the user's understanding of the following within the financial statements and accompanying notes:

1. Availability of resources to meet cash needs for general expenditures within one year of the date of the statement of financial position

2. Liquidity and financial flexibility

3. Financial performance during the period

4. Service efforts and ability to continue providing services

5. Execution of its stewardship responsibilities and other aspects of its management's performance.

   While, in most cases, life will be easier due to the combining of temporarily and permanently restricted net assets into one category, not-for-profit entities will need to carefull review existing agreements to ensure that they understand what resources can be spent and on what time horizon and the impact ultimately on liquidity and operations, since this will be part of the required disclosures.

Beyond the donor-restricted net assets, not-profit-entities should also review items such as loan and bond agreements to determine if there are restrictions that might need to be enhanced or disclosed as part of this transition, since these can have a tremendous impact on the not-for-profit's financial flexibility.

Not-for-profit entities will need to re-evaluate their existing board spending policies to determine what discretion management has to spend versus what must be approved by the board, since this can be an important component of liquidity. In addition, amounts released from board-designated funds will gain prominence on the statement of activities to inform the readers about their impact on the current-year results.

With additional focus on the reporting of expenses in both the natural and functional classifications, not-for-profit entities should begin to review their expense allocation methodologies to ensure that the story told is both relevant and reflective to of the Organization's current mission and activities.

Above all, the management team should continue to focus on evaluating the results of operations and resulting cash flow, since these current-year measures may be worth discussing within these disclosures, due to the additional focus on liquidity and flexibility and how those results can be part of the organization achieving its long-term goals.

Similar to the exercise that many not-for-profits went through when first developing their endowment disclosures, this will require time and effort to review this information.   In some cases, your organization will need to upgrade or enhance existing systems to ensure that you can accurately track the information required. This information should be carefully vetted and reviewed, since your users will likely be asking more questions about how your organization compares to other not-for-profit entities as a result of these changes.

Contact us for more information regarding the FASB update on not-for-profit financial reporting and visit our not-for-profit services page to learn more about our industry group.

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