

# 2019 Accounting Updates and Changes for Not-for-Profits Guide

ASU 2016-14  
ASU 2018-08

## Accounting Standard Update (ASU) 2016-14

### Presentation of Financial Statements of Not-for-Profit Entities

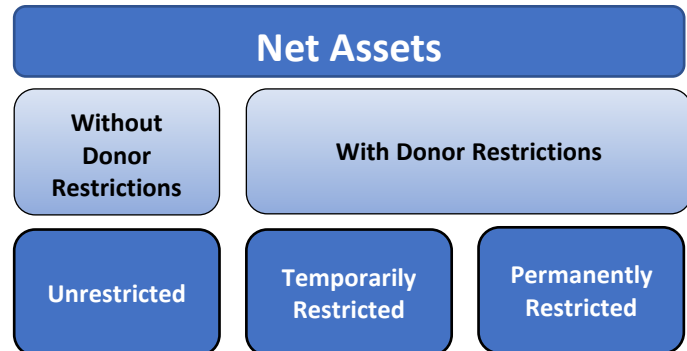
#### What is it?

New requirements meant to improve the information presented in financial statements and notes regarding a not-for-profit entity's liquidity, financial performance and cash flows.

#### What are the requirements?

##### *Net Asset Classification*

- Change from three classifications to two
- Enhanced disclosures on the composition of net assets with donor restrictions
- Enhanced disclosures of Board Designated funds, including: purpose, amount, type of transfer, qualitative and quantitative information about any period-end balances of board designations of net assets without donor-imposed restrictions



##### *Underwater Endowment Funds*

- Provide the following enhanced disclosures:
  - (1) the organization's policy, and any actions taken during the period, concerning appropriation from underwater endowment funds, (2) the aggregate fair value of such funds, (3) the aggregate of the original gift amounts (or level required by donor or law) to be maintained, and (4) the aggregate amount by which funds are underwater (deficiencies), which are to be classified as part of net assets with donor restrictions.

##### *Fixed Assets*

- In the absence of explicit donor stipulations, use the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset.

##### *Liquidity disclosures*

- Provide the following enhanced disclosures about:
  - Qualitative information that communicates how an organization manages its liquid resources available to meet cash needs for general expenditures within **one year** of the balance sheet date.
  - Quantitative information that communicates the availability of an organization's financial assets at the balance sheet date to meet cash needs for general expenditures **within one year** of the balance sheet date.
  - 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.

#### When will the amendments be effective?

The amendments are effective for:

- annual financial statements issued for **fiscal years beginning after December 15, 2017**, and
- interim periods within **fiscal years beginning after December 15, 2018**.

These are select highlights from ASU 2016-14. For the full update, visit [www.fasb.org](http://www.fasb.org).

## Accounting Standard Update (ASU) 2018-08

### *Clarifying the Scope and Accounting Guidance for Contributions Received and Made*

#### What is it?

Clarification and improvements in the scope and accounting guidance for contributions received and contributions made. The amendments should assist entities in: (1) evaluating whether transactions should be accounted for as contributions (i.e. nonreciprocal transactions) within the scope of existing guidance, or as exchanges (i.e. reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional.

#### Issue #1: Which to follow: ASC 606 or ASC 958-605?

- Clarification on determining whether the transfer of assets is an exchange transaction (reciprocal) or contribution (nonreciprocal)
- Was commensurate value received by the resource provider in return for the assets?
- Resource provider **is not** synonymous with the general public
  - Indirect value or societal benefit = Nonreciprocal
  - Emphasis on the primary beneficiary
  - Furthering a resource provider's mission or "feel good" sentiment does not commensurate value received
  - Type of resource provider should not override the substance of the transaction

#### Issue #2: Conditional or Unconditional Contribution?

- Determines whether to record now or later
- For a donor-imposed condition to exist:
  - A right of return/release must exist **AND**
  - Agreement includes a barrier that must be overcome
- There is no assessment of the likelihood of failure

#### Other Requirements

- Reporting election required to be made from three options:
  - Report all restricted contributions received and restrictions met in the same period as without donor restrictions
  - Report only the contributions received and simultaneously released as without donor restrictions and all other restricted contributions with donor restrictions
  - Report all restricted contributions received and released as contributions with donor restrictions
- Conditional promises to give are required to be disclosed
  - Description and amount for each group of outstanding conditional contributions
    - Cost reimbursement grants – disclose unspent portion

#### Tips for Implementation

- Inventory and review all contracts
  - Meet with Development department
  - No practical expedients or portfolio approach provided
  - Each contract requires individual review and determination
- For agreements determined to be nonreciprocal
  - Determine if a barrier AND right of return/release exists
- Consider the effects on your financial statements
  - What policy elections have been made?
- Review internal controls and processes
  - Update your policies and procedural manual
  - Implement additional review controls
  - Changes in the general ledger structure
  - Implement controls over determining when a condition and/or restriction has been met

#### When will the amendments be effective?

- Resource recipients - generally **fiscal years beginning after December 15, 2018**
- Resource providers – generally **fiscal years beginning after December 15, 2019**

These are select highlights from ASU 2018-18. For the full update, visit [www.fasb.org](http://www.fasb.org).