This presentation has been prepared to help stakeholders understand the current status of the NFP project of the FASB, and accounting standards updates. The views expressed in this presentation are those of the presenters. Official positions of the FASB are reached only after extensive due process and deliberations.
Agenda

FASB Accounting Standards Update

FASB Financial Statements Project, Recent Exposure Draft
- Why is the FASB doing the project?
- What changes did the FASB propose?
- What are they hearing in response?
- What happens from here?
- Q&A

Appendix

FASB Accounting Standards Update

Revenue Recognition (ASU 2014-09)
- Implementation Activities
Revenue – Effective Date

Original effective dates
- CY 2017 (FY 2017-18) for public entities* (including interim)
- CY 2018 (FY 2018-19) for nonpublic entities (no interim, just annual period; interims in subsequent years)
- Nonpublic entities may adopt early, but no earlier than public entities

Deferred effective dates
- CY 2018 (FY 2018-19) for public entities* (including interim)
- CY 2019 (FY 2019-20) for nonpublic entities (no interim, just annual period; interims in subsequent years)
- Early adoption permitted, but not before original effective date

* Public entities include NFPs with publicly-traded conduit (or direct) debt

Revenue – Project Objective

Objective: To develop a single, principle-based revenue standard for U.S. GAAP and IFRS

- The new revenue standard aims to improve accounting for contracts with customers by:
  - Providing a robust framework for addressing revenue issues as they arise
  - Increasing comparability across industries and capital markets
  - Requiring better disclosure
Revenue – Scope

- All contracts with customers, except certain contracts with other guidance in place/being developed (e.g., leases, financial instruments, insurance, guarantees)
- Also excluded: contributions
  - Customers: obtain control over goods or services produced by an entity’s ordinary activities in return for consideration
- Sales/transfers of nonfinancial assets outside of the entity’s ordinary activities (Subtopic 610-20) also within scope
  - Recognition and measurement guidance only

Revenue – Overview of New Model

Core Principle:

Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services

Steps to apply the core principle:

1. Identify the contract(s) with the customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognize revenue when (or as) a performance obligation is satisfied
Revenue – Disclosure Requirements

**Disclosure objective:** To enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers

**Disclosure requirements** (non-public entity alternative for each category*):

- Disaggregation of revenue
- Information about contract balances
- Transaction price allocated to remaining performance obligations
- Interim requirements (public entities only*)

*Public entities include NFPs with publicly-traded conduit (or direct) debt

FASB/IASB Joint Transition Resource Group for Revenue Recognition (TRG)

**Objectives:**

- To solicit, analyze, and discuss stakeholder issues arising from implementation of the new guidance
- To inform the FASB and the IASB about those implementation issues, which will help the Boards determine what, if any, action will be needed to address those issues
- To provide a forum for stakeholders to learn about the new guidance from others involved with implementation

*The TRG will not issue guidance*
Revenue – Implementation Issues

- For most issues discussed thus far, TRG has concluded that no additional guidance is needed
- FASB issued a proposed ASU with clarification in Topic 606 on:
  - Licenses
  - Performance Obligations
- FASB also proposing some additional practical expedients, and guidance on principal versus agent (reporting revenue gross versus net)

Revenue – Some Areas of Focus for NFPs

- Self-pay Government (and other) grants and contracts
- Membership Dues
- Tuition and Fees
- Licenses and Royalties
- Health Care – various issues, including:
  - Patients
  - Medicare/Medicaid payments (and subsequent audits)
  - Continuing Care Retirement Communities: entrance and other fees
FASB Accounting Standards Update

Noteworthy Recent ASUs
(full list of ASUs since 2014 is included in Appendix)

Going Concern (ASU 2014-15)

• Basically, brings model in GAAS into GAAP
  • Defines “substantial doubt” at the probable threshold
  • Key difference is look-forward period
    • 12 months from issuance date
  • Effective for CY 2016 (FY 2016-17)
Pushdown Accounting (ASU 2014-17)

- Provides option to use when there is change in control as defined in Topic 810 (Consolidations)
  - May be used for new and previous acquisitions
- No GAAP until now; only in SEC literature but with higher required and optional thresholds
  - SEC has now rescinded that guidance
- Value according to acquisition method in Business Combinations guidance (Topic 805);
  - Recognize goodwill, but not bargain purchase gains
- Disclosures concerning impact
- Effective immediately

Simplification Initiative – Types of Complexity To Be Addressed

- Complicated, dense standard obscures its meaning
- Accounting treatment is clear, but applying it is lengthy, convoluted & expensive
FASB Simplification Initiative – Some Final Guidance

Extraordinary Items (ASU 2015-01)

- Concept eliminated from GAAP
- Effective for CY 2016 (FY 2016-17)

Debt Issuance Costs (ASU 2015-03)

- To be reported as direct reduction of debt liability for issued debt (like debt discounts), rather than as separate asset
- Effective for CY 2016 (FY 2016-17)

FASB Simplification Initiative – Some Final Guidance

Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (ASU 2015-07)

- No longer require investments for which FV is measured at NAV (or its equivalent) using practical expedient to be categorized in FV hierarchy
- Clarifies that certain disclosures (e.g., redemption restrictions) only required when practical expedient is actually used
- Effective for CY 2016 (FY 2016-17)
Consolidation (ASU 2015-02)

Specific Considerations for Not-for-Profits

Current Guidance

- Separate accounting model for limited partnerships and similar legal entities (810-20)
- Includes a presumption that a general partner (GP) controls and thus consolidates the limited partnership
- Substantive kick-out or participating rights must exist to overcome the presumption

Amendment

- Eliminates the separate accounting model for partnerships and similar entities
- Eliminates the presumption of control by a GP
- NFPs & LIHTC partnerships
- Adds for limited partnerships and similar legal entities that:
  - They may qualify as Voting Entities if partners have substantive kick-out or participating rights over GP
  - An LP with a controlling financial interest consolidates

Effective for CY 2017 (FY 2017-18)

FASB Accounting Standards Update

Other Ongoing Projects
A lease contract conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.
Lessee Accounting Model

<table>
<thead>
<tr>
<th>Balance Sheet</th>
<th>Income Statement</th>
<th>Cash Flow Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Right-of-use asset</td>
<td>Lease liability</td>
<td>Amortization expense</td>
</tr>
<tr>
<td>Type B</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Right-of-use asset</td>
<td>Lease liability</td>
<td>Single lease expense on a straight-line basis</td>
</tr>
</tbody>
</table>

Short-Term Leases Exemption

Balance Sheet Recognition and Measurement Exemption

<table>
<thead>
<tr>
<th>For leases with a term of 12 months or less</th>
<th>No longer based on maximum possible term; now aligned with definition of lease term</th>
</tr>
</thead>
</table>
## Risk-Free Rate Election (Nonpublic)

### Recognition and Measurement Election

| Accounting policy election to use risk-free rate to measure and remeasure lease liability | Address concerns that it is costly to determine discount rate |

## Lessor Accounting Model

<table>
<thead>
<tr>
<th>Balance Sheet</th>
<th>Income Statement</th>
<th>Cash Flow Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type A Lease</td>
<td>Net investment in the lease</td>
<td>Interest income and any profit on the lease</td>
</tr>
<tr>
<td></td>
<td>Continue to recognize underlying asset</td>
<td>Lease income, typically on a straight-line basis</td>
</tr>
</tbody>
</table>

Type B Lease
Disclosure Framework: Two Components

Improving the effectiveness of notes requires both:

Consistent considerations by the Board in each standard-setting activity

Appropriate exercise of discretion by reporting entities when assessing disclosure requirements

Phase I: Board’s Decision Process

Phase II: Entity’s Decision Process

Disclosure Framework – Next Steps

• Planned Exposure Drafts
  • Entity’s Decision Process
  • Application of Proposed Concepts to Disclosures Relating to:
    • Defined Benefit Plans
    • Fair Value Measurement
• Redeliberate Proposed Concepts in the Disclosure Framework
• Interim Considerations

Defined Benefit Plans

Fair Value Measurement

Income Taxes

Inventory
Entity’s Decision Process – Promoting Discretion

Changes to Codification

- “Provide to the extent material”
- Eliminate language that limits discretion
- Add guidance on applying materiality

Promoting Discretion (cont’d)

<table>
<thead>
<tr>
<th>Guidance on Applying Materiality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applied individually and in the aggregate</td>
</tr>
<tr>
<td>U.S. Supreme Court’s description</td>
</tr>
<tr>
<td>Quantitative and qualitative</td>
</tr>
<tr>
<td>Omission not an accounting error</td>
</tr>
</tbody>
</table>
Staying Current

Best ways to stay current:
- Sign up for electronic *Action Alert*
- FASB on Twitter
- [www.fasb.org](http://www.fasb.org)
  - Pages on FASB website for NFPs
  - Project summaries
  - *FASB in Focus* executive summaries
- Podcasts
- Webcasts

FASB Financial Statements Project

Why is the FASB doing the Project?
NFP Financial Statement Model

• Last overhauled approximately 20 years ago
  • FAS 117 (now codified in Topic 958 of the ASC)
• Represented significant change from previous guidance
  • Significant differences across the sector
  • Significant differences from business entities
• Standards kept at a somewhat high level, with expectation that guidance would evolve in certain areas (e.g., operating measure)
  • Has happened, but to a limited degree

NFP Financial Statements Project — Key Objectives
(recommended by FASB’s NFP Advisory Committee (NAC))

• Update, not overhaul, the current model
• Improve net asset classification scheme
• Improve information in financial statements and notes about:
  • Financial performance
  • Cash flows
  • Liquidity
• Better enable NFPs to “tell their financial story”
## Scope and Types of NFPs

<table>
<thead>
<tr>
<th>Charitable/Public Support</th>
<th>Hybrids</th>
<th>Businesslike</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voluntary Health &amp; Welfare</td>
<td>Performing Arts</td>
<td>Trade &amp; Professional Associations</td>
</tr>
<tr>
<td>Social Service</td>
<td>Operas</td>
<td>Social and Country Clubs</td>
</tr>
<tr>
<td>United Ways</td>
<td>Symphonies</td>
<td></td>
</tr>
<tr>
<td>Religious Organizations</td>
<td>Museums and Zoos</td>
<td>Cemetery Organizations</td>
</tr>
<tr>
<td>Community Foundations</td>
<td>Colleges &amp; Universities</td>
<td></td>
</tr>
<tr>
<td>Public Broadcasting</td>
<td>Fundraising and Supporting Organizations</td>
<td></td>
</tr>
<tr>
<td>Environmental Protection</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Some Children’s Hospitals</td>
<td>Research/Educational Hospitals</td>
<td>Health Care Systems</td>
</tr>
<tr>
<td>Shriner’s Hospitals</td>
<td></td>
<td>Hospitals</td>
</tr>
<tr>
<td>St. Jude’s</td>
<td></td>
<td>Nursing Homes, CCRCs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Physician Practices, HMOs</td>
</tr>
</tbody>
</table>

**Outside the Scope**

Investor-owned entities, employee benefit plans, and entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants. Examples include mutual insurance companies, credit unions, and farm and rural electric cooperatives.

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**What changes did the FASB propose?**
Key elements of proposed change

- Key elements of the Proposal
  - Net asset classes
  - Underwater endowments
  - Operating measure and transfers
  - Investment income - net
  - Reporting of expenses
  - Cash flow statement
  - Liquidity information

Changes in Key GAAP Metrics

<table>
<thead>
<tr>
<th>Line Item</th>
<th>Current</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance Sheet</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted Net Assets</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Temporarily Restricted Net Assets</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>Permanently Restricted Net Assets</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Totals for Assets, Liabilities, and Net Assets</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td><strong>Revenue, Expenses, and Other Changes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Excess/Deficit Before Transfers</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Operating Excess/Deficit After Transfers</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Investment Return, Net</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Health Care Performance Indicator</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Change in Unrestricted Net Assets</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Change in Temporarily Restricted Net Assets</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Change in Permanently Restricted Net Assets</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Total Change in Net Assets</td>
<td>✔️</td>
<td>✔️</td>
</tr>
</tbody>
</table>
Other Significant Proposed Changes

- Reporting of “underwater” endowments, with enhanced disclosure
- Expenses: nature-by-function (choice of location), with related disclosure
- Direct method cash flows (indirect would be optional), with certain realignments
- New required disclosures:
  - Board designations
  - Information useful for assessing liquidity

Net Assets – Issues

- URNA Misinterpretation
- TRNA “Hodgepodge”
- UPMIFA and PRNA/TRNA Distinction
Net Assets

<table>
<thead>
<tr>
<th>Current GAAP</th>
<th>Proposed GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>Without Donor Restrictions</td>
</tr>
<tr>
<td>Temp. Restricted</td>
<td>With Donor Restrictions</td>
</tr>
<tr>
<td>Perm. Restricted</td>
<td></td>
</tr>
</tbody>
</table>

Disclosures

- Amount, purpose, and type of board designations*
- Nature and amount of donor restrictions

* New disclosure requirement

“Underwater” Endowments

Revised net asset classification

- To be reflected in net assets with donor restrictions rather than in net assets without donor restrictions

Enhanced disclosures

- In addition to aggregate amounts by which funds are underwater (current GAAP), also disclose aggregate of original gift amounts (or level required by donor or law) for such funds, fair value, and any governing board policy or decision to reduce or not spend from such funds
Financial Performance: Operating Measures – Current Landscape

Required op. measure?

- Yes
- No

Health Care

Higher Ed

Other NFPs (FAS 117)

Financial Performance: Operating Measures

Defined required intermediate operating measures for all NFPs — based on two dimensions:

Mission (Business & Charitable Activity):
based on whether resources are from or directed at carrying out an NFP’s purpose for existence (generally vs. investing and financing)

Tension Points:
- Interest Expense
- Internal Actions
- Capital-like Transactions

Availability:
based on whether resources are available for current period activities and reflecting limits imposed by:
  - external donors
  - internal actions of an NFP’s governing board
Presentation of Transfers

Balances aims of **comparability** and **flexibility**. NFP would present:

1. **Operating measure before transfers** (reflects all current, legally available amounts generated/used during operations)
2. All internal transfers (decisions to designate otherwise available amounts as unavailable, or vice versa) in a discrete section, but before the **operating measure after transfers**.
   - At a minimum, present aggregated line items of transfers from and transfers to operating activities
   - Provide details in a note unless all transfers are presented as discrete line items on the face

### Operating Excess (Deficit) before Transfers

\[
\text{Operating excess (deficit) before transfers} = \text{Operating Excess (Deficit) before Transfers} + \text{Transfers to Operating Activities} - \text{Transfers from Operating Activities}
\]

### Operating Excess (Deficit) after Transfers

\[
\text{Operating excess (deficit) after transfers} = \text{Operating Excess (Deficit) before Transfers} + \text{Transfers to Operating Activities} - \text{Transfers from Operating Activities}
\]

Statement of Activities – Transfers

<table>
<thead>
<tr>
<th>Without Donor Restrictions—Operating (Charitable and Business)</th>
<th>Operating excess (deficit) before transfers</th>
</tr>
</thead>
<tbody>
<tr>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>XXX</td>
<td>Transfers to operating activities</td>
</tr>
<tr>
<td>(XXX)</td>
<td>Transfers from operating activities</td>
</tr>
<tr>
<td>XXX</td>
<td>Operating excess (deficit) after transfers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Without Donor Restrictions—Nonoperating (Investing and Financing)</th>
<th>Transfers from operating activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>(XXX)</td>
<td>Transfers to operating activities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>With Donor Restrictions (below or to the right of operating, or in a second statement*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Δ in w/o donor restrictions</td>
</tr>
<tr>
<td>Δ in net assets</td>
</tr>
<tr>
<td>Δ in w/ donor restrictions</td>
</tr>
</tbody>
</table>
Gifts of, or for, Property, Plant & Equipment

Gifts of PP&E without donor restrictions

Initiate period: all unrestricted gifts reported within operations; then entire amount transferred out of current operations if gifted asset is placed in service (instead of monetized)

Gifts of cash restricted for acquisition or construction of PP&E

Initiate period: reported as revenues that increase net assets with donor restrictions

Thereafter: release of donor restriction into operations; concurrent transfer of entire gift out of current operations

NFPs would be required to use the placed-in-service approach (no more implied time restrictions)

For practical and other reasons, no subsequent transfers of gift amount back into operations to match depreciation

Statement of Activities – Gifts of PP&E

Without Donor Restrictions—Operating (Charitable and Business)

Operating excess (deficit) before transfers

XXX

XXX

XXX

XXX

Without Donor Restrictions—Nonoperating (Investing and Financing)

Transfers of buildings/equipment [to extent placed in service, not monetized]

XXX

XXX

XXX

XXX

With Donor Restrictions
## Statement of Activities – Gifts of Cash for PP&E

| Without Donor Restrictions—Operating (Charitable and Business) | XXX | Release of restrictions on contributions for buildings/equipment* |
| | XXX | Operating excess (deficit) before transfers |
| | (XXX) | Transfers of buildings/equipment* |
| | XXX | |

| Without Donor Restrictions—Nonoperating (Investing and Financing) | XXX | Transfers of buildings/equipment* |
| | XXX | |

| With Donor Restrictions | XXX | Contributions of cash for buildings/equipment |
| | (XXX) | Release of restrictions on contributions for buildings/equipment* |
| | XXX | |

| | XXX | * When acquired/placed in service; may be in a subsequent year |

## Statement of Activities – Depreciation and Interest

| Without Donor Restrictions—Operating (Charitable and Business) | XXX | Depreciation (part of expenses) |
| | XXX | Operating excess (deficit) before transfers |
| | XXX | |

| Without Donor Restrictions—Nonoperating | XXX | Interest expense |
| | XXX | |

| With Donor Restrictions | XXX | |
| | XXX | |
Financial Performance: Statement Approach

1 Statement
- Ability to present total revenue and contributions
- Effect of transfers easier to identify
- Too much information in one statement
- Labeling of totals difficult

2 Statement
- Greater emphasis on the operating measure
- Facilitates multi-year comparison
- Some may ignore the second statement
- Incorrectly equate the operating measure to net income

Retain Flexibility

One Statement Approach
Statement of Activities

<table>
<thead>
<tr>
<th>OPERATING ACTIVITIES</th>
<th>Without Donor Restrictions</th>
<th>With Donor Restrictions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue and support:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fees for services</td>
<td>$ 495</td>
<td>$ 495</td>
<td></td>
</tr>
<tr>
<td>Bequests</td>
<td>610</td>
<td>610</td>
<td></td>
</tr>
<tr>
<td>Other contributions</td>
<td>425</td>
<td>1,500</td>
<td>1,925</td>
</tr>
<tr>
<td>Restricted support released</td>
<td>1,375</td>
<td>(1,375)</td>
<td></td>
</tr>
<tr>
<td>Revenue and support</td>
<td>2,655</td>
<td>517</td>
<td>3,172</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses:</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenses</td>
<td>1,050</td>
<td>1,050</td>
<td></td>
</tr>
<tr>
<td>Revenues and support in excess of expenses before transfers</td>
<td>945</td>
<td>125</td>
<td>1,070</td>
</tr>
<tr>
<td>Transfers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers to operating activities</td>
<td>150</td>
<td>a</td>
<td>150</td>
</tr>
<tr>
<td>Transfers from operating activities</td>
<td>b</td>
<td>500</td>
<td>1,050</td>
</tr>
<tr>
<td>Revenues and support in excess of expenses after transfers</td>
<td>$ 595</td>
<td>$ 125</td>
<td>$ 720</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NONOPERATING ACTIVITIES</th>
<th>Without Donor Restrictions</th>
<th>With Donor Restrictions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest expense</td>
<td>175</td>
<td>(175)</td>
<td></td>
</tr>
<tr>
<td>Investment return, net</td>
<td>170</td>
<td>445</td>
<td>615</td>
</tr>
<tr>
<td>Transfers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers to operating activities</td>
<td>(150)</td>
<td>a</td>
<td>(150)</td>
</tr>
<tr>
<td>Transfers from operating activities</td>
<td>b</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>Total change in net assets</td>
<td>6,660</td>
<td>910</td>
<td>7,570</td>
</tr>
<tr>
<td>Net assets at the beginning of the period</td>
<td>1,500</td>
<td>2,100</td>
<td>3,600</td>
</tr>
<tr>
<td>Net assets at the end of the period</td>
<td>$ 2,180</td>
<td>$ 2,600</td>
<td>$ 4,780</td>
</tr>
</tbody>
</table>
Two Statement Approach

Statement of Operations

OPERATING ACTIVITIES

Revenue and Support:
- Fees for services: $495
- Bequests: $600
- Other contributions: $425
- Restricted support released: $1,375
- Revenue and support: $2,895

Expenses:
- Expenses: $1,950
- Revenues and support in excess of expenses before transfers: $945

Transfers:
- Transfers to operating activities: $150
- Transfers from operating activities: $(500)
- Revenues and support in excess of expenses after transfers: $595

*No longer a requirement to report operating measure on same page as change in net assets without donor restrictions

<table>
<thead>
<tr>
<th>Without Donor Restrictions</th>
<th>With Donor Restrictions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues and support in excess of expenses after transfers</td>
<td>$595</td>
<td>$595</td>
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<tr>
<td>NONOPERATING ACTIVITIES</td>
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<tr>
<td>Contributions</td>
<td>1,500</td>
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<tr>
<td>Restricted support released</td>
<td>(1,375)</td>
<td>(1,375)</td>
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<tr>
<td>Interest expense</td>
<td>(75)</td>
<td>(75)</td>
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<tr>
<td>Investment return, net</td>
<td>445</td>
<td>615</td>
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<tr>
<td>Transfers</td>
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<tr>
<td>Transfers to operating activities</td>
<td>(150)</td>
<td>(150)</td>
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<td>Transfers from operating activities</td>
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<tr>
<td>Changes in Net Assets</td>
<td>1,040</td>
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<td>Net assets at the beginning of the period</td>
<td>1,500</td>
<td>2,100</td>
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<td>Net assets at the end of the period</td>
<td>$2,540</td>
<td>$2,670</td>
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Two Statement Approach (continued)

Statement of Changes in Net Assets

Operating Nonoperating w/o donor restrictions With donor restrictions
Reporting of Investment Returns

How to present?
- **Net presentation** of investment expenses against investment return on the face of the statement of activities
- Netting limited to external and **direct** internal expenses

What to disclose?
- Disclosure of investment expenses **no longer required**, **except for** the disclosure of the amount of internal salaries and benefits that have been netted (if any) against investment return
- No longer require disclosure of investment income components

Reporting of Expenses

Analysis of operating expenses by nature and function → one place in the F/S (statement of activities, separate statement, or schedule in notes), with additional qualitative information about cost allocations

<table>
<thead>
<tr>
<th>Nature</th>
<th>Program A</th>
<th>Program B</th>
<th>M&amp;G</th>
<th>Fundraising</th>
<th>Total Operating Expenses</th>
<th>Non-Operating Expenses</th>
<th>Total Expenses</th>
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<tbody>
<tr>
<td>Salaries &amp; Benefits</td>
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<td>Grants to Others</td>
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<tr>
<td>Equipment Rental &amp; Maintenance</td>
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<tr>
<td>Occupancy Cost</td>
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<tr>
<td>Total</td>
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<td></td>
<td></td>
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</tr>
</tbody>
</table>

*Either nature or function (or both) on face of Statement of Activities*
Cash Flow Statement

Why underutilized/unutilized?

#1
• The Indirect Method

#2
• Disconnect with Statement of Activities (and any operating measure therein)

Cash Flow Statement

• Require Direct Method for operating cash flows
  • No longer require, but permit, indirect method
  • Should indirect method still be required for certain NFPs?

• Re-categorize certain items to better align operating cash flows with the operating measures
  • From Investing/Financing to Operating:
    • Purchases of and proceeds on sale of long-lived assets (e.g., PP&E; capitalized and noncapitalized collections)
    • Cash gifts restricted for long-lived assets
  • From Operating to Investing/Financing:
    • Cash from interest and dividends
    • Interest paid
### Cash Flow Statement

#### Cash Flows from Operating Activities
- Cash received from service recipients
- Cash received from donors
- Cash paid to employees
- Cash paid to vendors
- Purchase of property and equipment
- Proceeds on sale of property and equipment
- Contributions restricted for property and equipment

#### Net cash from operating activities

#### Cash Flows from Investing Activities
- Cash received from interest and dividends
- Purchase of investment assets
- Proceeds from sale of investments

#### Net cash from investing activities

#### Cash Flows from Financing Activities
- Payments of principal on long-term debt
- Interest paid on long-term debt
- Contributions restricted for endowment

#### Net cash from financing activities

#### Net increase in cash

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Cash at the beginning of year</td>
<td></td>
</tr>
<tr>
<td>Cash at end of year</td>
<td></td>
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</tbody>
</table>

### Liquidity and Financial Availability

FASB discussed:
- Classified balance sheet
- Separate presentation of assets whose use is limited
- Additional note disclosure
Disclosures Useful for Assessing Liquidity

An NFP would define the time horizon it uses to manage its liquidity (for example, 30, 60, or 90 days) and disclose the following information:

1. **Quantitative information** about:
   a) The total amount of financial assets
   b) Amounts that are not available to meet cash needs within the time horizon because of (1) external limits and (2) internal actions of a governing board
   c) The total amount of financial liabilities that are due within that time horizon

2. **Qualitative information** about how the entity manages its liquidity. For example, an entity might disclose:
   a) Its strategy for addressing entity-wide risks that may affect liquidity, including its use of lines of credit
   b) Its policy for establishing liquidity reserves
   c) Its basis for determining the time horizon used for managing liquidity

What are they hearing in response?
Who Did They Hear From?

- 263 Comment Letters
  - 135 Preparers
  - 89 Auditors
  - 12 Users
  - 4 Academics
  - 23 Individuals and Others

Types of Preparers They Received Comment Letters From

*Including Institutionally Related Foundations*
Types of Workshop Participants

- 10 Workshops in 5 Cities (Atlanta, Charlotte, Chicago, Dallas, and Denver)
  - 146 Total Participants

**Respondent Type**

![Bar chart showing types of workshop participants](chart)

*Including Institutionally Related Foundations

---

**Overall Common Themes**

- Support for Board’s overall objective to update current model
- Desire by many to maintain as much consistency as possible between NFPs and for-profit reporting requirements
  - Comparability within industries (NFPs and similar for-profit entities) may be more important than comparability between dissimilar NFPs, especially for more “business-like” NFPs
  - Most users come from for-profit background
Overall Common Themes

- Desire for a proposal that allows sufficient flexibility to reflect differences among NFPs
  - Industry differences
  - Size differences
- Concern regarding the potential cost to implement some of the proposals, especially for small NFPs

Combining Temporarily and Permanently Restricted Net Assets

- Overall **support** for combining two classes of net assets
  - Suggested changes provide simplicity, may increase user understandability
- Those who disagree:
  - Argue permanent restrictions fundamentally different from temporary restrictions, should remain on face of statement
  - Express concern that: users may not read notes, important distinctions may become lost/blurred in notes
Underwater Endowments

- Overall **support** for classifying underwater endowment funds within net assets with donor restrictions rather than net assets without donor restrictions
- Overall **support** for disclosure of NFP’s policy on spending from underwater endowment funds together with aggregate gross amounts for such funds (FV versus amount required to be maintained)

Intermediate Measures of Operations

- **Mixed** feedback for required intermediate measures of operations.
  - Many agree with requiring intermediate measures of operations, but disagree with the measures proposed
  - Some specifically express a desire for either:
    - Clarification of definition of “mission” and what should or should not be included in operations
    - More flexibility for NFPs to determine their own definition for operations and what to include in operations
    - Requiring single intermediate measure of operations instead of two measures
Intermediate Measures of Operations

• Many who disagree note one or more of the following:
  • Separating activity into operating and non-operating would not increase comparability because of significant differences in operating activities among different types of NFPs
  • Management would have ability to manipulate classification of resources
  • Two intermediate measures of operations would increase financial statement complexity
  • NFP financial reporting should remain consistent with (flexible as) for-profit financial reporting
  • Some of these respondents have suggested pursuing a different type of intermediate measure, somewhat analogous to net income/the health care performance indicator, for now

Interest Expense

• Overall disagreement that interest expense and fees and related expenses incurred are not directed at carrying out NFP’s purpose and, thus, should not be classified as operating activities.
  • Auditors & academics have more mixed views, while most others disagree.
  • Many that agree suggest acquiring debt may help NFP carry out its mission, but NFP not in business of acquiring or disposing of debt. Thus, interest expense not an operating activity, but a financing activity.
  • Many that disagree:
    • Express concern that NFPS with lending/financing directly tied to mission would be precluded from classifying interest expense as operating.
    • Suggest interest expense is direct cost of doing business and belongs in operating.
    • Express concern that proposal would reduce comparability with for-profits.
    • Suggest classification should be determined by what assets are being financed by the borrowing (working capital versus “bricks and mortar”).
Transfers

- **Overall disagreement** concerning presentation of all internal transfers on the face of the Statement of Activities
  - Some concern that:
    - It's inappropriate to include impact of internal events in operating results
    - Management would have ability to manipulate classification of resources
    - Transfers make Statement of Activities too complex
    - Many suggest disclosure of transfers in notes to financial statements
- **Some suggested alternatives:**
  - Report program service income and expenses in operating, and contributions and investing activity below operating, with roll-forward note disclosures about internal transfers
  - Limit presentation of board decisions on face of statement to those related to designations for/appropriations from endowment funds

Gifts of, or for, Property, Plant, and Equipment

- **Overall disagreement** with notion that gifts of PP&E or cash to acquire/construct PP&E are “operating” revenues and support
  - Many would prefer such gifts be recorded directly in non-operating:
    - Concern for added volatility to (first) intermediate measure of operations
    - Capital-related gifts not operating activities
    - Capital-related gifts not available for the current period, unless monetized
  - Many disagree because they disagree with transfer model (see slide 36)
Gifts of, or for, Property, Plant, and Equipment

• Overall **support** to require reporting of expirations of donor restrictions on gifts of cash or other assets used to acquire/construct PP&E using placed-in-service approach
  • Most who disagree acknowledge placed-in-service approach is more widely used, but would prefer that both placed-in-service and implied time restriction approaches remain as options

Reporting of Operating Expenses by Function and Nature

• Overall **support** for all NFPs to report analysis of operating expenses by both function and nature in single location (generally in notes)
  • Suggest it aids in user understanding and comparability across industries
• Some who disagree:
  • Express concern that cost of requiring such analysis for all NFPs would exceed benefits, especially for NFPs that are small or receive little in contributions/public support
  • Many such respondents do agree that expenses by nature should be required in addition to (or instead of) expenses by function for all NFPs, but disagree about requiring analysis for all NFPs
  • Express concern with lack of consistency between Form 990 and proposed GAAP analysis
  • Prefer that reporting of expenses by both function and nature remain optional
Reporting of Investment Returns

- Overall support to report investment income net of external and direct internal investment expense
  - Some who disagree are concerned that net amount could be manipulated
- Overall agreement that disclosure of all investment expenses is unnecessary but disagreement that disclosure of internal salaries and benefits netted against investment return should be required
  - Some who disagree prefer all investment expenses disclosed for transparency
  - Most, however, agree that disclosure of all investment expenses is unnecessary, including internal salaries and benefits
  - Disclosing salaries and benefits could result in identification of salaries of specific employees.
  - Internal salaries likely immaterial for many NFPs
  - Wouldn’t give complete picture of salaries and benefits anyway, because of other “missing” amounts (e.g., salaries and benefits capitalized in inventory)

Direct Method of Presenting Operating Cash Flows

- Mixed feedback for requiring direct method of presenting operating cash flows
  - Most acknowledge that direct method is more understandable than indirect method
  - Most workshop participants and several respondents that have adopted direct method support requiring it and no longer requiring indirect method
    - They generally indicate that benefits exceed incremental implementation costs as well as ongoing costs

However…
Direct Method of Presenting Operating Cash Flows

- Most oppose requiring direct method at this time for differing reasons:
  - Current requirements should not be changed until requirements change for business entities
  - For now, NFPs should have option to present either direct or indirect method
    - Some of these respondents may not understand that indirect method is currently required for all entities even if not presented on face of cash flow statement
  - Concern that incremental benefits of switching to direct method would not justify costs
  - Neither method is clearly superior to other
  - Users will continue to underutilize statement of cash flows regardless of method presented

Indirect Method of Presenting Operating Cash Flows

- Overall mixed feedback on whether to retain indirect method
  - Many believe no necessary information would be lost if indirect method no longer required
  - However, many of these respondents and others prefer to retain reconciliation of operating cash flow to total change in net assets
Alignment of Operating Items on Statement of Cash Flows and Statement of Activities

- Overall **disagreement** with proposed alignment of line items presented in cash flow statement with proposed operating classification for activities statement to increase understandability
  - Especially regarding PP&E-related cash inflows/outflows
  - Most who disagree prefer current requirements to remain same until requirements change for business entities
  - Inconsistency between NFP and for-profit reporting would create confusion for users who also operate in for-profit environment

Disclosures Useful for Assessing Liquidity

- **Mixed** feedback for proposed disclosures of information about liquidity
  - More support for qualitative disclosures than quantitative disclosures
  - Some who disagree express concern that:
    - “Time horizon” concept is vague and question how to choose one time horizon when multiple horizons and revenue streams exist
    - Information will be outdated by time financial statements are issued
    - Business entities not required to provide information proposed for NFPs
    - Extensive disclosures reduce usefulness, and many users don’t read notes
    - Disclosures too subjective, would result in inconsistent approaches among NFPs, reducing comparability
    - Expected incremental benefits may not be greater than perceived cost of additional disclosures
  - **Common suggested alternatives:**
    - Require classified balance sheet
    - Require separate presentation on balance sheet of assets whose use is limited
What happens from here?

Project Timeline: Steps Still to Come

<table>
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<tr>
<th>Comment Period Ending Date</th>
<th>Public Roundtables</th>
<th>Final Standard(s)</th>
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<tbody>
<tr>
<td>Aug. 20, 2015</td>
<td>Sept. 21, Oct. 6</td>
<td>TBD</td>
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<tr>
<td>Sept. 10-11, 2015</td>
<td>Mid-Fall 2015</td>
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<tr>
<td>NAC Meeting to Debrief with Board and Staff on Feedback</td>
<td>Begin Board Redeliberations</td>
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</table>
Thank you.

Gregg Capin, Partner

gcapin@capincrouse.com
678.518.5301, ext. 125

Appendix:
ASUs Issued Since August 2014
### ASUs Issued Since July 2014

<table>
<thead>
<tr>
<th>ASU &amp; Cod. Topic/Subtopic</th>
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<tr>
<td>ASU 2014-14, Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40)</td>
<td>Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure (EITF)</td>
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<tr>
<td>ASU 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40)</td>
<td>Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern</td>
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<tr>
<td>ASU 2014-16, Derivatives and Hedging (Topic 815)</td>
<td>Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity (EITF)</td>
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### ASUs Issued Since August 2014

<table>
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<tbody>
<tr>
<td>ASU 2014-17, Business Combinations (Topic 805)</td>
<td>Pushdown Accounting (EITF)</td>
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<td>ASU 2014-18, Business Combinations (Topic 805)</td>
<td>Accounting for Identifiable Intangible Assets in a Business Combination (PCC)</td>
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<td>ASU 2015-01, Income Statement—Extraordinary and Unusual Items (Subtopic 225-20)</td>
<td>Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items</td>
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<td>ASU 2015-02, Consolidation (Topic 810)</td>
<td>Amendments to the Consolidation Analysis</td>
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<tr>
<td>ASU 2015-03, Interest—</td>
<td>Simplifying the Presentation of Debt</td>
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<td>Imputation of Interest (Subtopic 835-30)</td>
<td>Issuance Costs</td>
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<td>ASU 2015-04, Compensation—</td>
<td>Practical Expedient for the Measurement</td>
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<td>Retirement Benefits (Topic 715)</td>
<td>Date of an Employer’s Defined Benefit</td>
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<td>ASU 2015-05, Intangibles—</td>
<td>Customer’s Accounting for Fees Paid in a</td>
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<tr>
<td>Goodwill and Other—Internal-Use</td>
<td>Cloud Computing Arrangement</td>
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<td>Software (Subtopic 350-40)</td>
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<td>ASU 2015-06, Earnings Per Share (Topic 260)</td>
<td>Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions (EITF)</td>
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<td>Disclosures for Investments in Certain</td>
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<td>Measurement (Topic 820)</td>
<td>Entities That Calculate Net Asset Value per Share (or Its Equivalent) (EITF)</td>
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<tr>
<td>ASU 2015-08, Business</td>
<td>Pushdown Accounting—Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115 (SEC Update)</td>
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<td>ASU 2015-10, various topics</td>
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<td>ASU 2015-11, Inventory (Topic 330)</td>
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