

## ASU 2016-14: NOT-FOR-PROFIT ENTITIES (ASC 958)

### Supplemental Implementation Checklists

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#### SEE APPENDIX FOR GLOSSARY OF TERMS

#### IMPLEMENTATION DATE FOR NOT-FOR-PROFIT ENTITIES (NFPs)

1. Required Implementation Date (check one of the following):

- ☐ Calendar Year-End: Year Ended December 31, 2018
- ☐ Other Year-End: Fiscal Year Ended 2019

#### PRESENTATION OF CHANGE IN NET ASSETS AND THE PERFORMANCE INDICATOR

2. Required presentation of the change in net assets in the Statement of Activities (Operations). Additionally, the following items are required, if applicable (check that required disclosures have been made, if applicable):

- ☐ Change in net assets with donor restrictions (see 3. a.) and change in net assets without donor restrictions
- ☐ Business-oriented health care entities shall include a performance indicator clearly labeled with a descriptive term (such as revenues over expenses, revenues and gains over expenses and losses, etc.) on the same statement as changes in net assets without donor restrictions

#### PRESENTATION OF DONOR RESTRICTED NET ASSETS

3. a. Required presentation and disclosure of donor restricted net assets (deficit) (check that required disclosures have been made, if applicable):

Topic	Prior Classification <sup>1</sup>	New Classification	Required Enhanced Disclosure Elements
<input type="checkbox"/> Donations subject to a donor stipulation that does not expire (to be held perpetually)	Permanently Restricted Net Assets	Net Assets With Donor Restrictions	<ul style="list-style-type: none"><li>• Composition of net assets with donor restrictions and how the restrictions affect the use of resources</li><li>• Disclosures for donor-restricted endowment funds</li></ul>
<input type="checkbox"/> Donations subject to a donor stipulation restricting use of funds to (a) certain date (period of time) or (b) a specific purpose	Temporarily Restricted Net Assets	Net Assets With Donor Restrictions	<ul style="list-style-type: none"><li>• Composition of net assets with donor restrictions and how the restrictions affect the use of resources</li><li>• Disclosures for donor-restricted endowment funds</li></ul>

b. Required disclosure for the following items (check that required disclosures have been made, if applicable):

- ☐ For underwater endowment funds: disclose (a) the fair value of the underwater endowment funds, (b) the original endowment gift amount required to be maintained by donor stipulations or by law, and (c) the deficiency.

<sup>1</sup> These terms have been officially removed from the Codification. Net assets with donor restrictions will be presented as a single number on the statement of financial position.

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#### PRESENTATION OF INVESTMENT RESULTS

4. a. Required presentation in the Statement of Activities (Operations) of the combination of (i) investment results (including (a) dividends, interest, and similar income; (b) realized gains and losses; and (c) unrealized gains and losses) net of (ii) all external and direct internal investment expenses; as a single amount to be called "investment return net". Investment return net shall be split as follows (check that required disclosures have been made, if applicable):
- ☐ Investment results restricted by donors or extension of law shall be included with net assets with donor restrictions
  - ☐ Remaining will be included with net assets without donor restriction
  - ☐ Unrealized gains and losses on other than trading debt securities is presented below the performance indicator (if applicable)
- b. Optional election. The following elective presentation on the face of the financial statements<sup>2</sup> are permitted under ASU 2016-14 to further segregate investment return net (check if option is elected that disclosure has been made):
- ☐ Allocation of investment returns net to board-designated endowment funds
  - ☐ Allocation of investment returns net to board-designated net assets
  - ☐ Allocation of investment results net between operating (realized) and non-operating (unrealized)
- c. Required disclosures regarding investment return net (check that required disclosures have been made (or removed) if applicable):
- ☐ Disclosure of investment expenses is no longer required<sup>3</sup>
  - ☐ The composition of investment return including, at a minimum, investment income, net realized gains or losses on investments reported at other than fair value, and net gains or losses on investments reported at fair value<sup>4</sup>
  - ☐ Method used to allocate to operating and non-operating if investment return is split between the two amounts

#### PRESENTATION OF BOARD-DESIGNATED NET ASSETS

5. a. Required presentation of the portion (including the amount and purpose) of net assets without donor voluntarily set aside by the governing board either (i) on the face of the financial position or (ii) in the notes to the financial statements (check that required disclosures have been made, if applicable):
- ☐ Option 1: on the face of the statement of financial position
  - ☐ Option 2: in the footnotes to the financial statements describing appropriate disaggregation of designation and appropriations if not apparent on the face of the financial statements
  - ☐ Option 3: Both on the face of the financial statements and in the footnotes

<sup>2</sup> If a NFP presents internal board designations, appropriations, and similar actions on the face of the financial statements (additional disclosures required).

<sup>3</sup> Required disclosures of investment expenses was removed as it is impractical to provide an accurate representation due to embedded expenses when investing.

<sup>4</sup> Business oriented, health care entities with financial covenants on debt should consider a robust tabular disclosure to capture relevant realized and unrealized gains and loss information that may otherwise not be evident on the face of the financial statements under new requirements of ASU 2016-14.

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#### PRESENTATION OF QUANTITATIVE INFORMATION

6. Required disclosure about quantitative information about the availability of a NFP's financial assets at the balance sheet date to meet cash needs for general expenditures<sup>5</sup> within one year of the balance sheet date. Availability of a financial asset may be affected by (i) its nature, (ii) external limits imposed by donors, grantors, laws, and contracts with others, and (iii) internal limits imposed by governing board decisions. (Check that required disclosures have been made, if applicable, in the face of the financial statements or in the notes to the financial statements) ☐

#### PRESENTATION OF QUALITATIVE INFORMATION

7. a. Required disclosures<sup>6</sup> about qualitative information in the notes as necessary, about the availability of a NFP's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date. (Check that required disclosures have been made, if applicable).
- ☐ Special borrowing arrangements (e.g., a line of credit)
  - ☐ Requirements imposed by third-parties that cash be held in separate accounts (e.g. a compensating balance)
  - ☐ Known significant liquidity problems
  - ☐ If the NFP has failed to maintain appropriate amounts of cash and cash equivalents to comply with donor-imposed restrictions
  - ☐ A description of the kind of asset whose use is limited (ASC 958-210-45-6)
  - ☐ Known Information about the nature and amount of limitations on the use of cash and cash equivalents (ASC 958-210-45-7(a))
  - ☐ Information about significant limits resulting from contractual agreements with suppliers, creditors, and others, including the existence of loan covenants and use of particular assets (ASC 958-210-45-7(b))
  - ☐ Impacts on board-imposed spending policies or board-designated net assets that restrict cash to specific purpose
- b. Optional election. When presenting comparative financial statements, presentation of comparative information for items 6 and 7.a. may be omitted. Check here if the NFP elects not to present comparative information in the initial year of adoption) ☐

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<sup>5</sup> Financial assets (i.e. financial instruments such as cash and cash equivalents, investments, receivables, and derivatives) are a subset of current assets. Additionally, the phrase "available for general expenditures" may further exclude prepaid expenses, supplies, board designated set asides, and the current portions of assets whose use is limited. As a consequence, an NFP with a positive working capital may have a deficit when compared to current liabilities and may need to further disclose management's plans for managing this deficit.

<sup>6</sup> See Illustrative examples in ASC 958-210-55-5 through 958-210-55-8.

**PRESENTATION OF FUNCTIONAL AND NATURAL EXPENSES**

8. a. Required presentation of all expenses in one location disaggregated (i) by function (i.e. program expenses, fundraising expenses, and management and general) and (ii) by natural classification (i.e. salaries, rents, interest) in one location. (Select one of the following that disclosures have been made): <sup>7</sup> and <sup>8</sup>
- ☐ Option 1: on the Statement of Activities (or Operations)
  - ☐ Option 2: a separate Statement of Functional Expenses
  - ☐ Option 3: In a chart within the footnotes in the financial statements
- b. The following items are not considered expenses and should be excluded from functional expenses analysis (check all that apply that these amounts have been excluded from functional expense disclosures):
- ☐ External and internal expenses that have been reported as part of investment returns
  - ☐ Certain gains and losses (considered the equivalent of other comprehensive income). Examples include the change in the fair value of an interest rate swap and other examples within ASC 220-10-45-10A which are similar to items in other comprehensive income
- c. Optional election. When presenting comparative financial statements, presentation of comparative information generally required except if management elects not to present in the initial year of adoption. (Check if option is elected to exclude initial year comparative):
- ☐ The reporting entity has not previously been required to present a statement of functional expenses and has elected not to present comparative information functional and natural expenses in the initial year of adoption
- d. Required disclosure (check that required disclosures have been made, if applicable)
- ☐ Method(s) used to allocate costs among program and support functions (e.g., by square footage, by estimated time and effort)
- e. Reporting allocable salaries and benefit for costs for direct conduct or direct supervision<sup>9</sup> under ASC 958-720-55 (check if allocation to appropriate functional expense category has been made):
- ☐ 172. Chief Executive Officer. Time spent directly on programs, research, and fundraising versus general oversight.
  - ☐ 173. Chief Financial Officer. Time spent managing investments and endowments (record as investment results).
  - ☐ 175. Grant Accounting. Time and costs to track specific research or required statistics of the grant award.<sup>10</sup>
  - ☐ 176. Information Technology and Communications Department. Eligible based on specific direct activities and software used.

<sup>7</sup> NFPs that were previously required to present a separate statement of functional expenses are not eligible for the transition rule in 7.b.

<sup>8</sup> Alternative presentation examples of reporting are located in ASC 958-210-55. Ask your MSL contact or dial 800.683.5401 for assistance.

<sup>9</sup> Management may elect to allocate applicable portions to (a) program, (b) fundraising, or (c) investment return net rather than as (d) management and general.

<sup>10</sup> Costs associated with accounting of dollars, budgets, and other general bookkeeping matters are considered supporting services and are treated as management and general.

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#### PRESENTATION OF STATEMENT OF CASH FLOWS

9. When presenting cash flows from operations, NFPs may elect (a) the direct method, (b) the indirect method, or (c) the combination of the direct method with a reconciliation to the indirect method (check the method elected for presenting operating cash flows):
- ☐ Option 1: the direct method of cash flows only
  - ☐ Option 2: the indirect method of cash flows only<sup>11</sup>
  - ☐ Option 3: the direct method of cash flows along with a reconciliation to the indirect method of cash flows

#### ACCOUNTING FOR GIFTS TO ACQUIRE AND CONSTRUCT A LONG-LIVED ASSET

10. Requires a NFP to 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, absent specific donor restrictions stating otherwise (check that required disclosures have been made, if applicable):
- ☐ There is a specific donor restriction that requires release of restriction over the estimated useful life of the asset (this would be rare)
  - ☐ The NFP will report a cumulative change in accounting principle due to a prior election to amortize over the useful life of the acquired asset
  - ☐ There is no impact from this change (either the NFP already has the accounting policy or the NFP does not have these types of donor-restrictions)

**Disclaimer:** This checklist is a practice aid and supplement to guide financial preparers with the implementation of ASU 2016-14. This is for general purposes only and should not be used as a substitute for (a) comprehending the requirements of ASU 2016-14 (as codified in ASC 958) and (b) consultation with professional advisors. Management of the NFP is responsible for the preparation of the financial statements in conformity with generally accepted accounting principles in the United States of America in all material respects.

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Please call MSL at 800.683.5401 with any questions.

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<sup>11</sup> Business oriented, health care entities with financial covenants on debt should consider retaining the indirect method of cash flows which highlights non-cash items that impact the change in net assets.

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#### Appendix – ASU 2016-14 Glossary

**Board-Designated Endowment Fund** An endowment fund created by a not-for-profit entity's (NFP's) governing board by designating a portion of its net assets without donor restrictions to be invested to provide income for a long but not necessarily specified period (sometimes called funds functioning as endowment or quasi-endowment funds). In rare circumstances, a board-designated endowment fund also can include a portion of net assets with donor restrictions. For example, if an NFP is unable to spend donor-restricted contributions in the near term, then the board sometimes considers the long-term investment of these funds.

**Board-Designated Net Assets** Net assets without donor restrictions subject to self-imposed limits by action of the governing board. Board-designated net assets may be earmarked for future programs, investment, contingencies, purchase or construction of fixed assets, or other uses. Some governing boards may delegate designation decisions to internal management. Such designations are considered to be included in board-designated net assets.

**Donor-Imposed Restriction** A donor stipulation (donors include other types of contributors, including makers of certain grants) that specifies a use for a contributed asset that is more specific than broad limits resulting from the following:

- a. The nature of the not-for-profit entity (NFP)
- b. The environment in which it operates
- c. The purposes specified in its articles of incorporation or bylaws or comparable documents for an unincorporated association.

Some donors impose restrictions that are temporary in nature, for example, stipulating that resources be used after a specified date, for particular programs or services, or to acquire buildings or equipment. Other donors impose restrictions that are perpetual in nature, for example, stipulating that resources be maintained in perpetuity. Laws may extend those limits to investment returns from those resources and to other enhancements (diminishments) of those resources. Thus, those laws extend donor-imposed restrictions.

**Donor-Restricted Endowment Fund** An endowment fund that is created by a donor stipulation (donors include other types of contributors, including makers of certain grants) requiring investment of the gift in perpetuity or for a specified term. Some donors or laws may require that a portion of income, gains, or both be added to the gift and invested subject to similar restrictions. The term does not include a Board-Designated Endowment Fund. See Endowment Fund.

**Donor-Restricted Support** Donor-restricted revenues or gains from contributions that increase net assets with donor restrictions (donors include other types of contributors, including makers of certain grants)

**Economic Interest** A not-for-profit entity's (NFP's) interest in another entity that exists if any of the following criteria are met:

- a. The other entity holds or utilizes significant resources that must be used for the purposes of the NFP, either directly or indirectly by producing income or providing services.
- b. The NFP is responsible for the liabilities of the other entity.

See paragraph [958-810-55-6](#) for examples of economic interests.

**Endowment Fund** An established fund of cash, securities, or other assets to provide income for the maintenance of a not-for-profit entity (NFP). The use of the assets of the fund may be with or without donor-imposed restrictions. Endowment funds generally are established by donor restricted gifts and bequests to provide a source of income

- a. in perpetuity or
- b. for a specified period. See Donor-Restricted Endowment Fund.

Alternatively, an NFP's governing board may earmark a portion of its net assets as a Board-Designated Endowment Fund.

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**Functional Expense Classification** A method of grouping expenses according to the purpose for which costs are incurred. The primary functional classifications of a not-for-profit entity are program services and supporting activities.

**Funds Functioning as Endowment** Net assets without donor restrictions (donors include other types of contributors, including makers of certain grants) designated by an entity's governing board, to be invested to provide income for generally a long but not necessarily specified period. A board-designated endowment, which results from an internal designation, is generally not donor-restricted and is classified as net assets without donor restrictions. The governing board has the right to decide at any time to expend such funds. In rare circumstances, funds functioning as endowment also can include a portion of net assets with donor restrictions. For example, if an NFP is unable to spend donor-restricted contributions in the near term, the board sometimes considers the long term investment of these funds. (Sometimes referred to as quasi-endowment funds or board-designated endowment funds.)

**Management and General Activities** Supporting activities that are not directly identifiable with one or more program, fundraising, or membership-development.

**Natural Expense Classification** A method of grouping expenses according to the kinds of economic benefits received in incurring those expenses. Examples of natural expense classifications include salaries and wages, employee benefits, professional services, supplies, interest expense, rent, utilities, and depreciation.

**Net Assets** The excess or deficiency of assets over liabilities of a not-for-profit entity, which is divided into two mutually exclusive classes according to the existence or absence of donor-imposed restrictions.

**Net Assets with Donor Restrictions** The part of net assets of a not-for-profit entity that is subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants).

**Net Assets without Donor Restrictions** The part of net assets of a not-for-profit entity that is not subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants).

**Programmatic Investing** The activity of making loans or other investments that are directed at carrying out a not-for-profit entity's purpose for existence rather than investing in the general production of income or appreciation of an asset (for example, total return investing). An example of programmatic investing is a loan made to lower-income individuals to promote home ownership.

**Reclassification of Net Assets** Simultaneous increase of one class of net assets and decrease of another. A reclassification of net assets usually results from a donor-imposed restriction (donors include other types of contributors, including makers of certain grants) being satisfied or otherwise lapsing.

**Temporary Restriction** A donor-imposed restriction that permits the donee to use up or expend the donated assets as specified and that is satisfied either by the passage of time or by actions of the donee.

**Underwater Endowment Fund** A donor-restricted endowment fund for which the fair value of the fund at the reporting date is less than either the original gift amount or the amount required to be maintained by the donor or by law that extends donor restrictions.