New Rule Changes the Way You'll Report Financial Information

Get ready to make some changes in the way you prepare your financial statements. Here's a rundown of the new accounting standard.

By Kim Fusco

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

The new standard will take effect for fiscal years beginning in 2018. In other words, the standard will affect your financial statements for the years ending December 31, 2018 and June 30, 2019. Early application is permitted.

Here are the changes:

The existing three-category classification of net assets (unrestricted, temporarily restricted, and permanently restricted) has now been replaced by a two-category classification:

- net assets with donor restrictions
- net assets without donor restrictions.

This revision combines the former "temporarily restricted" and "permanently restricted" classifications into one category.

Disclosures have been enhanced to clarify the nature of board-designated restrictions and donor restrictions. There is an emphasis on how and when you can use these resources.

Disclosures now include both qualitative and quantitative information about liquidity:

- Qualitative disclosures include how you manage your 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.

You are now required to present expenses by both natural and functional classifications in one location.

The accounting and disclosure requirements for underwater endowments have been updated.

> "The standard will affect your financial statements for the years ending December 31, 2018, and June 30, 2019."

The new standard requires you to use the placed-in-service approach to report the expiration of restrictions on gifts of long-lived assets. The option to release the restrictions over the useful life of the asset has been eliminated.

In reporting your investment returns, you can simply present the return 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.

You now are required to provide enhanced disclosures about the methods used to allocate costs among functional classifications.

You 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. You will also still have the flexibility to choose between the direct and indirect methods 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.

More information and resources on the new standard are available on the FASB website (FASB.org).

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