

Financial Reporting Standards Guide

Implementation for Not-for-Profits



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For the first time in over 20 years, not-for-profit organizations are required to present their financial statements in a different manner.

This guide is an overview of the new financial reporting standards contained in the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*.

A compilation of six previously published articles, this guide also provides a reporting checklist that serves as a helpful reference document for not-for-profits implementing the new financial reporting requirements.

Overview

The FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, on August 18, 2016. It enables not-for-profits to better tell their financial story, make financial statements more useful to readers, and provide more consistency in reporting between organizations.

NEW REQUIREMENTS

The new ASU requires these changes in the following categories.

Net Asset Classification

- Present two classes of net assets—net assets with donor restrictions and net assets without donor restrictions—instead of unrestricted, temporarily restricted, and permanently restricted on the face of the statement of financial position, and present the changes in these two classes on the statement of activities.
- Disclose the amount, purpose, and type of board-designated net assets.
- Classify the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions. The update also requires disclosure of the aggregate fair value of underwater funds, the original gift amount—or amount required to be maintained by the donor or law—and the governing board policy and decisions made to spend, or not spend, from such funds during the year.
- Use the placed-in-service approach—where donor restrictions are released as assets are placed in service—for gifts of cash or other assets restricted for acquisition or construction of a long-lived asset such as property, plant, and equipment.

Reporting of Investment Returns

- Net external and direct internal investment expenses against investment return for presentation on the face of the statement of activities.
- Disclosure of netted amounts is no longer required, except for the disclosure of the amount of internal salaries and benefits that have been presented net against investment return.

LEARN MORE

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Liquidity Information

- Disclose qualitative information on how the organization manages its liquid resources.
- Disclose quantitative and qualitative information that communicates the availability of the organization's current financial assets at the statement of financial position date to meet near-term cash needs for general expenditures.

Expense Reporting

- Report expenses in one location, either on the face of the statement of activities or in the notes, by their function—which is already required for some entities under existing standards—and natural classification.
- Provide disclosures about methods used to allocate costs among program and support functions.

Statement of Cash Flows

Organizations may still choose between the direct method and the indirect method; however, disclosure of the indirect method reconciliation is no longer required when using the direct method.

EFFECTIVE DATES

The ASU is effective for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted.

The amendments should be applied retrospectively to all periods presented.

In the year of adoption, not-for-profits should disclose the nature of any reclassifications or restatements and any effects on the changes in their net asset classes for each year that's presented.

In addition to net asset categories, a not-for-profit must disclose any reclassifications and restatements made as a result of adopting the new guidance and their effects on the changes in net asset classes for each year that's presented. This disclosure only needs to be made in the period the amendments are first adopted.

However, when presenting comparative financial statements, not-for-profits can elect to omit certain information for periods before the year of adoption. That includes analysis of expenses by both functional and natural classifications, as well as disclosures about liquidity and availability of resources.

HOW THE CHANGES WERE MADE

The previous reporting requirements for not-for-profit organizations fell under the FASB's Statement No. 116 and Statement No. 117, which the FASB issued in 1993.

In November 2011, the FASB announced two projects on their agenda that were intended to improve the financial reporting of not-for-profit entities. The objectives of these projects were based on suggestions received by the board from the Not-for-Profit Advisory Committee, known as the NAC.

The projects' objectives included standard-setting and research. The aim of the research project was to study communications other than financial statements that not-for-profit entities use to tell their financial story. In 2014, the FASB voted to remove the research project from its agenda.

The standard-setting project moved forward and, in April 2015, an exposure draft was released with the comment period ending in August 2015. In October 2015, the board decided to split the proposed update into two phases.

Phase One

This stage included issues that weren't dependent on other FASB projects and were improvements the FASB believed could be finalized in the near term. The ASU that was issued in August 2016 includes the items that were incorporated into phase one.

Phase Two

This stage will focus on the following issues:

- Whether or not to require a measure of operations
- Whether or not and how to define a measure of operations
- Realignment of certain items in the statement of cash flows to better align operating cash flows with an operating measure on the statement of activities
- An alternative to segment reporting for not-for-profit health care entities in lieu of the requirement to provide an analysis of expenses by natural and functional classification

ARE THERE MORE CHANGES TO COME?

The FASB views ASU 2016-14 as phase one—the beginning of guidance to result from its multiyear review of the not-for-profit financial reporting model. In the review, the FASB identified additional, more radical changes as well as controversial proposals that were deferred to phase two.

Such proposals include whether or not and how to define the term operations and align measures of operations—or financial performance—as presented in a statement of activities with measures of operations in a statement of cash flows. As of January 2018, the topics deferred to phase two weren't on the FASB's agenda. However, there are two FASB research projects that cover topics similar to those that were included in phase two: The Financial Performance Reporting project and Targeted Improvement to the Statement of Cash Flows project.

The objective of the Financial Performance Reporting project is to consider whether or not to require a measure of operations and how to define a measure of operations for not-for-profit entities and business entities. The objective of the Targeted Improvement to the Statement of Cash Flows project is to reduce existing diversity in practice in how certain cash receipts and cash payments are presented in the statement of cash flows.

START PREPARING NOW

Not-for-profits can prepare for these changes by conducting preliminary discussions on how to best tell their financial story. It's best to take the time now to speak with those responsible for governance and the board of directors about the required changes, and to determine the optimal presentation of an organization's financial statements.

NEXT STEPS

In addition to the tips included in this guide, we've included a checklist following this section that can be used to help your not-for-profit address key new financial reporting requirements.

As you embark on implementation of the new standard, it's a great opportunity to step back and look at the big picture. Take inventory of what policies, procedures, and internal controls need to be revisited to comply with the new standard or just to make reporting easier. Also, consider designating someone to help work through all of the changes, approvals, and communication. Education of the stakeholders will be important so they know what to expect and why revisions will be made, and don't forget to obtain board approvals in advance where necessary.

Think about the story your financial statements and footnotes tell. This is a great moment to enhance and refine your disclosures. After all is said and done, debrief on what lessons were learned in the first year: where you received questions and what can you revisit each following year.



NEW REQUIREMENTS

A Deeper Dive



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A DEEPER DIVE

NET ASSET CLASSIFICATIONS

by Ali Chalak and Sasha Correnti, Senior Managers, Not-for-Profit Practice

One of the most significant changes to arise from ASU 2016-14 is net asset reporting requirements. These new requirements enhance the usefulness of information not-for-profits provide donors, grantors, creditors, and others in the presentation of financial statements and notes.

THE PREVIOUS STANDARD

Not-for-profits will continue to report net assets under the FASB's Accounting Standards Codification® (ASC) Topic 958, *Not-for-Profit Entities*. Previously, ASC Topic 958 had three classification categories:

Temporarily restricted net assets	These have donor-imposed restrictions either based on the passage of time or the fulfillment of a specified purpose.
Permanently restricted net assets	These have donor-imposed restrictions stipulating resources be maintained permanently and may permit the not-for-profit to use or expend part or all of the income or economic benefits derived from the donated assets.
Unrestricted net assets	These are neither permanently nor temporarily restricted by donor-imposed stipulations. Their only limits come from the nature of the not-for-profit, its operational environment, the purpose specified by incorporation or bylaw articles, or contractual agreements with suppliers, creditors, or others. Board-designated reserves are considered unrestricted net assets.

WHAT'S CHANGED

The new standard addresses complexities in net asset reporting requirements under ASC Subtopic 958-205 by collapsing net asset classification down from three categories into two. The new categories include:

Without donor restrictions	These represent net assets that aren't subject to donor restrictions, as well as voluntary reserves such as separate components of board-designated net assets.
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With donor restrictions	These represent net assets with donor restrictions, including underwater endowments.
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In addition to these new categories, the standard adds disclosure requirements for board-designated net assets and for underwater endowment funds.

For all underwater endowment funds in particular, the not-for-profit is required to disclose the following in aggregate:

- Fair value of the funds
- Original endowment gift amount or level that's required to be maintained either by donor stipulations or by law
- Deficiency amount of the fund, which is the first bullet point minus the second

Information on the nature of the restrictions will continue to be disclosed, primarily based on time expirations, purpose fulfillment, or net assets held to perpetuity.

ILLUSTRATIVE GUIDANCE

ASC 958-210-55-3 provides an example of the presentation of the net asset section.

GLOSSARY

An endowment fund is defined as **underwater** when its value is less than it was at the time of original funding.

ASC Topic 820 defines **fair value** as the "price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

A DEEPER DIVE

REPORTING OF INVESTMENT RETURNS

by Danielle O'Connor, Senior Manager, Not-for-Profit Practice

Under the previous standard, there was a lack of consistency in the presentation of investment return and expenses on the statement of activities. Not-for-profits were also required to disclose investment expenses on the face or in the notes of financial statements. This led to a lack of comparability between organizations.

Additionally, investment return presented in the reconciliation of an endowment's beginning and ending balances was separated into the following:

- Investment income—interest, dividends, and rent, for example
- Net appreciation or depreciation of investments

WHAT'S CHANGED

Not-for-profits should now present investment return net of related investment expenses, which will include external and direct internal investment expenses, on the statement of activities. The net presentation of investment return also requires expenses to be included in the net asset categories in which investment return is reported—for example, net assets with or without donor restrictions. Direct internal investment expenses are those produced in the direct conduct or supervision of activities that generate investment return, such as:

Employee costs	These include salaries, benefits, travel, and other costs for personnel responsible for developing and executing investment strategy.
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Costs related to internal investment management	These include expenses generated in the supervision, selection, and monitoring of investment management firms.
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Requiring an organization to report its investment return net of external and direct internal investment expenses provides a more comparable measure of investment return across all organizations, regardless of how the investment activities are administered, monitored, and managed.

Under the new standard, organizations are no longer required to disclose gross investment income and related expenses in the footnotes. Also, external and direct internal investment expenses that have been netted against investment income are excluded from the statement of functional expenses.

Not-for-profits may present the net investment return from portfolios that are managed differently or derived from different sources as separately labeled line items on the statement of activities.

CLASSIFICATION OF INVESTMENT RETURN

ASC 958-220-45-7 specifically states that a "statement of activities shall report expenses as decreases in net assets without donor restrictions, with the exception of investment expenses, which shall be netted against investment return and reported in the net asset category in which the net investment return is reported."

DIRECT INVESTMENT EXPENSES

Pursuant to ASC 958-220-45-15, "Direct internal investment expenses involve the direct conduct or direct supervision of the strategic and tactical activities involved in generating investment return. These include but are not limited to the following:

- Salaries, benefits, travel, and other costs associated with the officer and staff responsible for the development and execution of investment strategy
- Allocable costs associated with internal investment management and supervising, selecting, and monitoring of external investment management firms

Further, per ASC 958-720-45-15, "external and direct internal investment expenses that have been netted against investment return shall not be included in the analysis of expenses by nature and function."

Examples

- Net investment return generated from operating cash may be presented separately from the return generated from an organization's endowment.
- An entity may present the net investment return appropriated for spending separately from the return exceeding the amount appropriated for spending, if appropriately labeled.

Ultimately, requiring a not-for-profit to report its investment return net of external and direct internal investment expenses is intended to provide a more comparable measure of investment returns across all not-for-profits. This is true regardless if investment activities are managed by internal staff, outside investment managers, or volunteers—or if those activities employ the use of mutual funds, hedge funds, or other vehicles for which management fees are embedded in the investment return of the vehicle.

No longer requiring the disclosure of netted expenses also eliminates the difficulties and related costs in identifying embedded fees and the resultant inconsistencies in the reported amounts of investment expenses.

Endowment Reporting

ASU 2016-14 specifically discusses required disclosures for endowment funds. A reconciliation of the beginning and ending balances of the not-for-profit's endowment now includes investment return, net, shown as investment interest and dividends, net appreciation or depreciation, and direct internal and external investment expenses.

Because donor stipulations and laws vary, organizations must assess the relevant facts, circumstances, and laws for their endowment gifts to determine the correct classification of endowment funds within the not-for-profit financial reporting model (see ASC 958-205-45-2). This evaluation should include a determination of whether some or all of the investment return on an endowment is available for spending. If a donor or law imposes a restriction on an investment return, that return will be reported within net assets with donor restrictions until appropriated for expenditure.

ILLUSTRATIVE GUIDANCE

ASC 958-225-55-5 provides an example of a statement of activities in which a not-for-profit presents net investment return in accordance with 958-225-45-7.

ASC 958-225-55-17 illustrates an example of a statement of activities in which the disclosures required in ASC 958-225-50-1(a) through (aa) are apparent from the details provided on the face of the statement of activities.

ILLUSTRATIVE GUIDANCE

ASC 958-205-55-21 provides illustrative notes to financial statements regarding endowment reporting specifically relating to investment returns.

A DEEPER DIVE

LIQUIDITY INFORMATION

by Danielle O'Connor, Senior Manager, Not-for-Profit Practice

WHAT'S CHANGED

The new standard requires not-for-profit organizations to disclose qualitative and quantitative liquidity information.

Qualitative Information

This refers to how an organization manages its liquid resources to meet operational cash needs within one year of the statement of financial position date.

Qualitative information should be included in the footnotes and describe the availability of the not-for-profit's financial assets. The availability of financial assets can be affected by:

- The nature of the asset
- External limitations on the asset that are imposed by donors, grantors, laws, and contracts
- Limits on the asset that are imposed internally, for example, by governing board decisions

Quantitative Information

This refers to the amount of financial assets available to meet cash needs within one year of the statement of financial position date. Quantitative information can be included on the statement of financial position or in the footnotes.

IMPACT ON NOT-FOR-PROFITS

These new disclosures provide more clarity to readers of financial statements on what resources are available to support ongoing operations. They also make it more apparent when an organization is in a strained financial situation.

Organizations that already present their statement of financial position in a classified format that shows current and noncurrent assets and liabilities may discover the transition to the new standard is easier than expected. These entities may have already determined the assets expected to be realized in cash or available for use within one year of the financial statement date, bringing them closer in line with the new standard's required disclosures.

The new standard doesn't state a specific format that should be used for required disclosures, so organizations can benefit from considering the ways in which they present liquidity information in their financial statements.

On their statement of financial position, for example, an organization may consider classifying assets and liabilities as current and noncurrent and presenting assets in a sequence according to their nearness of conversion to cash and presenting liabilities in a sequence according to the nearness of their maturity and resulting use of cash.

GLOSSARY

Financial assets are defined as "cash, ownership interest in an entity, or a contract that allows an organization to receive cash or another financial instrument or to exchange financial instruments on potentially favorable terms."

Financial Assets

Organizations need to assess what their financial assets are and whether the current assets presented in their statement of financial position equate to the financial assets available to support general expenditures within one year from statement of financial position date.

In some instances, an organization's current assets may be different from those available to meet cash needs for general expenditures. For example, an organization may classify pledges to be received within one year as current in its statement of financial position, but these pledges may be purpose restricted and unavailable for general expenditures—even when the cash is received.

COMMON TYPES OF FINANCIAL ASSETS

- Cash and cash equivalents
- Short-term investments
- Receivables
- Pledges receivable
- Inventory

Restrictions

Restrictions that could limit the use of assets are:

- Donor restrictions for capital expenditures or other expenses beyond the next year
- Funds designated by the board including assets for self-insurance funding, pension obligations, or debt arrangements
- Assets held as collateral
- Cash balance limits resulting from contractual agreements with vendors or creditors
- Cash required to be held in separate accounts or restricted for a specific purpose
- Loan covenants

INSIGHT

An organization is required to disclose all information that may impact the availability of its financial assets, such as special borrowing arrangements, requirements imposed by resource providers that cash be held in separate accounts, and known significant liquidity problems.

If an organization hasn't maintained appropriate amounts of cash and cash equivalents to comply with donor-imposed restrictions, this should be included in the qualitative disclosures on liquidity.

EXAMPLE

The new standard includes examples of different presentation methods. The following example is taken directly from the guidance.

Not-for-Profit Entity A

STATEMENTS OF FINANCIAL POSITION: JUNE 30, 20X1

ASSETS	
Cash	\$75,000
Contributions receivable	\$20,000
Prepaid expenses	\$5,000
Short-term investments	\$300,000
Total Assets	\$400,000
LIABILITIES	
Accounts payable	\$80,000
Total Liabilities	\$80,000
NET ASSETS	
Without donor restrictions	\$300,000
With donor restrictions	\$20,000
Total Net Assets	\$80,000
Total Liabilities and Net Assets	\$400,000

As described in the guidance:

“Entity A has \$395,000 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure consisting of cash of \$75,000, contributions receivable of \$20,000, and short-term investments of \$300,000. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. The contributions receivable are subject to implied time restrictions but are expected to be collected within one year.

Entity A has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 60 days of normal operating expenses, which are, on average, approximately \$275,000.

Entity A has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of its liquidity management, Entity A invests cash in excess of daily requirements in various short-term investments, including certificate of deposits and short-term treasury instruments. As more fully described in Note XX, Entity A also has committed lines of credit in the amount of \$20,000, which it could draw upon in the event of an unanticipated liquidity need.”

HOW TO PREPARE

Qualitative Disclosure

Not-for-profits need to have a policy in place to comply with qualitative information disclosure requirements for managing liquidity and liquidity risk. If such a policy doesn't currently exist, an organization might consider working with its management team and governing board to put one in place.

As with all significant policies, it's best practice to document policies in writing and review them on an ongoing basis.

Quantitative Disclosure

Not-for-profits may also want to consider creating a draft of the new quantitative disclosure. If an entity is financially strained or has limited available resources, the new quantitative disclosure requirements may result in a very small or even negative amount of financial assets available for use within a year.

This signifies a liquidity risk and may also cause management to doubt the entity's ability to continue as a going concern, per ASU 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40)*, which was released in August 2014.

ASU 2014-15 provides guidance about management's responsibility to evaluate whether there's substantial doubt about an entity's ability to continue as a going concern and requires the provision of related footnote disclosures. This standard was effective for annual periods ending after December 15, 2016, and interim periods thereafter.

Organizations with High Liquidity Risk

If an organization is concerned it has a high liquidity risk and will disclose a minimal amount of liquid available assets, management might consider discussing the liquidity risk with users of the financial statements—such as grantors, donors, and the bank—or obtaining a line of credit to help with operating needs if liquid resources are unavailable.

Further Preparation

Here are some other items for not-for-profits to consider when preparing to implement the new requirements:

- Identify financial assets
- Review the general ledger setup and consider whether any changes can be made to enable easier tracking of financial assets
- Perform analysis to determine what limits are imposed on financial assets
- Calculate financial assets available to meet cash needs within one year
- Consider whether a classified statement of financial position may improve the organization's display of liquidity

INSIGHT

An organization that presents comparative financial statements has the option to omit the disclosures about liquidity and availability of resources for any periods presented before the year it adopts the standard.

A DEEPER DIVE

EXPENSE REPORTING

by Kinman Tong and Aparna Venkateswaran,
Senior Managers, Not-for-Profit and Health Care practices

Not-for-profit entities continue to report expenses under ASC Topic 958, *Not-for-Profit Entities*, which has been updated to reflect the requirements of ASU 2016-14. Under previous accounting principles, voluntary health and welfare entities had an additional requirement to present a statement of functional expenses. This requirement has now been expanded to all not-for-profit entities.

WHAT'S CHANGED

The new standard changes expense reporting in a few ways for not-for-profits.

Presenting Expenses

The new standard requires all not-for-profit entities to concurrently present their expenses by natural and functional classifications. Here's a closer look at those classifications as defined in the new standard:

Natural expense classification

This is 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, supplies interest expense, rent and utilities, and depreciation.

Functional expense classification

This is 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 services.

Classifying Expenses

Entities must present the relationship between the functional classification and the natural classification of expenses in an analysis that disaggregates the functional expenses by natural classification.

Some entities may report expenses in classifications other than their natural classification—salaries expense is included as part of cost of goods sold and rent expense is allocated among programs, for example. Such expenses are to be reported by their natural classification in the functional expense analysis.

This expense reporting can be presented either on the face of the statement of activities as a separate statement or in the notes to the financial statements. Presenting this information as supplementary information doesn't meet the requirements of the standard.

INSIGHT

There's an added option for voluntary health and welfare entities. Previously, this type of entity was the only one required to present the analysis of expenses by both classifications. While this is still the case, voluntary health and welfare entities now have the option of presenting their information in either a statement of functional expenses or one of the other presentation methods permitted by the new standard.

ILLUSTRATIVE GUIDANCE

ASC 958-205-55-21 provides illustrative notes to financial statements regarding functional expense reporting.

Methods Used

Additional disclosures will be required relating to methods used to allocate costs among functions.

The intent of this requirement is to provide additional useful information to users of the not-for-profit entity's financial statements and help them assess:

- The link between the nature of expenses and their relation to program and support activities
- The proportion of expenses that are fixed versus discretionary
- The allocation method used in allocating expenses among functions
- The cost incurred to provide services

HOW TO PREPARE

Not-for-profits need an established process to gather information to comply with the new expense reporting requirements. This may require input from and discussion with all departments of the entity, internal and external stakeholders, and other users of the financial statements. Communication is key to help verify all information and challenges that will impact this process are considered.

Consideration should also be given to the methodology used to allocate the expenses by function and whether enhancements or changes need to be made to the methodology to comply with the new standard.

Entities may also want to evaluate other factors, including:

Cost efficiency	Compare the cost of providing additional information beyond what's required by the standard with the benefit an entity and external users of the financial statements may receive from providing that information.
Level of detail	Determine the appropriate level of detail necessary to provide meaningful information to the various users of the entity's financial statements, especially contributors and grantors.
Peer comparison	Consider how the quality and quantity of information presented compares to what peer entities are presenting.

ILLUSTRATIVE GUIDANCE

ASC 958-205-55-10 through 958-205-17 provide examples of statements of activities in which the expenses are reported by nature in a single-column format—Format A in ASC 958-205-55-13—and in which they're reported by function in a multicolumn format example—Format B in ASC 958-205-55-14.

A DEEPER DIVE

STATEMENT OF CASH FLOWS

by Kate Jackson, Partner, Not-for-Profit Practice

Under previous guidance, if a not-for-profit used the direct method of presenting operating cash flows, it was also required to present the indirect method, which is also known as the reconciliation method and requires additional work.

The direct method requires not-for-profits to include cash flows from operating activities in specific line items, such as:

- Cash received from contributors
- Cash paid to suppliers

In contrast, organizations that use the indirect method show the change in net assets for the period followed by adjustments needed to convert the change in net assets to the net cash used for operating activities.

WHAT'S CHANGED

Not-for-profits can continue to use either the direct or indirect method of reporting operating cash flows, but they're no longer required to disclose the reconciliation if employing the direct method.

Under the new standard, organizations retain the flexibility and freedom to choose the reporting method that best serves the needs of their financial statement users—creditors, donors, grantors, and other stakeholders. It also allows them to strike the right balance of improving the relevance and understandability of financial information without imposing undue cost.

Although no longer mandated, not-for-profits might want to weigh the costs and benefits of continuing to provide operating cash flow information under both methods. While the new standard doesn't require the indirect reconciliation, it doesn't prohibit its inclusion, and some users find the indirect method more useful, as it reconciles results in the statement of activities to cash from operating activities.

INSIGHT

ASC 958-230-55-2 states that “not all assets of not-for-profits that meet the definition of cash equivalents are cash equivalents for purposes of preparing statements of financial position and cash flows. Restrictions can prevent them from being included as cash equivalents even if they otherwise qualify.”

For example, short-term highly liquid investments aren't cash equivalents if they're purchased with resources that have donor-imposed restrictions that limit their use to long-term investment.

Implementation Checklist

NET ASSET CLASSIFICATIONS

	NOTES
<input type="checkbox"/> Create list of net assets with donor restrictions and net assets without donor restrictions.	
<input type="checkbox"/> Reformat the statement of financial position to remove reference to temporarily and permanently restricted net assets. Update net asset section to show net assets with donor restrictions and net assets without donor restrictions. <i>Further disaggregation on the face of the statement of financial position is allowed. Discuss with users of the financial statements and/or Board of Directors what they would find useful and whether the information should be on the face of the balance sheet or in the notes to the financial statements.</i>	
<input type="checkbox"/> Reformat the statement of activities—or statement of changes in net assets, if presented separately—to remove reference to unrestricted, temporarily restricted, and permanently restricted activities and net assets, and use the term <i>with donor restrictions</i> and <i>without donor restrictions</i> .	
<input type="checkbox"/> Determine how you would like to present the change in net assets on the statement of activities—or statement of changes in net assets, if presented separately. Guidance allows for columnar format using either single or multiple columns. The statement of activities should include the following: <ul style="list-style-type: none"> • Change in net assets without donor restrictions • Change in net assets with donor restrictions • Total change in net assets • Any reclassifications of net assets, such as expirations of donor-imposed restrictions, if applicable 	
<input type="checkbox"/> Review the notes to the financial statements and remove all references to temporarily restricted and permanently restricted net assets, assets—such as pledges receivable—and activities, such as contributions.	
<input type="checkbox"/> When disclosing funds without donor restrictions, consider presenting board-designated net assets separately.	

- Prepare information needed for net assets with donor restrictions disclosure. In the absence of explicit donor stipulations, use the placed-in-service approach—where donor restrictions are released when the related assets are placed in service—for gifts of cash or other assets restricted for acquisition or construction of a long-lived asset such as property, plant, and equipment. Net assets must be presented by:
- Time restriction
 - Purpose restriction
 - Perpetuity
- See above regarding statement of financial position presentation since this could be accomplished on the face of the statement of financial position.*

- Check that your organization's policy or practice regarding board designations on net assets is documented. Even if there are no board designations, consider documenting that fact or the policy as to why there are none. Refer to the revised definition of board designated net assets in ASU 2016-14.

- Prepare the information necessary for board-designated net asset disclosures.
1. Review the updated FASB ASC Master Glossary definition of board-designated net assets.
 2. Determine method of disclosure. The disclosure can be done through any one of the following or a combination thereof:
 - Tabular in notes
 - On face of statement of financial position
 - Text disclosure in notes
 3. Verify disclosures include the following related to the organization's board-designated net assets:
 - Amounts and purpose of governing board designations appropriations
 - Similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions at the end of the period

- For all underwater endowment funds, disclose the following in aggregate:
- Fair value of the funds
 - Original endowment gift amount or level that's required to be maintained either by donor stipulations or by law
 - Deficiency amount of the fund, which is the first bullet point minus the second
 - The governing board policy, or actions taken, concerning appropriation from such funds
- Underwater endowment funds are to be presented in net assets with donor restrictions.*

- Revisit policy for the expiration of capital restrictions on property, plant, and equipment (PPE) or cash restricted for the acquisition or construction of PPE. In the absence of explicit donor restrictions, organizations are required to use the placed-in-service approach. There are no more implied time restrictions.
- Verify your policy is updated to reflect use of the placed-in-service approach.
 - Revisit opening balances for the current year to determine if reclassifications are necessary to opening balances due to the change in policy.

LIQUIDITY INFORMATION

NOTES	
<input type="checkbox"/> Compile a list of all financial assets.	
<input type="checkbox"/> Analyze financial assets to determine which are liquid and which are illiquid.	
<input type="checkbox"/> Decide on the preferred format for the presentation and disclosure of liquidity and availability information.	
<input type="checkbox"/> Consider using a classified statement of financial position that puts assets and liabilities in order of most to least liquidity or maturity.	
<input type="checkbox"/> Determine and identify the liquid financial assets available to meet operational cash needs within one year of the statement of financial position date. Liquid financial assets can include the following: <ul style="list-style-type: none"> • Cash and cash equivalents • Short-term investments • Expected spending-policy disbursement • Receivables due within one year • Pledges due within one year 	
<input type="checkbox"/> Consider restrictions that can impact availability of financial assets, including: <ul style="list-style-type: none"> • Donor restrictions • Contractual restrictions • Loan covenants • Laws and regulations • Grantors • Board designations • Debt-related restrictions, such as collateral • Cash restrictions • Unusual arrangements that can impact availability 	
<input type="checkbox"/> Identify other resources available to support operational needs, such as: <ul style="list-style-type: none"> • Line of credit • Liquidity reserve or designated net assets 	
<input type="checkbox"/> Develop a board-approved policy for monitoring liquidity, including how often it's monitored and who's responsible for doing so.	
<input type="checkbox"/> Using information gathered above, draft liquidity risk and availability of resources footnote(s)	

REPORTING OF INVESTMENT RETURNS

NOTES	
<input type="checkbox"/> Identify all external and direct internal investment expenses.	
<input type="checkbox"/> Conclude on what's considered by your organization as direct internal investment expenses, and verify that policies, procedures, and practices support this view.	
<input type="checkbox"/> Present investment return net of related investment expenses, which will include external and direct internal investment expenses, on the statement of activities. Group and present investment returns net of all investment returns and direct investment expenses.	

EXPENSE REPORTING

NOTES	
<input type="checkbox"/> Prepare a table that shows all expenses by their natural classification and the functional expense analysis. This should include expenses that are reported in classifications other than their natural class—rent expenses allocated among programs, for example.	
<input type="checkbox"/> Disclose the following: <ul style="list-style-type: none"> • Link between the nature of expenses and their relation to program and support activities • Proportion of expenses that are fixed versus discretionary • Method used for allocating expenses amongst functions • Cost incurred to provide services 	

STATEMENT OF CASH FLOWS

NOTES	
<input type="checkbox"/> Select method for presentation of statement of cash flows: <ul style="list-style-type: none"> • Indirect—no further consideration is necessary. • Direct—including the indirect reconciliation of operating activities is no longer required for this method. Decide whether you will still include the indirect reconciliation of operating activities or remove it. 	

Contributors

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